3.1.1 - The purpose and nature of businesses

Businesses in the **Private Sector (owned by individuals)** usually exist to make a **profit** but may also exist for the **benefit of others**. Profit or other benefits are achieved through **producing a good** or **providing a service** where a **business opportunity exists** in the **business environment**. **Public Sector organisations (owned/run by government)** exist to provide services to the population, such as schools and hospitals.

Factors of Production - the elements needed for businesses to operate:

Land	Labour	Capital	Enterprise
Buildings/offices	Work of staff	Money / machinery	Ideas and risk-taking

Sectors of Industry - businesses divided by their **stage of production**:

Primary	Secondary	Tertiary
Extracting raw materials	Manufacturing	Providing a service

Needs	Wants	Goods	Services
Products I need in order to survive	Products I want to have but don't need	Physical items	Actions done for you by someone else

Opportunity Cost:
The value of the next best alternative, lost when we make a choice. For example; if our choices could generate a)£10, b)£100, or c)£1000. The opportunity cost of choosing option c is the value of b = £100

Enterprise & Entrepreneurship:
Enterprise is the act of doing business - investing and working in order to increase the value of raw materials or our actions.
Entrepreneurship is the act of creating new business ideas, taking opportunities, while being innovative and prepared to take risks in order to turn their money into more money.

3.1.2 - Business ownership

	Liability/Size	Advantages	Disadvantages
Sole Trader	Owner: Unlimited Liability Small	• Own Boss - Keep **control** • Keep all profits • Can employ people • Cheapest to set up	• all liability / need insurance • Not working = not earning
Partnership	Partners: Unlimited Liability Small/Medium	• Shared responsibility • More investment • Not working = business still earning • Can have "sleeping partners" (Limited Liability but no say in how the business is run)	• Have to share profits • Not in complete control • More expensive to set up
Private Limited (Ltd.)	Shareholders: Limited Liability Small—Large	• Can keep control by keeping a majority of the shares • Opportunity for additional investment	• Cannot sell on the stock market • Selling more than 49% of the shares could see you lose control • Profit likely to be shared through **dividends**
Public Limited (PLC.)	Shareholders: Limited Liability Medium-Very Large	• Can sell shares on the **Stock Market** - more investment • Kudos / greater reputation	• Kudos / greater reputation • **Share Price** controlled by the market - investment might increase or decrease depending on the **economy** • Risk of a **Hostile Takeover** - could be voted out as **CEO** by the shareholders at an **AGM**
Not for Profit	Trustees: Limited Liability	• Opportunity to increase income/impact by publicising 'Charity' status	• Close scrutiny by the **Charity Commission**

3.1.3 - Setting business aims and objectives

Objective	Explanation
Survival	For the business to avoid going bust
Profit Maximisation	To achieve the most profit possible
Growth	Getting bigger / expansion through internal or external growth
Market Share	The % of a product sold in the UK sold by a single business
Social/Ethical	To meet or exceed customer expectations related to the environment / treatment of staff or other issues
Customer Satisfaction	How pleased a customer is with the product or service received
Shareholder Value	Improving performance of the business to raise the share price or the amount of profit that can be shared as dividends

Objectives give a business direction. Over time we achieve things and the world changes around us, so objectives change over time. **Business size** will affect their choice of objective in the same way that business ownership will change their objectives. Bigger businesses will have different aims to smaller ones, and those owned by shareholders will have be different to Sole Traders.

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3.1.4 - Stakeholders

A **Stakeholder** is a person or organisation with a **concern** (an investment) or an **interest** in (they might be affected by) a business.

Common **Stakeholder Groups** include:

Internal
- Workers
- Managers
- Owners
- Directors

External
- Shareholders
- Customers
- Local Community
- Government
- Banks / Creditors
- Suppliers
- Trade Unions
- Special Interest Groups

Different groups will have more or less of an interest and more or less influence over the business and its decisions. Groups like Shareholders will influence the business as they want the business to deliver them **Shareholder Value**, whereas **Directors** have significant influence as they control the business.

Different stakeholder groups may be **in conflict** with one another as their interests contradict each others. For example, the local community will want fewer lorries on the road, but managers want more sales.

3.1.5 - Business Location

Businesses location can be extremely important for the success of a business. How close you are to **raw materials** or to **customers** can have a significant impact on the costs of getting your product to market.
Some businesses will want to be close to their **competition** – such as casual dining restaurants, as it will bring more potential customers to the area. While others, such as small independent restaurants may want to be far from their big-chain rivals.
Manufacturing companies are likely to need skilled **labour**, and so being near to a suitable number of skilled workers will be important.
Most businesses will have some **essential services** they need to be near to, such as **the motorway network**, **high-speed internet** connection, or international **travel hubs**.

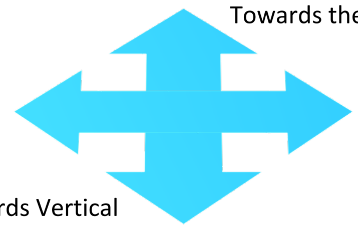
3.1.6 - Business Planning

A business plan is a written document that describes a business, its objectives, its strategies, the market it is in and its financial forecasts.
The business plan has many functions, from securing external funding to measuring success within the business.

A business plan needs to address the issues of interest to the reader and user. Assuming that the plan is meant to be read by potential finance providers (e.g. a bank, business angel or venture capitalist) then it ought to provide convincing and realistic answers to questions such as:

- What is the business?
- Who are the people?
- What is the product?
- Who are the target market?
- Is the market growing?
- Customers – what price will be acceptable?
- Costs / Profitability
- When will we break-even?
- What investment is needed?
- Who is financing the business?
- Risks / Solutions?

3.1.7 - Expanding a business



Takeover	Also called an acquisition, one company buys another. This could be by buying a majority of the shares, or by buying the company outright.
Merger	Two companies agree to join together – both original sets of owners keep some ownership.
Forwards Vertical	A business integrates (merges with or takes overs) a business **closer** to the customer. i.e. a manufacturer buying a retailer who sells their goods.
Backwards Vertical	A business integrates with a business **further away** from the customer. i.e. a retailer buying a manufacturer that supplies them with goods.
Horizontal	A business integrates with a business who operate in the same market as them, at the **same stage of production**. i.e. two car manufacturers like Jaguar and Land Rover.
Lateral	A business integrates with a business who operates in a different market, possibly at a different stage of production. i.e. Tata, who bought Jaguar Land Rover, and PG Tips.
Outsourcing	Paying another company to do some of your work for you, or perform certain jobs for you.
Franchising	Selling the right to use your brand – you (the **Franchisor**) allow other companies (**Franchisees**) to use your name, logo, products, in exchange for an annual fee and share of the revenue.

Economies of Scale: benefits of getting larger (Purchasing / Technical)
Diseconomies of Scale: drawbacks of getting larger (Communication / Coordination)

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Key Term	Definition
Acquisition / Takeover	One business takes control and ownership of another.
Business Environment	The range of external factors that influence a business: PESTLE-C – Political, Economic, Social, Technological, Legal, Environmental and Ethical, and Competition.
Capital	Investment in machinery, and the money required to start the business. One of the four **Factors of Production**.
Competition	The rivalry between businesses looking to sell their goods/services in the same market.
Competitive market	Businesses compete for the same customers, no one business has more than 25% market share.
Conglomerate	A business that owns brands in a range of different industries. For example, easyGroup own easyJet, easyHotel, easyPizza, easyGym, easyMoney, easyEnergy, and more.
Costs	The money spent by a business on goods and services. Fixed Costs: The costs that stay largely the same, regardless of the business' output. Variable Costs:
Creditor	These are people or organisations who have supplied goods or services to a firm but have not yet been paid for them.
Deed of Partnership	This is a legal document which shows how responsibilities, profits and workload are to be shared.
Diseconomies of Scale	When a business grows too large, leading to a possible increase in unit cost.
Dividend	A portion of the after-tax profit that is paid to shareholders according to the number of shares they own.
E-Commerce	Business transactions carried out electronically on the internet.
Economies of Scale	The cost advantage of producing on a large scale. As output increases the unit cost decreases. **Technical Economies of Scale**: Being a larger organisation allows you access to more capital, with which you can buy larger machines that enable you to increase you output while lowering unit costs. **Purchasing Economies of Scale**: Buying in larger quantities enables you to access higher **price breaks** which leads to a fall in the unit costs.
Enterprise	The ability to identify business ideas and opportunities to bring them to fruition and to take risks where appropriate. One of the four **Factors of Production**.
Entrepreneur	A person who is willing to take a risk by investing money into a business, organising the resources and hoping to make a profit. e.g. Richard Branson. Usually they do this because; they are ambitious, dissatisfied with working for other people, to pursue an interest, or because they have seen an opportunity,
Entrepreneurship	The act of being an entrepreneur – starting your own business and taking risks.
Footloose	A business that can be set up virtually anywhere – it has no specific need to be close to any specific resource or set of customers.

