Murphy Resources

EDEXCEL GCSE 9-1 BUSINESS

The Revision Guide

© Murphy Resources 2017

About this resource

- This resource is in no way endorsed by Edexcel and will not facilitate the initial learning of the content required to complete this course.
- Clipart used throughout, unless otherwise specified, from openclipart.org
- Case studies and videos use external sources of content. We endeavour to be balanced and unbiased towards the brand. If you would like your business removed, get in touch.
- Text in this presentation is fully justified to make reading easier, particularly for students with reading difficulties.
- If you print this resource please use paper made from responsible sources and re-use or recycle after use; do not pass on to other centres.
- You are free to use and share this resource within your centre by any means. You must not distribute to other centres, including centres linked by partnership or academy trust.
- Lion illustration taken from Specification cover, all rights reserved to Pearson © 2016.
- Presentation design used as standard in Microsoft Office 2015 (365 subscription) and backwards or alternatively compatible.
- We cannot be held responsible for any issues that may occur during the use of this resource.
- Although quality checks have been made, there is still an opportunity for errors. In such case it would be in the interest of future customers for these to be reported and resolved.

Acknowledgements

Thanks to The Open University, with whom I am studying with, for their fantastic distance learning degrees.

Thanks to Amazon for the opportunity to sell this resource

Thanks to you for purchasing this resource via Amazon ☺

Shout-out to my colleagues and friends at CHSCHS

More Information

Individual sources can be found on the corresponding page in the notes section

If you have found a mistake or compatibility issue please get in touch:

murphyresources@hotmail.com

Licence

Centre Name: ________________

Purchase Date: ________________

See below notes for advice on feedback

Assessment

- There are two themes:
  - Theme 1 – Investigating Small Business
  - Theme 2 – Building a Business
- This course consists of two examination papers
  - Paper 1 – Based on theme 1
  - Paper 2 – Based on theme 2
- There is no controlled assessment
- Each paper is 50% of the qualification and will be sat in Summer of Year 11
- Both papers contain mixed multiple choice, short and extended questions
- Quantitative questions will contribute to 10% of the overall assessment
  - Calculators may be used in both exam papers
- Papers are divided into Sections A, B and C – where B and C will contain a case-study
- Questions range from 1 to 12 marks based on three assessment objectives (AO's)
  - AO1 - knowledge → AO2 - application → AO3 - analysis and evaluation

Case Study Guide

Theme 1

- Chapter 1 – Couch Coaster: Market Gap
- Chapter 2 – Boot Buddy: Enterprise
- Chapter 3 – Dyson: Staying Competitive
- Chapter 4 – YouGov Research
- Chapter 5 – ITV PLC: Segmentation
- Chapter 7 – Video: Hotel Inspector
- Chapter 10 – Subway: Franchises
- Chapter 11 – Post Office: Location
- Chapter 15 – Greggs: Pasty Santa
- Chapter 16 – Britvic: Sugar Tax

Theme 2

- Chapter 18 – Tesco: Booker Deal
- Chapter 20 – P&G: Multinational
- Chapter 21 – Clipper Tea: Ethics
- Chapter 22 – Video: TV Lifecycle
- Chapter 23 – Video: Tesco Brand Match
- Chapter 24 – McDonalds: Promotion
- Chapter 25 – Dominos: Supply Chain
- Chapter 26 – Food Warehouse: Marketing Mix
- Chapter 27 – Video: Choccywoccydoodah
- Chapter29 – Bread Roll Co.: Quality Control
- Chapter 30 – Video: Selling Sausages
- Chapter 33 – VUE: Organisational Structure

THEME ONE

Investigating Small Business

© Pearson

TOPIC ONE

Enterprise & Entrepreneurship

CHAPTER ONE

The dynamic nature of business

Good or Service?

Businesses sell products, a product can be a good or a service

- A good is a type of product that is tangible, that means it can be physically touched and taken away from a shop or delivered
- A good may be part of a service
- Examples of goods:
  - loaf of bread
  - tube of toothpaste
  - satellite dish
  - television
  - a book

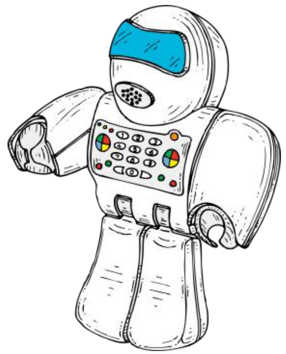
- A service is a type of product that is intangible, that means it cannot be physically touched or taken away
- A service may include a good
- Examples of services:
  - train journey
  - dentist appointment
  - canteen preparing food
  - broadband installation
  - photocopying service