Key Term	Definition
Integration	Businesses joining together through either a **Merger** or **Acquisition / Takeover**
Intrapreneurship	Encouraging your employees to take risks and act **as if they were an entrepreneur** – but while working for you.
Labour	The work done by employees are those running the business. One of the four **Factors of Production**.
Land	Land and buildings. One of the four **Factors of Production**.
Liability	The extent of the owner's/owners' responsibility for the debts of the business. **Limited Liability**: The owners are not responsible for the debts of the business. The limit of their liability for the business' debts is the amount they have **already** invested.
Merger	When two or more businesses agree to join together.
Monopoly	Where a business has a market share of 25% or more. This allows them to dictate prices, their size in the market makes them difficult to compete with as they are able to achieve economies of scale.
Objective	A specific statement that defines a precise goal that can be measured and delivered within a given time.
Opportunity Cost	The cost of the next-best alternative that has to be given up when a choice is made.
Outsourcing	Contracting another business to carry out some of the business' activities, often to reduce costs.
Primary Industry	Industries which extract natural resources. e.g. farming, oil drilling & mining.
Private Sector	Businesses not owned by the state (government) but by individuals or groups.
Profit / Loss	**Profit**: Where income is greater than expenditure. **Loss**: Where expenditure is greater than income.
Public Sector	Organisations where the activities are carried out either by national or local government.
Raw Materials	Materials and resources that are found / grown / extracted in the form that they will be used.
Revenue	Income from the sale of goods and services over a period of time.
Secondary Industry	Industries which manufacture, assemble, process and construct goods.
Sleeping Partner	A partner who puts in finance but does not take part in running the business. They have limited liability.
Special Interest Group	A stakeholder in an organisation with a particular interest, such as the Environmental Lobby – a group with a specific interest in businesses operating in an environmentally friendly way.
Tertiary Industry	Industries which provide services both to individuals and other sectors of industry.
Trade Union	An organisation who work to ensure that the interests and rights of their members (a group of workers) are protected.
Unit Cost	The costs of the raw materials and components that have been combined to create a product.

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Unit 2

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3.2.3 – The economic climate

Interest rates are the cost of borrowing and the reward for saving.

Higher interest rates means that borrowing is **expensive** – people and businesses borrow **less**.
Lower interest rates mean that borrowing is **cheaper** – people and businesses borrow **more**.

The Bank of England can raise or lower interest rates
They might do this to either stimulate or suppress borrowing. If people are spending money too quickly, prices will rise because **demand** rises. If prices rise too fast, soon we won't be able to afford to live as comfortably. This is called **inflation**.

One person's spending is another person's income.
If fewer people have jobs, then the average amount of money being earned is lower. If, on average, we have less money then we can only spend less money. If we spend less, then someone else will earn less, and so they spend less. It becomes a self-reinforcing cycle.

The more we spend the more companies must supply
As people earn more or less money, and can borrow more or less money, the amount we spend (and so the amount of goods and services we **demand**) will change. When people earn more or can borrow more, we see demand increase, but the same is true vice-versa. If people stop spending so much then demand falls, and when demand falls prices fall, this is called **deflation**.

3.2.2 - Ethical and environmental considerations

Ethics are the rules that require a business to operate in a way that is fair and honest. Modern consumers expect businesses to behave in a way that treats them well, but that also minimises:

- The use of single-use materials such as **black plastic** which cannot easily be recycled, or of **palm oil** the production of which is responsible for significant deforestation and harm to wildlife.
- Unnecessary travel, particularly **air travel**, which is especially bad for the environment.
- The amount of waste going to **landfill**, and an increase in the amount of recyclable raw materials used.
- The emission of **air pollution**, this is a topical issue at the moment – diesel exhaust fumes cause significant harm to human beings living in cities.
- **Noise pollution**, from loud vehicles, factories, and antisocial behaviour.
- **Traffic congestion**, as a result of increasing numbers of vehicles on the roads.

Ethics in business are mostly concerned with **doing what is right**. However, this often comes at a cost; there is likely to be a **trade-off** between **doing what is cheapest** and doing what is right.

Sustainability is a goal of most businesses, and it is to avoid unnecessary use of materials and energy to avoid causing damage to the planet.

They take this approach to achieve two things:
- Improve their reputation
- Ensure they can continue to operate long into the future

Operating this way can result in short-term losses as operating sustainably can be expensive – reusable materials can often cost more.

3.2.1 - Technology

E-Commerce has changed the process of doing business dramatically. Not just retail, but all markets have been affected by the introduction of new technology and online shopping. Everyone shops online – even businesses. Ordering is now completed online.

M-Commerce is now growing even faster, it's possible for businesses to access more customers in more places more easily. Social media marketing allows businesses to target individuals based on their likes and dislikes. It puts advertising in front of them at the right time to make it more likely for them to buy.

Digital Communication speeds up the rate at which information can be moved around. It has also replaced the need to travel as far and as often. Video conferencing apps like FaceTime and Skype mean that you can talk to people all over the world, face to face, without travelling, saving time, money, and the environment.

Important examples:

Pay  Uber Office 365 

3.2.4 - Globalisation

Imports and Exports
Foreign currency exchange has a major impact on how much we import or export. If a currency is **strong** then it buys **more** of another currency. If it is **weak** it buys **less**.

SPICED – Strong Pound, Imports Cheaper, Exports Decline
£1 can buy more of the product coming from overseas so it becomes cheaper. But it costs someone overseas more to buy products made here, so exports are more expensive and reduce.
WPIDEC – Weak Pound, Imports Decline, Exports Cheaper
£1 buys less of the product coming from overseas so it becomes more expensive, so less is imported. It costs someone overseas less to buy products made here, as their currency can buy more pounds. Exports become cheaper.

Operating worldwide – globalisation has made it cheaper to relocate to other parts of the world to be nearer to raw materials or markets. International travel and shipping means that products can be made anywhere and sold anywhere. Costs remain an important factor in any decision.

3.2.5 - Legislation

Legal changes affect business, when the law changes it is likely that a business will have to change how they operate in order to **comply** with the law. Even small changes can mean large costs for the business, as the administration and work involved in making the change takes time.

Key Legislation:
National Minimum/Living Wage:
- This sets a minimum amount of money a worker can be paid per hour, depending on their age.
- Raising the minimum wage will increase costs and could lead to the business having to reduce its workforce.
- By increasing the minimum wage, the government should see the lowest earners in the country receive higher wages allowing them to improve their living standards.

Equality Act (2010):
- This protects individuals from discrimination by employers in relation to certain protected characteristics
- This Act is an important part of British Values as it promotes mutual respect and tolerance – it protects our individual liberty as it ensures who we are does not limit what we can do.

Health and Safety at Work Act (1974):
- Sets out the duties of the employer and employee in creating a safe working environment
- A safer environment for employees makes them feel safe and cared for, and more likely to see the company as a good employer. This can lead to better retention of staff, and so lower recruitment costs, and to a better reputation making it easier to recruit better quality workers.

Trade Descriptions Act (1968):
- This Act prevents businesses from misleading customers. This helps to protect the consumers from being tricked into spending money or receiving poor quality goods and services.

3.2.6 - The competitive environment

Monopoly – a market which is dominated by one seller or producer. By law a monopoly occurs if a firm has a market share of 25%. Trying to compete with a business that has a monopoly is very difficult because they can dictate prices.

Competitive Market – a situation where multiple businesses compete for the same customers.

Price	Selecting the right price can improve your competitiveness – customers may be attracted by a lower price or by promotional pricing
Quality	Higher quality may set a product apart from the competition. In relation to luxury goods in particular, quality is often the most important factor.
After sales service	For products like cars, the quality of after sales care is very important. i.e. the features of the warranty, whether a courtesy car is available.
Location	Businesses selling convenience goods are going to benefit from being very close to their customer, where casual dining restaurants need to be near to the competition to benefit from increased footfall.
USP	Unique Selling Point – this is a feature of the product or service that is unique to this business. By having a unique selling point that adds value, it allows the business to charge a higher price and to attract more customers.
Delivery	A range of options for customers for how they receive/take possession of the product will increase the number of customers by adding convenience. Click and Collect and home delivery alongside in-store shopping make it easier for customers by reducing wait time and the need to travel.
Branding	The design and reputation of a brand can increase the appeal. Apple have managed to make the most obvious success of branding, as it has become such a desirable brand to own – whether with an iPhone, iPad, Watch, TV, MacBook, iMac, iPod etc.