Gap in the market

- A business idea can be a new product that is unique and not been done before, or it can be an existing product that can be developed or improved in some way
- Many successful business ideas will solve a problem of some kind
- If you have watched Dragons' Den on BBC you will know that many business ideas bought into the den solve a problem
- When a business idea solves a problem by developing a new good or service, they are filling a gap in the market
- The term market describes the exchange of goods and services for money between businesses and customers
  - Markets are categorised, for example Tesco and Asda are in the grocery market
- The 'gap' refers to the lack of products or services to solve a problem in a particular market
  - Therefore a gap in the market is a space waiting for a product to solve the problem

Product development

- A business idea can also form as a result of an existing product not being good enough, or perhaps has become out of date and no longer solves the problem it once did
  - This is particularly the case for technology due to their fast improvements
- When a product is adapted and improved, this is known as product development
- Product development ideas can form as a result of questions like…
  - I wish this product did this…
  - This product should have this feature…
  - This product is good, but it would be better like this…
- Product development doesn't always apply to goods, it can apply to services too – for example using cyclists to deliver food more quickly (e.g. Deliveroo)



Technological development

- Technological development is the change and advances in technology that are continuously improving
- As new technology is introduced, or existing technology is improved, this can solve one of the two problems we have looked at
- Technology can improve existing products – for example the release of a new range of televisions featuring a curved Ultra HD screen
- Technology can fill a gap in the market to solve a problem that would not have been possible before – for example the cordless vacuum cleaner
- The technology market itself is moving fast, just ten years ago the smartphone was introduced for the first time, although technological development exists in any market

Summary – Sources of business ideas

1

- **Filling a gap in the market**
  - Designing a good or service that does not yet exist

2

- **Product Development**
  - Adapting and improving an existing good or service

3

- **Technological Development**
  - Adapting and improving an existing good or service

COUCHCOASTER®
The ultimate drink holder for your sofa

Case study – Couch Coaster

- "CouchCoaster - The ultimate drink holder for your sofa - is designed to hold mugs, tumblers, bottles and cans and works on a variety of shapes and sizes of sofa arm"
- Inventor Barry Freeder – "CouchCoaster began life in 2010 as a cardboard mock-up which fitted perfectly around a curved sofa arm.
- My inspiration for the prototype came from a simple evening in on the sofa with a bottle of beer to hand, when I thought to myself that there had to be a better place to hold a drink on the sofa!

- The Couch Coaster is an example of a new product filling a gap in the market by solving a problem
- The inventor realised there was no product to support a cup of can on the sofa, unlike in cinema seats
- The product retails on Amazon and selected shops for £19.99 – it has also made an appearance on TV

Information from http://amzn.eu/eT5V8Z5 - Accessed Sep 2016

CHAPTER TWO

Enterprise, risk and reward

An Entrepreneur

- So far we have looked at…
  - Having a business idea through finding a gap in the market, product development or technological development
  - Developing that idea into a product or service
  - The risks and rewards of starting up a business to sell your idea
- All of these things are qualities of an entrepreneur

An entrepreneur is somebody who has a business idea, develops the idea into a product or service, and is willing to take risks to start a business selling their product or service

- Entrepreneurs have to make lots of decisions and show determination for them to be successful in starting their business selling their products and/or services

Risks of business start-up

There are three main risks associated with starting a business…

- Financial Risks
  - A lot of money goes into starting up a business which would be lost if it failed
  - There may be unexpected costs that weren't planned for
  - You might need to borrow money and therefore create debt – e.g. Bank Loan
- Market Risks
  - Businesses in the same, or similar, market could be difficult to compete with
  - Customers may prefer the brands they are used to buying over yours
- Personal Risks
  - If the business fails, and you have no other job, you will have no income
  - Starting a business can be very stressful and can impact personal life

Rewards of business start-up

There are also rewards associated with starting up a business - assuming it is successful!