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Unit 2

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Key Term	Definition
Air pollution	Harmful substances and fumes in the air that cause disease, allergies, or damage to humans or other living organisms, or to the environment.
Competition	The presence of other businesses in the same market attempting to sell to the same customers
Consumer law	Laws that are designed to protect the consumer, by ensuring that products and services offered by businesses are safe, and that they deal with their customers in an honest and fair way.
Consumer spending	The amount of money being spent by households on the goods and services they want and need.
Contracts of employment	The legal document that states the terms and conditions for both the employer and the employee when paying someone to do a job.
Digital communication	Transmitting information between computing devices.
E-Commerce	Transactions that are carried out using the internet. i.e. Amazon
Economic Climate	Key factors within a country such as the level of consumer spending, the level of production, the number of people unemployed, rates of inflation and interest.
Employment Law	These laws govern what can and can't be expected of an employee, and how a business may treat its employees.
Equality Act (2010)	This act of parliament is a set of laws that protect individuals from discrimination. It lists the characteristics that are protected, and that cannot be discriminated against. These are: Age / Disability / Gender reassignment / Marriage and civil partnership / Pregnancy and maternity / Race / Religion or belief / Sex / Sexual orientation
Ethical Objectives	Aims that relate to abiding by their moral code in order improve reputation. This could include trying to act fairly, protecting the environment, or contributing to charitable activities.
Ethics	The moral principles that determine how a business wishes to operate.
Exchange Rates	The price at which one currency can be exchanged for another. For example, £1:€1.10 To find £250 in Euros, multiply by 1.10 To find €250 in Pounds, divide by 1.10
Export	Selling a product to a customer outside of the country that you operate in.
External Costs	Negative impacts caused on people, places, or other organisations by a business' activity.
Global Warming	The increase in the average temperature of the earth, leading to negative consequences for life, caused by the release of carbon dioxide and other greenhouse gases.

Key Term	Definition
Globalisation	The increasingly 'local' nature of the planet – businesses operate worldwide, with money, goods, services, and people moving across national borders.
Health and Safety at Work Act (1974)	Laws relating to processes and procedures that businesses must follow in order to keep their employees and customers safe.
Import	Buying from a company outside your national borders.
Interest Rates	"The reward for saving and the cost of borrowing." Expressed as a percentage, it is the rate at which either savings or debts grow over time. Borrowing or saving £1,000 at an interest rate of 5% means that at the end of the year you would either owe £1,050 or have £1,050 in your account.
Inward Investment	People and businesses from outside of your national borders investing in your country's businesses or land.
Level of employment	What percentage of the population who could work, are working. Often a percentage, if the level of employment is 97%, then it means that 3% are unemployed.
Markets	The place where buyers and sellers meet, to exchange money or credit, for goods and services of a particular type. i.e. the Car market, clothing market, wheat market, or the stock market.
M-Commerce	Business transactions completed on a mobile device such as smartphone or tablet.
Multinational Company (MNC)	A company with offices or divisions in more than one country.
National Minimum/Living Wage	The minimum hourly rate for employees in the UK. It tends to increase each year and changes in April. As of April 2019, the rate for 25 year olds was £8.21/hour. The rate is different for different age groups below that.
Noise Pollution	Noise that causes some level of disturbance, either from vehicles, or business operations. It could include customers arriving or leaving a business.
Recycling	Converting waste into useable material.
Risk	The chance that an investment might not deliver a profit.
Social responsibility	Businesses needing to act in a way that protects people within society rather than harming them.
Sustainability	Businesses operating in a way that does not damage the environment or use up natural resources.
Traffic congestion	More vehicles on the roads than they can handle without queues and longer journey times.
Uncertainty	This occurs when it is difficult to predict the outcome. In economic terms, uncertainty leads to people saving rather than spending money. The level of investment falls.
Waste	Unwanted materials. Businesses may have to pay to dispose of waste.
Waste Disposal	The removal and disposal or destruction of unwanted items or materials. Through either landfill, incineration, or recycling.
Zero-hour contract	Terms of a job that mean there is no minimum number of hours guaranteed for a worker, per week. Likewise, there is no expectation that a worker has to accept hours that are offered.

Don't forget! PESTLE-C is a useful acronym for reminding yourself of all of the external factors that affect businesses.

P – Political issues like a change in government, leading to different types of laws being passed.
E – Economic increases or decreases in consumer spending, interest and exchange rates, or borrowing.
S – Social changes in the fashions and trends that lead consumers to buy and try different products
T – Technological things like Apple Pay have been *disruptive* they have changed how businesses operate.
L – Legal new laws change the rules and businesses have to change to follow them, increasing costs.
E – Environmental and Ethical changes in what people want to *see* your business doing
C – Competition what they do will have a big impact on you, their actions will affect your decisions.

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Business Operations

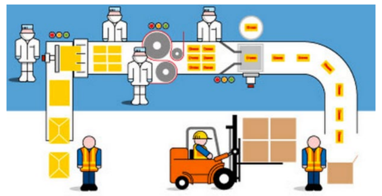
Unit 3

Appears in:
Paper 1

3.3.1 - Production processes

Job production is the production of a **one-off** product made to order. It is used where the **variety** in output needs to be **high** but the **volume** in output of the product is **low.** Often, this leads to **high costs of production.**
Higher costs in terms of higher skills (**specialisation**), and longer **lead times**, result in **higher prices**, meaning products are **not price competitive**, meaning job production is used for **premium**, highly **customized** large **products**. E.G Houses, Bespoke Wedding Cakes.

Flow production is the continuous, mass production of a **standardized, uniformed** product. The product is moved from one stage to another, often on a **production line**. It is most suitable when there is **low variation** in the quantity being produced, and the **volume** of output needs to be **high**. It results in **low costs of production**. However, there are **higher** initial set up costs in land and capital to create the production line, but the **product** moves through a sequence of often automated stages, meaning **lower staff costs**, and **higher, continuous output**. E.G Plastic Bottles, Laptops.



Lean production is an approach that aims to **minimise waste** in order to increase **efficiency** – i.e. doing more with less. It does this by using a range of tactics;

- **Quality assurance** is ensuring quality issues **do not happen** by perfecting the production process, rather than **quality control** which deals with mistakes **after they happen.**
- **Kaizen** (Japanese for **continuous improvement**) – employees are responsible for making small improvements to cut waste. **Cutting waste reduces manufacturing costs.**
- **Examining processes** to identify areas for improvement / increased efficiency
- **Just-in-time stock management** reduces the amount of stock held (**waste**) by producing items *just in time* for them to be used.

Lean production should reduce costs, allowing the business to be more profitable. However, mistakes add to the **lead time** and can cause problems such as the need to outsource work or compensate customers for delays.

3.3.2 - The role of procurement

Procurement is establishing a relationship with **suppliers** to buy the **raw materials, producer goods** and **services** business require.

Just-in-case; a **push** stock control system whereby stock is ordered and stocked *just-in-case* it is needed.

+ You will have **buffer stock** if it is needed suddenly (spike in demand)
+ Benefit from **Purchasing Economies of Scale**
- High costs in storage and insurance.
- Some stock may be perishable or obsolete

Just-in-time; a **pull** stock control system whereby stock is ordered and arrives *just-in-time* for its use.

+ Low stock, storage and insurance costs
+ Items do not perish or become obsolete
- High reliance on suppliers
- May lose out on **Purchasing Economies of scale**

The choice of supplier depends on the:

- **Price** of materials or services
- **Quality** of materials, services or customer care
- **Reliability** and **speed** of deliveries – do they always achieve what they say (**lead time**)
- **Flexibility** in the volume (quantities) ordered
- **Reputation** and **ethical issues** – how and where are the materials made
- **Payment terms** - do they offer trade credit?

The **supply chain** is the sequence of businesses and processes that take place between the creation of the **raw materials** into the **finished product** or **service. Logistics** is the movement of goods between these processes.

3.3.3 - The concept of quality

Quality means different things to different people (**markets**). A product can have high quality if it provides **good value** (low price but acceptable wear and tear – Primark) however some products have a high price and low performance. Often, customers will only pay a high price if they are confident of the quality they will receive. This may be based on:

- The **reliability** of the product or service – does the product or service always do what is says it will
- **Customer expectations** – does the product or service meet up to what the customer expected it to do

Achieving higher quality

Total Quality Management (TQM) is a philosophy where people involved in the manufacture of a product or the delivery of a service are **internal customers** to each other, and therefore **check** and **ensure** quality **at all stages** of the manufacture or delivery. In TQM, all people involved are encouraged to **continually improve** their approach by making small incremental changes to the service they provide each other.