- Financial Rewards
  - You can begin to sell products and services to earn profit (We will revisit this later)
  - You may be able to earn more money than a wage working for somebody else
- Management Rewards
  - You can be more flexible compared to working for somebody else
  - You are able to make decisions and develop strategies in the business
- Personal Rewards
  - You will feel a sense of achievement and success to see your business grow
  - You may be able to provide a job to family and friends or support the local community

Calculated Risks

- A calculated risk refers to making a decision after deciding whether it is worth the risk
- To make a calculated risk, it is important to look not only at the risks, but at the potential benefits or rewards
- When you buy a scratch card you are risking the cost of it (lets say, five pounds) for the possibility of winning lots more
  - The worst case scenario is that you win nothing, you will only lose the money you paid for the scratch card – £5
  - The best case scenario is that you win the top prize which could be thousands of pounds
  - Ask yourself – is it worth my five pounds? Is this a risk worth taking?
  - Assuming you say 'Yes', but what if the scratch card cost £50? – The risk would be higher
- Risks in business are considerably higher than buying a scratch card, hence why it is important to plan and consider all options before making the final decision

Case study – Boot Buddy

- “Arminder created Boot Buddy aged 11 as an easy way to clean his football boots after getting fed up of being told off by his mother for bringing mud in to the house”
- “A keen footballer, Arminder would return home with muddy boots after every training session and match. Frustrated with spending countless hours with a hose, toothbrush and knife he thought to himself there must be a quicker and easier way”

- Arminder found a gap in the market by solving a problem
- Arminder spent lots of money designing and manufacturing his product – this was a risk
- Arminder appeared on Dragons’ Den and gained the investment of time and money from three out of the five ‘dragons’
- It is clear that Arminder is an entrepreneur

Information from http://www.bootbuddy.com/index.php - Accessed Sept 2016

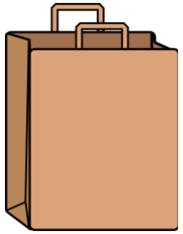
TOPIC TWO

Spotting a business opportunity

CHAPTER THREE

Customer needs

Customer Needs

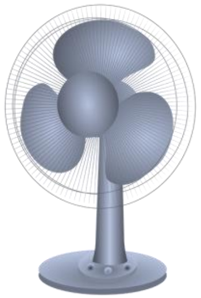


- Entrepreneurs set-up a business based on their product or service idea, but in order to build up customers they will need to meet customer needs
- Not only are customer's needs an important part of product development, but also in starting and running the business – but what exactly do customers need?
- PRICE
  - Many customers decide whether or not to purchase a product or service based on its price. If a product or service is high in price, there must be a way of justifying that.
- QUALITY
  - The next thing customers need is good quality product or service. Even if a product is unique, customers still may not make a purchase if it doesn't meet expectations.
- CONVENIENCE
  - Another customer need is convenience. Shopping centres, retail parks and outlet villages are all locations a business could consider locating depending on the type of product or service. Online shopping may also be an option.
  - Location is something we will look at in more detail later...

Adding Value

- Added value is the process of increasing the worth of a product from the point of production to the final product sold to customers
- Adding value to a product involves taking a raw product and making it worth more than the original cost of purchase or production
  - This is a similar concept to how a car dealership buys a used car, improves and restores it, then sells it at a higher price than what it was originally bought at
- A business may produce the product themselves using raw materials and components bought from suppliers (E.g. Furniture), or they could buy the whole product from a supplier (E.g. An Orange)
- Lets assume the cost of producing a wooden dining table is £100, a business can add value by applying a coat of high quality varnish and delivering the table to the customer to the exact room in the house… the table can then be sold at £180
  - The value added would therefore be £80
- This is just one example, there are many ways a business can add value!

Business Survival



One of the most important methods businesses can survive and compete in their market is by remaining one step ahead (or very close behind!)

- Let's look at Dyson's timeline to analyse how they have remained one step ahead and maintained their high market share using product development and innovation

- 1995 – Dyson UK launch period
- 2002 – Dyson Animal (for pets)
- 2005 – Dyson Ball models
- 2007 – Dyson Cordless Models
- 2013 – Two-tier kinetic technology
- 2016 – Dyson robot - '360 Eye'

- At each stage in this timeline, other brands such as Vax have attempted to copy
- It is no surprise Dyson have started diversifying into hand dryers, hair dryers and fans!
  - This is an example of technological development – James Dyson applying his own technology in other products by improving them

Data modelled around https://en.wikipedia.org/wiki/List_of_Dyson_products

CHAPTER FOUR

Market research

Market Research

- The main purpose of market research is to identify customer needs, particularly for a new start-up business or existing business developing a new product
  - It is also important to support decision making and therefore reducing risks
- There are two types of research: primary research and secondary research; good research will combine both methods
- Primary research (also called field research) is when the entrepreneur or business uses their own resources to gather information
  - For example creating a questionnaire to give to potential customers
- Secondary research (also called desk research) is when the entrepreneur or business uses existing resources and research information
  - For example using local authority data about population and income in an area
- Primary research can take place in many forms as we will explore next…