- **Lowers costs** as fewer mistakes are made
- Improves staff **motivation** as they take more pride in their work and are listened to
- **Better reputation** as all aspects of the customer experience are higher quality

Quality Control - a check performed to see if a completed product meets the required quality standard

+ Ensures only high quality products are sent to the customer
- **Reactive**: waits for the whole product to be created before checking, leading to **high costs in rework** and waste in **defective products**

Quality Assurance - checks made to materials, machinery and the product itself during the manufacturing process that insures a high quality outcome

+ **Preventative:** reduces costs as mistakes are found before additional work is done to a product
- Involves all employees to care for quality, and many more quality checks

Costs of high quality:

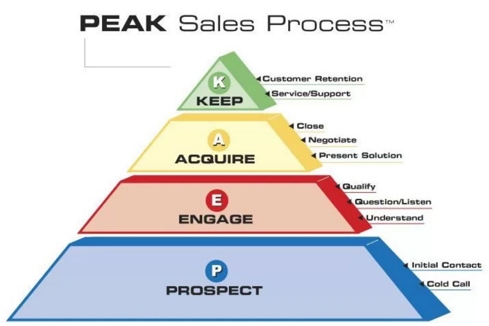
- Higher price of raw materials
- Higher staff training costs
- Higher costs of quality inspection

Benefits of high quality:

- Increased revenue though improved reputation
- Can set higher prices
- Lower costs in reduced product recalls

3.3.4 - Good customer service

Increasingly, quality is determined by the service provided around the product. For example, where the product is bought (online or in store). The quality experienced is higher if the customer service matches (or exceeds) customer wants and **expectations**. **Customer expectations** are managed through the **PEAK** process



Prospect: the marketing (**advertisement**) of a product. At this stage it is important to explain what value or quality features the product or service has. However it is important to manage customer expectation – not promise what cannot be achieved, so the product or service is more likely to meet or exceed **customer expectations.**
Engage: the customer in a dialogue about the product. This could be face-to-face with a sales representative, a customer visiting **premises** (a shop) or a click on a webpage. To add value, high quality service may involve customers having questions answered by **knowledgeable staff** or the product or service adapted to meet their specific needs.
Acquire: encourage the customer to purchase the product or service. Customers are only likely to do this if they are convinced the product or service will meet their needs at a price that is reasonable to them**.** This could be achieved by **good product information, multiple methods of payment** (including finance, **e** and **m-commerce**), offer of good **post sales service**.
Keep: building **customer loyalty** such that customers will return and buy more from you in the future. This could be achieved by offering **loyalty schemes** and targeted email advertisements based on **data analysis** – suggesting what other products they should buy based on past purchases and interests

Methods of good service:

- **Highly trained staff** who have good product knowledge and can provide **personal advice** to customers
- **After (post) sales service** – providing discounted or free parts and servicing, customer care/training lines

IT impact on service:

- Use of **websites** to provide customers with a more convenient way of ordering/tracking (**e-commerce**)
- **Social Media** – to engage customers through **m-commerce:** location-based notifications & easier payment

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Business Operations

Unit 3

Appears in:
Paper 1

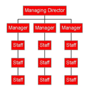
Key Term	Definition
Brand Image	The consumers' perception of the brand; its character, qualities and shortcomings. It is developed over time and operates as a consistent theme through advertising campaigns.
Buffer Stock	A stock of raw materials held in reserve to protect the production process from unforeseen shortages.
Cost	The money spent by a business on goods and services.
Customer Engagement	The relationship between the business and the customer that puts the customer's requirements at the centre of the operation to build brand loyalty.
Disposal of waste	The removal, storage or destruction of unwanted material. Methods include recycling, burning and landfill sites.
E-Commerce	Business transactions carried out electronically on the internet.
Economies of Scale	The cost advantage of producing on a large scale. As output increases the unit cost decreases.
Export	Good/service sold to a customer in another country.
Fixed Costs	The costs that stay largely the same, regardless of the business' output.
Flow Production	Using a production line to make goods continuously and in large numbers.
Good	Items that are produced from raw materials for sale to businesses or consumers.
Import	Good/service bought from a supplier in another country.
Induction	Training given to a new employee when they start a new job; it provides information about the business, its operation and working practices.
Inspection	Testing/examining items to check that materials or items conform to the specified requirements/standards.
Job Analysis	The process of determining what the job entails, including responsibilities and tasks.
Job Production	A method of creating a single product to meet an individual order.
Just In Case (JIC)	Organising procurement to ensure that the production process never runs out of stock, reducing the number of sales lost due to insufficient raw materials.

Key Term	Definition
Just In Time (JIT)	Organising the ordering of raw materials and components to be delivered just before they will be used, reducing the need for storage.
Lean Production	Continually working to reduce the resources used to create products: raw materials, labour, machines and premises
Logistics	Managing the movement of supplies and products to ensure the timely delivery of supplies to the production process and finished products to customers.
M-Commerce	Business transactions are carried out electronically by mobile phone.
Motivation	The reasons people are interested in and committed to their job.
Outsourcing	Contracting another business to carry out some of the business' activities, often to reduce costs.
Post Sales Servicing	Maintenance or repair of equipment by the manufacturer or supplier during or after the warranty.
Primary Industry	A business that extracts the earth's natural resources.
Procurement	The process of buying goods and services including dealing with: • demand • selection of suppliers • analysing and negotiating prices • making the purchase • managing payments.
Product Knowledge	An in-depth understanding of the features, use and application of the good/service that will enable the person selling it to provide any information that the purchaser wants before committing to buy.
Product Recalls	The withdrawal from sale by the manufacturer of a defective or contaminated item.
Productivity	The amount produced by a worker/machine/factory in a given time; the ability to produce more output with fewer resources.
Raw Materials	Businesses that use raw materials that are heavy and/or bulky choose to locate close to their suppliers to reduce the cost of transport or storage.
Recycling	The conversion of waste into reusable material.
Supplier	A business that provides goods/services.
Supply chain	The network of organisations, people, activities, information and resources that take the product/service from supplier to customer.
Total Quality Management (TQM)	A philosophy that involves everyone in the business in the quest for continual improvement in the attitudes, practices, structures and systems that combine to create a top-quality product.
Trade Credit	The process of buying items from a supplier and paying for them later; for example, 30 days after invoice date.
Wholesaler	A business or person that buys goods in large quantities from producers, stores them in warehouses and sells them on to retailers.

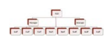
3.4.1 - Organisational Structures

The organisation of a business defines how **information** is passed around the business and how **decisions** are made. In general, the more **centralised** a business is, the more **layers** there are, and the **slower** information travels, however **decisions** are made faster. The structure of a business can be shown in an **organisation chart** or **hierarchy** (like below).

A **line manager** is the "boss" of the people below them in the hierarchy. For example, the **directors** are line managers of 4 **managers** each.

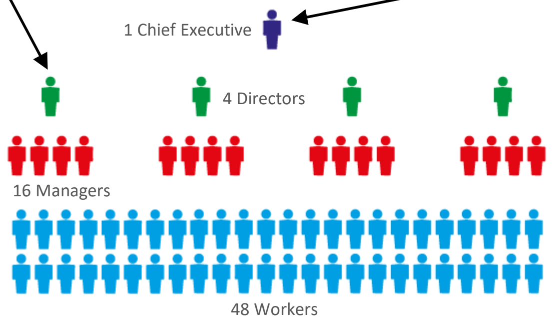


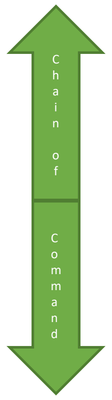
An **organisational structure** can be described as **tall** if there are many layers, or **flat** if there are few.



The **span of control** of an employee is the number of employees **directly manged** by that employee. For example, the span of control for this Chief Executive is **4**.

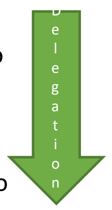
Authority is the power people have to make decisions. **Authority** increases the higher you go up the hierarchy





Chain of Command refers to how commands are passed down from people in **authority** and who they travel through, and how information is passed **up** from **subordinates** (people lower in the **hierarchy**).

Delegation occurs when responsibly for making decision is passed down to **subordinates** (people lower in the hierarchy). This is sometimes referred to as "giving **autonomy**" to employees.



Communication happens **downwards** from the top of the hierarchy, **upwards** from the bottom and **horizontally** across departments.