Research Methods

- Primary research methods may include…
  - Survey – asks questions that require ticking boxes or writing numbers
  - Questionnaire – asks questions that require longer answers
  - Focus Group – a small group of people asked to sample products
  - Observation – watching how people interact in different scenarios
- Secondary research methods may include…
  - Government reports – e.g. inflation rates, average income
  - Local authority reports – e.g. local council data about location
  - Competitor reports – e.g. profit and loss account
- Research doesn't have to be face-to-face, it can be carried out online (e.g. Survey Monkey) or over the telephone (e.g. verbal survey)

Types of Data

There are two types of data you need to learn -

- Qualitative data consists of opinions and quotations which often comes from questionnaire, focus groups and online research
  - An example would be “I think the new logo design is more vibrant”
- Quantitative data consists of numbers and statistics which often comes from observations, surveys and existing reports
  - For example “68% of people agreed the new logo design is vibrant”
- You can remember quantitative like QUANTITY meaning numbers, and qualitative like QUALITY of writing

What makes good data?

- Good data is necessary to ensure the right decisions are made
- The most important point to remember is data should be from a reliable source, particularly if the data is from secondary research
  - An unreliable source could be Wikipedia or Forums as the public can edit this information
  - A reliable source could be government websites (.gov.uk)
- It is also important for data to be up to date to ensure that it is relevant and still correct at the current time
  - Using out of date data could lead to making poor decisions about promotion techniques

Presenting Data

Data can be presented in different ways depending on the type of data, the purpose and the end-user (likely to be a stakeholder such as a manager or tax office)

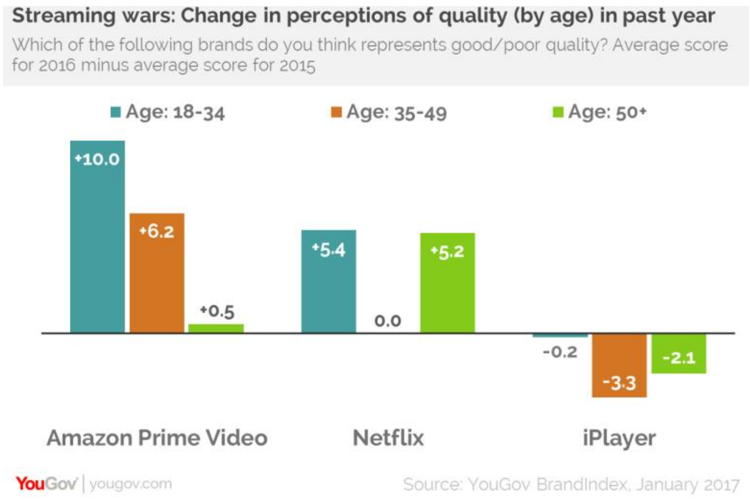
- One method is to use a chart, for example a pie or bar chart, which presents quantitative data in a clear visual way
- Tables or spreadsheets can be used to display data in more detail than a chart, but in a concise way, these can be presented in varying detail based on the user
- Computer presentations, like this one, can be used to present a combination of charts, tables, text and even video
- A more modern approach to displaying data is in a large poster called an infographic, which uses various images, charts and word clouds to display data in an eye-catching way – particularly useful for showing customers
- Finally data can be written into a report which contains the most detail, including lots of text with references to relevant charts or tables

The role of social media

- Social media networks such as Twitter and Instagram can be useful for primary market research
- One example is following how many Twitter users are posting about specific products using a hashtag; this could help analyse popularity of competitors and how well online marketing promotions are going
  - Specialist analysis websites are used to count how many posts are made using keywords
- Another example, particularly useful for technology and fashion markets, is using photo-based platforms such as Instagram and Tumblr to identify the latest trends
  - The business could also post prototype products or brands and look at the feedback
- The advantages of using social media is the information gathered is up to date and in most cases completely free to use

Case study – YouGov Research

- YouGov is a website that gathers data from around the UK to store and publish research results – here's how they describe their services…
- "Over the last ten years, YouGov has carefully recruited a panel of over 800,000 British adults to take part in our surveys. The emphasis is always on the quality of the sample, rather than the quantity of respondents."
- The research data is used by many businesses and organisations, including the news and press, due to its reliability and varied content
- "YouGov has a strong history of accurately predicting actual outcomes across a wide range of different subjects, including national and regional elections, political party leadership contests and even the results of ITV talent show The X Factor"