Centralisation is when there are **many** layers and decisions are only made by a **few people** at the top
+ Decisions are made quickly by a few people – good for emergencies
- Decisions are made far from the customer – **communication diseconomies of scale**

De-centralisation is the process of **removing** layers of the hierarchy to improve communication and **delegate** responsibility
+ Decisions made closer to the customer (potentially better)
+ Motivating for employees (**autonomy**)
- May be disagreements
- Low skilled employees could mean bad decisions

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Human Resources

Unit 4

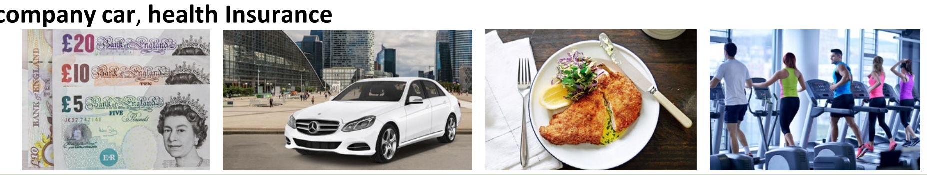
Appears in:
Paper 1

3.4.3 - Motivating employees

Benefits of a highly-motivated workforce:
- Higher **retention** – lower recruitment costs as fewer people leave
- Higher **productivity** – employees will be more willing to do more or better work
- Higher **levels of sales** – employees will go above and beyond to satisfy customer needs
- Easier to attract new employees – more people will want to work for the business

Financial methods of motivation:
- **Wages** – pay a person by the hour. Represents a **variable cost** to the business. Encourages employees to pick up extra shifts. Can also offer **overtime** – a higher hourly rate for employees who work over their contracted hours
- **Salary** – pay a person a fixed amount for a year. No set number hours for employee. Represents a **fixed cost** to a business.
- **Piecework/Piece rate –** money paid to an employee per "output" they produce: E.G per item manufactured. The business must also ensure they pay the **minimum wage**
- **Commission** – money paid to an employee when they make a sale. May be a fixed amount or a percentage of the sale amount
- **Profit sharing –** where a percentage of the profits made by a business is shared with all employees – encourages all employees to work better together

Non-Financial methods of motivation:
- **Job Enrichment** – giving employees more interesting or challenging tasks to do. Could also give them more autonomy (choice) in what job they do (job rotation).
- **Training** – providing good training will help employees feel they are doing their job better (job satisfaction) and feel like they are being invested in
- **Management style –** when managers show more trust in employees by allowing them to make decisions, employees are said to have more **autonomy** over their working day which can be motivational
- **Fringe benefits** are benefits given in addition to pay that come with a job. Could include: **Discounts** when buying the business's products/services, **company car**, **health Insurance**



3.4.2 - Recruitment and selection of employees

Internal recruitment is when an employee is recruited from **inside** the business
+ Candidates already know the business operates
+ Offers a chance of **promotion** which **motivates** people
+ Lower cost to a business
- Cost of retraining employees for a new job
- May lead to **stagnation** or **complacency** – no new ideas

External recruitment is when an employee is recruited from **outside** the business
+ Recruit people with new ideas and enthusiasm
+ May be from a competitor and have insider knowledge
+ Wider choice of candidates
+ May have expensive **specialist qualifications** or **degrees**
- High costs in advertising and selection
- Candidate needs **induction training**

1. Job analysis: what do they do? What skills are needed?
2. Job Description: describes the roles and responsibilities of the job
3. Person Specification: describes the kind of person needed and qualifications required
4. Advertise the job: newspapers, jobcentre, employee agencies
5. Selection: using interviews, psychometric tests and assessment centres to choose the right candidate

Employee **retention** is a measure of how long employees stay at a business. A high retention rate means lower recruitment costs, higher experience and therefore higher level of customer service and productivity.

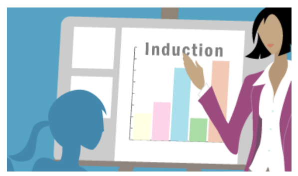
Selection methods:
- **Interviews** – a face-to-face meeting with manager(s) with the applicant
- **Psychometric tests** – a questionnaire that measures personality traits to see if the applicant fits the person specification
- **Assessment Centres** – role play scenarios or a series of tasks/tests to see how the candidate approaches them

Full Time Contract
- Between 35 and 40 hours
+ Employee at work during normal working times -> higher productivity
+ Employees have higher experience in the job

Part Time Contract
- Fewer than 35 hours
+ May not require work for the whole week – saves money
+ Employee can work around another job/family

3.4.4 - Training

Good training:
+ Improves **productivity**. Employees will have more skills to do more with less time and materials
+ Improves **motivation**. Employees feel they know more about their job and therefore feel more satisfied
+ Increases employee **retention**. Fewer people leave as they feel invested in and feel they have the skills to do their job
+ Results in **higher quality** products and **higher levels of customer service**
- Costs money – some training and skills can cost money to receive. Employees may also need time off to attend.



Induction training is provided for new employees joining the business. Its purpose is to introduce new employees to the people they will be working with, and the procedures and policies of the business. It is also used to align the recruit with the values of the business, so they can integrate well with their new team and reduce the likelihood they will leave

On-The-Job training is when an experienced colleague shows you how a job is done. This it done by a combination of **observing** the colleague and doing the job with the **support** or **feedback** from the colleague. It is useful as the person being trained knows exactly how to do the job for the specific business (it may be done slightly different elsewhere) and means that the person being trained **doesn't need to take time off** for training. It can be **motivational** for an experienced college to show someone how to do their job, however, may cause resentment if they don't. **Doesn't result in new ideas or ways of working.**

Off-The-Job Training is when an employee is paid to go to training off site. This is a cost to the business as they have to **pay for the training**, **pay the employee** for being there and **loose productivity** when they are not doing their job. However, the employee can learn **brand new skills** and ideas they can bring back and improve the business. Employees can also **earn externally acknowledged qualifications**, which the business can use to charge more for their services.

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Human Resources

Unit 4

Appears in:
Paper 1

Key Term	Definition
Centralisation	Maintaining control by keeping authority at the senior levels of the organisation.
Chain of command	The line through the hierarchy that shows who is responsible for whom from top to bottom of an organisation.
Commission	An amount of money paid to an employee that is based on a percentage of the sales he/she achieved; paid in addition to a basic salary.
Contracts of employment	A legal document that sets out the terms and conditions of the job for the employer and the employee.
Customer engagement	The relationship between the business and the customer that puts the customer's requirements at the centre of the operation to build brand loyalty.
Decentralisation	Where authority is spread widely through the organisation.
Delayering	The reorganisation of the organisation's employees so that there are fewer levels of management.
Delegation	Allocating a task to someone who would not normally be responsible for it.
Directors	The people who are elected by the shareholders to run the business on their behalf.
Diseconomies of scale	When a business grows too large, leading to a possible increase in unit cost.
Employees	Individuals who work full time or part time for the business; they have a contract of employment detailing their duties and rights.
Employment law	Rulings that relate to the rights and responsibilities of people who work for a business; they affect the recruitment and selection process and how the business deals with its workers.
Flat organisational structure	An organisational structure with a wide span of control and few levels of hierarchy (a short chain of command).
Fringe benefits	Additional 'perks' that are in addition to a wage/salary; they are liable to income tax.
Full time	Working all the usual hours required of an employee; usually 35 hours or more.
Hierarchy	The management structure of a business/organisation showing the levels of responsibility. It is often shown as an organisation chart.
Induction	Training given to a new employee when they start a new job; it provides information about the business, its operation and working practices.

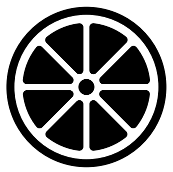
Key Term	Definition
Job analysis	The process of determining what the job entails, including responsibilities and tasks.
Job description	A summary of what the job entails, including job title, duties and who they are responsible for/to.
Job share	A system where two employees choose to share a full time job; they receive the salary and benefits on a pro rata basis according to the proportion of the full time hours that each works.
Motivation	The reasons people are interested in and committed to their job.
Off-the-job training	Employees are trained away from their job, at a college, training provider or the business' training centre.
On-the-job training	Employees learn alongside experienced colleagues while they are doing the job.
Organisational structures	The way in which the organisation is divided into levels of management, functions and responsibilities.
Part time	Working only a proportion of the full time hours.
Person specification	Identifies the requirements of the job holder, including qualifications, experience and skills.
Recruitment	The process of hiring a new employee.
Salary	A method of paying employees for their work; based on a fixed annual amount, normally paid monthly.
Span of control	The number of people for whom a manager is directly responsible.
Staff retention	Keeping staff once they have been employed.
Styles of management	The methods used by those in leadership roles to achieve the most effective outcomes from the employees for whom they are responsible.
Tall organisational structure	An organisational structure with a narrow span of control and many levels of hierarchy (a long chain of command).
Training	Employees learn the skills and techniques needed to do the job or to prepare for a new role.
Wage	A method of paying employees for their work based on an hourly, weekly or piece of work basis, usually paid weekly or monthly.

3.5.1 / 2 - Identifying & understanding customers & Segmentation

A **Market** consists of all the sales of one particular group of goods or services. For example, the grocery market, the housing market, or the stock market.

In every market, businesses must identify and satisfy customer needs. This is the purpose of **Marketing**. All businesses work hard to identify and satisfy customers needs in order to:

- Provide a product or service that customers will buy
- Select the correct **Marketing Mix**
- Avoid costly mistakes
- Be competitive and increase sales



The same way we would break up an orange, we **segment** a market.

Segmentation allows businesses to focus on individual groups, such as men/women, age groups, geographic location, levels of income.

By doing this, we can better understand the different groups of consumers we might be targeting. That way we can design products, pricing, advertising, and ways of delivering the product, that suit each group.

Benefits of accurate segmentation	Drawbacks of segmenting / risks of doing it badly
Businesses design better products, advertising, and prices, and promotions, which lead to more sales.	Detailed research will be required – this can be expensive
Understanding our customer better, we can predict what they may want in the future.	It can be very difficult to accurately predict what a customer will like or dislike
We can maximise the profit from each group – for example, knowing that some people have no choice but to use the train at a set time, means we could charge a higher price.	All of our competitors will be trying to do the same thing, meaning that if we don't do it well they will be able to gain a significant advantage over us.

3.5.3 - The purpose and methods of market research

Market Research is the process of a business collecting information that will help it to better compete with its opposition. It enables them to gain a better insight into their customers, and their wants and needs, and their competitors.

Purposes of Market Research – businesses collect information about:

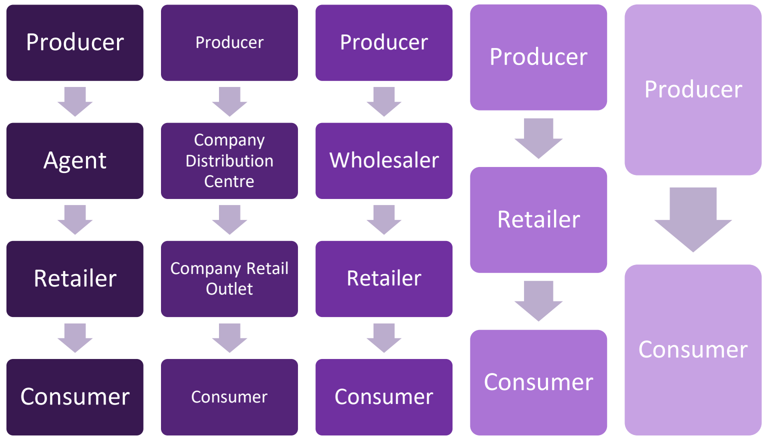
Demand	Competition	Target Market
How much/which products do consumers want/need? What features should their product have and what price should they set?	How are the competitors in the market operating? How are they different to us, and how are they innovating?	Who are our customers? What specific wants/needs to they have? Can we improve how we deal with them to increase sales?

Primary	Secondary	Quantitative	Qualitative
Research I design and conduct specifically for my business	Research someone else has designed and conducted	Data that is numerical / can be counted	Information that is descriptive and cannot be easily counted

Method	Advantages	Disadvantages
Questionnaires & Surveys	Easy / cheap to produce	Difficult to get responses May be leading questions
Interview	Detailed information as more time to ask further questions	Time consuming and so expensive
Focus Group	Opportunity for discussion More detailed responses	Time consuming Groups may not be representative
Internet Research & Printed Media	Lots of information available Cheap (Secondary Research)	Information can be misleading Others designed the research / may not be suited to your purpose

3.5.4 - The Marketing Mix: Place

Place refers to the different channels of distribution a business uses to get their products to the customers.



In each of the possible scenarios show above, the seller might choose a range of ways to sell to the buyer:

- Traditional – via a shop / office
- Modern retail – using technology to improve the process (i.e. self-scan/checkout)
- Telesales – sales made by phone direct to the customer
- E-commerce / M-Commerce – sales via a website or app

Choosing the right method of getting the product to the customer is vital.

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Marketing

Unit 5

Appears in:
Paper 2

3.5.4 - The Marketing Mix: Promotion

Promotion is the name given to all of the business activities that encourage the customer to buy a product.

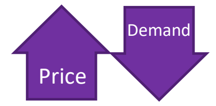
Why we promote	How we choose a method
It's important to promote a product, especially when it's new or if it is in a market where there's lots of competition. It's used to: - Inform/remind customers about the product - Create or increase sales - Create or change the image of the product - Persuade customers to buy or try the product	What a businesses chooses to do to promote their product is influenced by both internal and external factors: - Finance available to spend - What the competitors in the market are doing - The type of good or service the product is - The nature of the market and how competitive it is - Who the target market are

Advertising	PR	Sales Promotion	Sponsorship	Social Media
These are the types of adverts you would be familiar with on TV, Radio, in newspapers, on the internet and on billboards	Public Relations activities are the ones that change how we think about a business. For example, some give to charity.	Special offers and displays. 2 for 1 and BOGOF, free gifts, coupons, samples, competitions.	Businesses often sponsor football teams or sporting events. The same as they might sponsor a good cause such as a school.	Interacting with customers via social media is increasingly important to modern business. It involves the customer in the brand.

3.5.4 - The Marketing Mix: Price

Businesses set prices for their products based on a range of **internal** and **external** factors.

- Costs associated with the product
- Nature of the market
- Degree of competition in the market
- The stage a product is at in its lifecycle



Skimming	**Description:** Setting a higher price when a product is released **Potential Impact:** The company can try to take advantage of excitement around the release of the product – with customers willing to pay more to get the product sooner the company can recover some of its Research and Development costs
Penetration	**Description:** Setting a price lower than the competition for a short time **Potential Impact:** By pricing below the competition a company can attempt to increase their share of the market. If their product is new, or if they are entering this market for the first time, it could encourage customers to try the product or switch from a competing product.
Competitive	**Description:** Pricing alongside or similarly to the competition **Potential Impact:** By pricing alongside our rivals, customers will see our price as the "going-rate" – the normal price. We shouldn't be seen as expensive, and so customers are less likely to go elsewhere simply because of the price.
Loss Leader	**Description:** Setting a price for a product that means a loss is made on each sale **Potential Impact:** A very low price on a product may encourage people to visit the shop, and subsequently buy other items that do make a profit. An example of this is fuel at supermarkets. Their prices are lower in the hope that while filling up with fuel you will also shop in the store.
Cost-Plus	**Description:** Adding a percentage profit to the cost of producing/selling a product **Potential Impact:** Provided we sell enough units for us to cover our fixed costs, each unit we sell should make us a profit. We have set the price so that each sale covers its own variable costs.

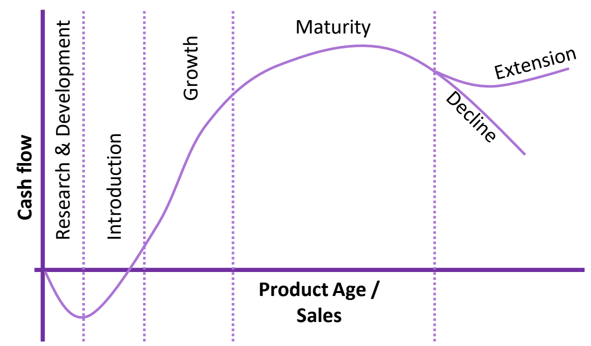
3.5.4 - The Marketing Mix: Product

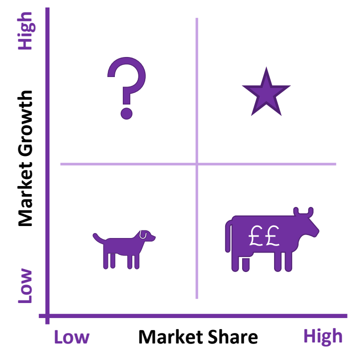
Deciding which products to offer is a marketing activity. There are risks and benefits of releasing new products and discontinuing old ones. Which products are sold and their quality, will affect **brand image**.

Having a **unique selling point** can improve sales in competitive markets.

The **Product Lifecycle** shows the stages that a product is likely to go through during its lifetime. The line shows how cashflow falls initially due to the high cost of R&D.

It also shows how decline is not inevitable, and that **extension strategies**, such as adding new features, could be used to maintain a products' popularity.





The **Boston Matrix** is a tool for analysing a business' **Product Portfolio**. This is the collection of products they offer.

Where a product appears in the matrix might help us to decide what to do next to improve our profitability.

Businesses often assume that spending money on marketing will help us to improve market share and move **dogs** to become **cash cows**, and **question marks** to become **rising stars**.