Information from https://yougov.co.uk/about/panel-methodology/ - Accessed Jan 2017

CHAPTER FIVE

Market segmentation and the competitive environment

Competition

- Many markets have several businesses that compete to gain more share of the market and make more profit (amongst other objectives)
- Some markets however have no competition when only a single business operates in that market; we call these monopolies, this usually occurs in niche markets
  - You will learn more about monopolies at level 3 or A Level
- Entrepreneurs that use product or technological development (see chapter 1) will have a USP – a unique selling point – which given them an advantage over competitors
- There are other factors to consider when looking at competition, we will look at three tools:
  - **SWOT analysis** – used to analyse the competitor's business, and also used to analyse their own business
  - **Market mapping** – used to analyse the products competitors sell, and also used to identify potential market gaps
  - **Market segmentation** – used to analyse competitor's target market, and also used to identify the businesses own target market

SWOT Analysis

- SWOT analysis is the tool used to identify strengths and weaknesses of a business, this is particularly useful when looking at competitors
- **S** stands for strengths – things the business do well
  - E.g. motivated staff, good location, strong branding, high sales, USP
- **W** stands for weaknesses – things the business is not so good at
  - E.g. poor quality, unethical production, poor stock control
- **O** stands for opportunities – things the business could utilise
  - E.g. room for expansion, new technology, merger deal
- **T** stands for threats – things that could affect the business
  - E.g. new legislation, pressure groups, negative press, recession
- A 4x4 table can be used to present a SWOT analysis as shown

S	W
O	T

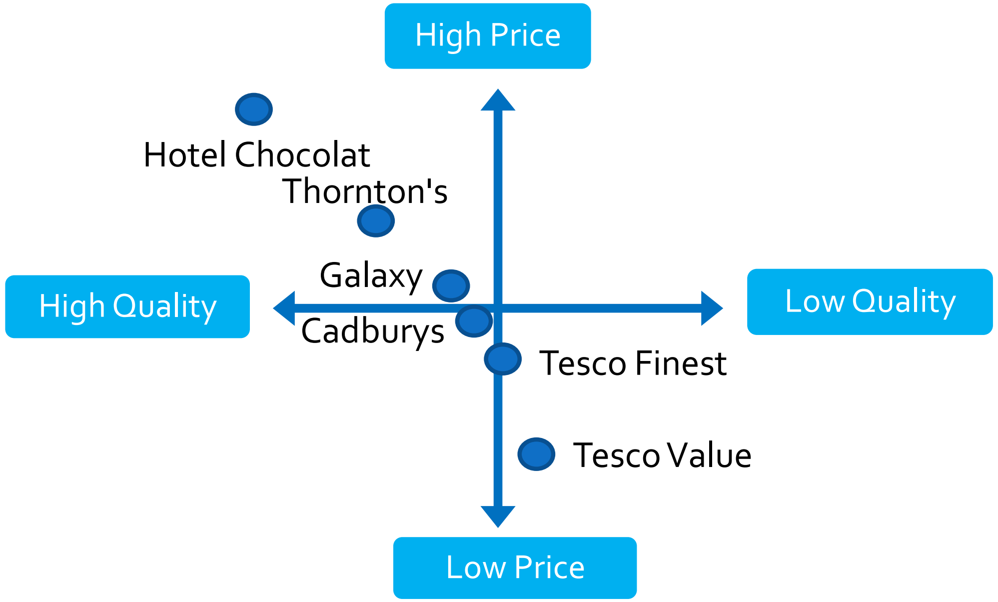
Market Mapping

- A market map is a tool used to assess existing products in the same market (i.e. competitors) to identify the best way in which to market their product
  - Market maps can also identify market gaps

- Goods or services are positioned on the map based on the best fit between 4 characteristics

- The characteristics in this example are based on price and quality for chocolate brands, but others can be used depending on the product

- An example of a service could be a hair dressers mapping against price and age



- Other possible characteristics:
  - Young age, older age
  - Large size, small size
  - Mass market, niche market
  - Hi-tech, low-tech
  - Modern, vintage