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AQA

Marketing

Unit 5

Appears in:
Paper 2

Key Term	Definition
Advertising	Communicating with the customer to inform them about / convince them to buy a product
Boston Matrix	A tool that allows a business to analyse the value / prospects of each product in their portfolio.
Brand Image	How the brand is seen by the customer, their perception of its strengths, weaknesses, personality. It changes over time and all of the customers' interactions with the brand will inform it.
Competitive Pricing	Setting a price to be in line with a competitors' price for the same or similar products.
Complementary Product	A product that is sold alongside another that may be of use or interest to a customer. For example, extended warranties alongside the checkouts at Currys PCWorld.
Cost-Plus Pricing	Adding a percentage to the cost of producing a product so that a profit is made.
Customer Engagement	How the business tries to build a relationship with the customer in order to build loyalty.
Direct Marketing	Manufacturers speaking to customers without intermediaries. Often with leaflets or door-to-door salespeople.
Distribution Channels	How the product gets from manufacturer to the customer. Whose ownership does it pass through? Manufacturer > Wholesaler / Distributor / Agent > Retailer, etc.
EPOS	Electronic Point of Sale. A till / checkout that will automatically update stock / print coupons and vouchers etc.
Extension Strategies	Methods that extend the lifecycle of a product. Such as, updated packaging, adding new or different features, changing target market, special offers, advertising, and price reduction.
Focus Group	A group of people chosen from the target market to discuss a product. Provides the business with qualitative data relating to their opinions.
Intermediary	The businesses in the middle of the distribution channel between manufacturer and the customer.
Loss Leader	A product sold for less than it costs in order to encourage more customers. For example, fuel at supermarkets.
Market Research	Collecting information about customers, competitors, and the market that a company operates in.
Marketing	The activities within a business that combine to ensure the customer gets what they want, in the quantities they want, at a price they are willing to pay.
Marketing Mix	The four areas of marketing, and how a company uses them **in combination** to meet the needs and wants of customer while maximising sales, revenue and profit.
Penetration Pricing	Setting a low price in order to establish a new product in a market, or to quickly gain market share.
Point of Sale	The place in a store, or webshop that the customer buys the product. Often an opportunity to attempt to sell complementary products.
PR – Public Relations	The act of managing the relationships between the business and wider groups. For example, environmental groups, pressure groups or investors. All with the aim of improving brand image.
Primary Research	Designing your own research, then collecting the information first-hand.
Product Differentiation	Developing features within a product that set it apart from other products in the same market. Using these differences to help promote the product and convince customers.
Product Lifecycle	The stages a product goes through from initial idea to removal. Research and Development > Introduction > Growth > Maturity > Decline (> Rejuvenation / Extension).
Product Portfolio	The range of products offered by a company.
Promotion	Communicating with customers in order to inform / remind them about a product or persuade them to buy.
Qualitative Market Research	Collecting information about customers' thoughts/opinions about a product – customers are able to explain in detail.
Quantitative Market Research	Collecting information in a numerical manner – less detail is possible, but statistical analysis is easier.
Retail	A business that sells goods.
Sales Value	The revenue generated from sales.
Sales Volume	The number of items sold.
Secondary Research	Using sources of information that have already been collected / published. Also called 'desk research.'
Segmentation	Dividing a market into groups that can be more easily targeted with specific products / adverts / prices. It enables the business to meet the needs of a specific group more easily.
Skimming	Setting a higher than usual price when a product is first released to capitalise on early adopters being willing to pay more. For example, Xbox 'Day One Edition.'
Telesales	Attempting to sell products by phone.
Unique Selling Point (USP)	The main benefit / key feature of a product that differentiates it from the other products in the same market.
Wholesaler	A business that sells in large quantities, usually buying them from manufacturers, then selling to retailers.

3.6.1 - Sources of finances

See over for the definitions of the following sources of finance.

Method	Benefits / Issues
Friends / Family	May not charge interest, or may let you repay over a more relaxed time-frame – but could harm relationships
Retained Profit	No interest and money is available instantly – but once it has been spent it is gone. Borrowing may be needed later.
Sale of Assets	Selling unwanted gods may result in the business getting back less than they paid.
Loan / Mortgage	Interest is charged on the loan – there is a rigid schedule for repayment. Reliable, interest rates are low.
Credit Card / Overdraft	Pre-arranged borrowing from a bank – can be spent like money – instant access – but typically high interest rates.
Sale and Leaseback	For items the business still needs, they can sell the building (e.g.) and then lease or rent it back from the new owner.
Trade Credit	Buy now-pay later. Enables business to obtain the resources they need, then are given x days to repay.
Hire Purchase	A deposit is paid, the business receives the goods and then is leant the remainder which they repay over time with interest.
Government Grants	Businesses can apply for grants that match things the government wants to encourage. i.e. small business start-up grants in areas of high unemployment.

Obtaining Finance:
Businesses use finance to pay for:
- Variable costs such as raw materials
- Overheads such as labour
- Land / Buildings / Capital Goods like machinery

It can be difficult to obtain finance, for this reason businesses create detailed business plans that can be used to convince lenders to give them **credit**.

Suitability of different methods:
Depending on the size, age and financial stability of a business, some methods may be more appropriate. **New businesses** might struggle to get loans from a bank, and so often owners will put their own money and money borrowed from family into the company. **Established businesses** who have a track record of making money and repaying debts will be more likely to borrow more.
Sometimes businesses only need to borrow **small amounts or for a short time**, meaning things like Credit cards, overdrafts, and Trade Credit become good choices.

Interest = cost of borrowing or the reward for saving

3.6.3 - Financial terms and calculations

Businesses all aim to make a profit (for charities and NGOs this profit is usually in the form of a positive outcome for their cause). As a result we have to pay close attention to finances.

Profit = income is greater than expenditure
Loss = expenditure is greater than income

To calculate a businesses profit/loss we have to understand the relationship between costs and revenue. (see over for definitions of the terms below).

$$Profit\ or\ Loss = Revenue\ - Total\ Costs$$

$$Total\ Costs = Fixed + Variable\ Costs$$

Calculating Total Costs can catch people out – often you're given a single figure for Fixed Costs, but a **cost per unit** for Variable Costs. This means you need to calculate:

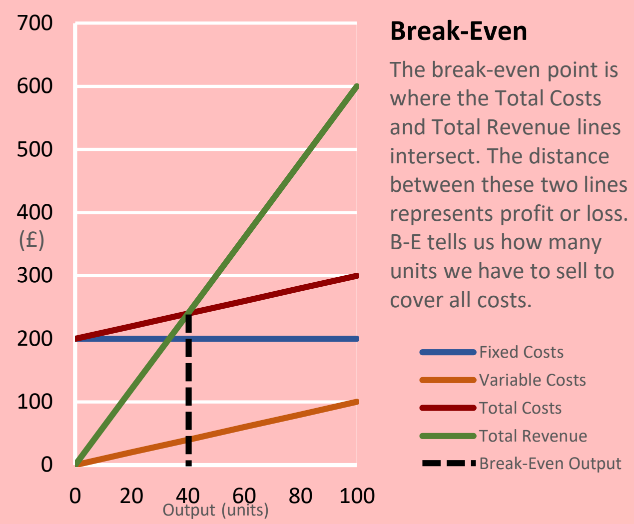
$$Total\ VCosts = Cost\ per\ unit\ \times the\ number\ of\ units$$

Margin of Safety
How many units are we making, above the break-even output. In the example, were the business making 60 units, the MoS would be 20 as the BEO is 40.

Average Rate of Return (ARR)
This is a method of investment appraisal. It looks at possible investment options and gives the % of the initial cost that will be returned as profit each year.

$$ARR\ (\%) = \frac{Average\ Profit\ per\ year}{Initial\ Cost}\ X\ 100$$

The investment option with the higher ARR % will most likely be chosen. However, other factors such as total profit, initial costs, and market conditions might also affect a company's choice.



Break-Even
The break-even point is where the Total Costs and Total Revenue lines intersect. The distance between these two lines represents profit or loss. B-E tells us how many units we have to sell to cover all costs.

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3.6.2 - Cash flow

Cashflow is the term used to describe money entering and exiting a business. If cashflow is positive, then the business has the funds available to operate. If it is negative, they may not be able to pay their debts or be able to afford to buy stock etc.

Cash is king, and having enough cash available (either from sales or from borrowing) is vital. If a business has negative cashflow they will need to do something about it – possible solutions to cashflow problems include:
- **Re-scheduling payments** with creditors (people we owe money to) can allow extra time for more money to come in from sales

Thomas Cook went out of business in 2019, not because they didn't make profit – but because they didn't have sufficient cash to make their repayments on their debts. Their creditors refused to extend deadlines. Unable to find alternative sources of credit – they defaulted on their loans and were forced to declare bankruptcy.

- **Cutting costs** will reduce cash outflows and improve net cashflow as long as it doesn't harm our ability to generate sales
- **Increasing sales** will increase our inflows – but could cost us money (on marketing) in order to do it
- **New sources of finance** could make up the cash shortfall

Cashflow Forecast
Businesses need to predict whether they are likely to have any cashflow problems in the near future, as they may need to put finance in place to cover any deficit between income and expenditure.

In the example below, we can see that this business is predicting **positive net cashflow in January** – they will spend less than they earn. Whereas in February and March they expect **negative cashflow**, they will spend more than they earn. By the end of March they will have a negative bank balance. They will need some finance, possibly from their bank agreeing an Overdraft.

	January	February	March
Opening Balance	50,000	60,000	50,000
Cash in-flows	100,000	70,000	10,000
Cash out-flows	90,000	80,000	70,000
Net cash flow	10,000	(10,000)	(60,000)
Closing balance	60,000	50,000	(10,000)

3.6.4 - Analysing the financial performance of a business

Income Statement
This document shows the profit or loss of a business. (see over for descriptions)

Item	2018 (£m)	
Revenue	300	Money from Sales
Cost of Sales	100	Variable Costs
Gross Profit	**200**	300-100 = 200
Overheads	50	Fixed Costs
Operating Profit	**150**	200-50 = 150
Tax and interest	25	
Net Profit	**125**	150-25 = 120

Statement of Financial Position
This document shows the assets and liabilities of a business.

Assets are things the business owns
Liabilities are the debts of the business
Current means an asset or liability we will have for less than a year, **non-current/fixed** for more than a year.

Balance Sheet	£m	
Fixed Assets	**400**	Buildings etc.
Current Assets		These are things we will own for less than one year. **Debtors** is the money still owed to us by our customers. We own their debt, therefore this is an Asset.
Stock	174	
Debtors	109	
Bank and Cash	17	
Total Current Assets	**200**	
Current Liabilities	**(100)**	Payments we need to make this year
Net Current Assets	**100**	Current assets – current liabilities
Net Assets Employed	**500**	Fixed + Net Current Assets
Non Current Liabilities	**195**	Long-term debts
Net Assets	**305**	All assets – all liabilities
Equity / Reserves		This is the money that has been invested by shareholders (Capital) and the money we have reinvested from past years (Reserves)
Capital (Equity)	125	
Reserves	180	
Total Equity	**305**	

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Key Term	Definition
Asset	Something owned by a business.
Average rate of return	The average amount of profit made from an investment, as a percentage of the initial cost. $ARR\ (\%) = \frac{Average\ Profit\ per\ year}{Initial\ Cost}\ X\ 100$
Break-even Chart	A graph showing costs and revenue, and the point where they cross is the break-even point, this shows the output required to break-even.
Break-even Output	How many units must be sold in order to break-even. At this point, total costs and total revenue are the same.
Cash	Money that the business has in cash or in the bank available to spend.
Cash flow	The money moving into and out of the business.
Cash flow forecast	A prediction of how much money will flow into and out of the business. It is a planning tool.
Cash Inflow	Money coming into the business.
Cash Outflow	Money going out of the business.
Closing Balance	How much money still in the bank account at the end of a month / year.
External Sources of Finance	Getting money from business, people, or other organisations outside the business. For example, loans from banks, selling shares to private investors, subsidies from the Government.
Fixed Costs	Costs that do not change when our output changes. For example, rent.
Government Grants	Money given to businesses by the Government in exchange for them operating in a particular place or way. They must be applied for.
Gross Profit / GP Margin	$Gross\ Profit = Total\ Revenue - Costs\ of\ Sales$ $Gross\ Profit\ Margin\ (\%) = \frac{Gross\ Profit}{Revenue}\ X\ 100$
Hire Purchase	Buying items by making an initial payment, then paying the remaining money owed over a longer period of time.
Income Statement	A document that summarises the money moving into and out of the business. Showing whether a profit or loss is being made.
Interest Rates	The reward for saving, the cost of borrowing. A percentage added to the balance (of the savings or loan) for a given period of time – such as each month.

Key Term	Definition
Internal sources of finance	Funding the business using the owners' own money, by selling assets belonging to the business, or by making use of Sale & Leaseback.
Liability	The responsibility for debts of a business. If a business takes out a loan, it becomes a liability – the business is responsible for repaying.
Loans / Mortgages	An amount of money borrowed for a period of time, with an agreed rate of interest and deadline, repaid in instalments. Mortgages are a special type of loan, for more money paid back over a longer time in order to buy property.
Loss	Expenditure is greater than income.
Margin of Safety	How many more sales are being made than necessary to break-even.
Net Cash flow	The difference between cash inflows and outflows. $Net\ Cash\ flow\ =\ Cash\ Inflows - Cash\ Outflows$
Net Profit	$Net\ Profit = Operating\ Profit - Tax\ \&\ Finance\ costs$
Opening Balance	How much money is in the account at the beginning of a month or year.
Operating Profit / OP Margin	$Operating\ Profit = Gross\ Profit - Overheads$ $Operating\ Profit\ Margin\ (\%) = \frac{Operating\ Profit}{Revenue}\ X\ 100$
Overdraft	Agreed amount that can be spent when the balance of a bank account if £0, this allows the balance to be negative.
Profit	Income is greater than expenditure.
Profit Margin	What percentage of revenue is being kept by the business after different costs have been paid.
Profit Maximisation	Setting out to make the most profit possible, even if it means not achieving, or having to put on hold, other goals.
Raising Finance	Getting the money to invest in machinery etc. to start or grow a business.
Retained Profit	Profit from previous years that has been kept for future projects. This is an internal source of finance.
Revenue	Income from sales.
Sale & Leaseback	A business sells an asset and then leases it back from the new owners. An internal source of finance that allows a business to release money tied up in buildings or expensive equipment.
Share issue	The business is divided into more shares, the new shares are made available for the public to buy, and the business receives the money. An external source of finance.
Statement of Financial Position or Balance Sheet	Also called a Balance Sheet – a document that summarises the assets, liabilities, and equity of a business.
Total Costs	All costs a business must pay in order to operate.
Variable Costs	Costs that change depending on the level of production. For example, when more units are produced, more raw materials are consumed.

6 Mark Questions

Command words:

- **Analyse the impact** – a business will be considering, or will likely be affected by a business issue. You will need to, in detail, analyse how they are affected.

Important elements of the mark scheme:

- **No AO1** – there are no marks awarded for just demonstrating knowledge. Without analysis and application to the context you will score 0.
- **How many** – the question might tell you how many effects to analyse, if it doesn't say – the safest bet is to pick **one** and analyse with 5 steps.
- **Context** – you need to apply your knowledge to the specific situation described in the question. No application to the context = no marks!

State the impact

What does this lead to

What does this lead to

Are there other areas of the business that could be affected by this impact?

What does this lead to

Altogether, what could this result in?

9 Mark Questions

Command words:

- **Recommend** – you will be presented with options for a specific business in context. You will have to decide on which you believe is the best option and make a **definitive** recommendation.

Data:

- **Calculations** – it is likely that there will be some data presented with this question that doesn't mean you necessarily have to do any calculations, but look carefully at the data and the question, would it help your answer?

Important elements of the mark scheme:

- **No AO1** – there are no marks awarded for just demonstrating knowledge. Without analysis and application to the context you will score 0.
- **Sustained line of reasoning** – no flip-flops! You can't change your mind halfway through! you need to decide at the beginning on your choice.

- **Data** – if there is any data discussed in the question then you need to use it in order to get **any** marks.
- **Evidence** – where you get credit for your knowledge is by using it as evidence to support your recommendation.
- **Conclusion** – finish your answer with a conclusion that is supported by your evidence.

State your recommendation

Explain your reasons for choosing this option

Add any relevant data from the question and case study (if there is any)

How could this choice affect other areas of the business?

Are there 'potential issues' with this option the business need to know?

(Briefly) What will they miss out on by choosing this option?

Conclusion – overall they should choose your option because? What's the most important reason?

12 Mark Questions

Command words:

- **Analyse which will have the <u>greater</u> impact** – you will be presented with two business issues that could be unrelated. You will need to consider which one will have a greater impact on the context presented in the question.

Data:

- **Calculations unlikely** – in these questions they are testing your analysis and evaluation. There may be data from the case study or past questions within the same section that might be useful as part of your analysis though.

Important elements of the mark scheme:

- **No AO1** – there are no marks awarded for just demonstrating knowledge. Without analysis and application to the context you will score 0.
- **Integrated line of reasoning** – not just no flip-flops, this time you need to have a common theme that runs through your answer. Practice these questions and when you look at your answer afterwards, does it seem like multiple separate parts? If so, it's not **integrated**.
- **Interdependent nature of business** – all areas of a business are reliant upon all other areas – from your analysis it should be obvious that you're considering the wider implications of both options.
- **Conclusion** – another opportunity to show the interdependent nature of business, in your conclusion try to draw together the two topics. Then finish confidently explaining why the one you chose has a greater impact than the other.

State which topic will have the greatest impact. Doing this at the beginning is a way of ensuring you have written it before running out of time!

Discuss this topic – how will it affect the business? Analyse this point in detail.

How could this topic affect other areas of the business? You need to discuss more than one functional area of the business.

How might the **other topic** affect this business?

How does this affect the broader business **less** than your chosen topic?

Conclusion – overall how might either topic affect the business? Are there any ways in which they would both affect the business the same way?
Now, your topic – the big finish **– why will your topic affect the business more than the other one?**