Market Segmentation

- Market Segmentation is the process of dividing the target market into different groups based on geographics, demographics, social and behavioural factors
- By using this technique, businesses can better understand their market and target marketing strategies
- Using this information can help to build a customer profile; the typical customer the good or service is targeted at
- For example, a case for the latest iPhone with a children's design would be aimed at ages 12-16, families with higher income and with a luxury attitude

- Geographics
  - Country
  - Region
  - Town/City
- Demographics
  - Age
  - Education
  - Income
- Social
  - Social Class
  - Lifestyle
  - Beliefs
- Behavioral
  - Attitudes
  - Loyalty
  - Repeat Rate

Case study – ITV Viewers

- ITV PLC use research and market segmentation to identify the audience of their portfolio of television channels, mainly based on demographics
- By doing this they can better target age ranges, genders, social groups and pay-tv subscribers in their marketing
  - This includes ITV's own advertising of programmes, and also adverts for other companies in programme ad-breaks
- Here are some statistics from a 2015 report:

CITV reaches 1.2m children aged 6-11 each week

ITV2 reaches 17m adults, 4.8m being aged 16-34

ITV3 reaches 10.3m adults, 4.8m of which are women

ITVBe reaches 4.4m adults, 1m being women aged 16-34

Information from BARB/Advent Edge via http://www.itvmedia.co.uk/ - Accessed Jan 2017

TOPIC THREE

Putting the business idea into practice

CHAPTER SIX

Business aims and objectives

Smart Objectives

- Objectives are things a business or entrepreneur wish to achieve
- They can be set short term (usually less than 6 months), medium term (usually less than 12 months) or long term (usually within 5 years)
- Businesses and entrepreneurs can use the SMART acronym; each letter is a key aspect that should be included to build the best objective…

Specific – detailed information about what is to be achieved

Measurable – identifying tools to measure how well the objective is being met

Achievable – how the objective can be achieved and by whom

Realistic – can the objective be met with the available resources

Timed – clear timeframe for when the objective should be met, and a review time

Financial objectives

- Financial objectives are set out by entrepreneurs and relate directly to financial gain or achievement

Possible Objective	Description	Likely time frame
Break even then make a profit	To break even (for start-ups) and make a profit (for businesses operating in their second year)	Short term depending on business
Increase revenue	To generate more sales revenue through higher sales as a result of brand awareness and marketing techniques	Long term
Reduce costs	To lower costs e.g. being able to purchase stock in bulk when sales are higher and more predictable	Long term
Market share	To increase market presence and increase market share by being competitive	Long term

Non-financial objectives

- Non financial objectives are set by entrepreneurs to complement, or in some cases replace, financial objectives

Possible Objective	Description	Likely time frame
Satisfaction	The feeling of achievement an entrepreneur will have to watch their business grow and become successful	Long term unless unsuccessful
Social gains	The feeling of giving back to the local community and wider environment by recycling, raising money etc.	Short term or Long term
Control & Independence	The feeling of control as the entrepreneur runs their own business, particularly for sole traders	Long term or until expansion

CHAPTER SEVEN

Business revenues costs & profits

Introducing business finance

- Business finance is arguably the most important aspect of business and enterprise
- It is vital that business owners (and finance departments in large businesses) have an understanding about whether the business is profitable, how many sales have been made and what debts need paying
- Before we look at whether a business is making a profit or a loss, we'll explore how sales are calculated and the figures mean
- We shall then look at different costs and debts businesses must pay, and the consequences of not paying

Sales Revenue

- Sales revenue is simply the amount of money made from selling goods and services over a given period (E.g. money in the till)
- Sales revenue is calculated as: $\boldsymbol{selling\ price * quantity\ sold}$
- For example if a café sells 46 cups of coffee in a day, and each cup of coffee is sold at £1.20, their sales revenue for coffee would be $£1.20 * 46 = £55.20$
- What factors affect the amount of sales revenue made?
  - An increase in selling price would increase revenue (e.g. £1.25)
  - An increase in quantity sold would increase revenue (e.g. 50 cups)
  - A decrease in selling price would decrease revenue (e.g. £1.10)
  - A decrease in quantity sold would decrease revenue (e.g. 40 cups)
- There are many reasons that quantity of sales or selling price may change, and should they change during the period that revenue is being calculated, this would need to be considered
- It is also important to note that the effects of these factors are theoretical, for example an increase in selling price would increase revenue, but only if quantity of sales remained the same
  - Often an increase in price leads to less sales!

Costs

- Costs are things businesses pay to purchase assets (things like stock and machinery), and to keep the business running
  - There are two types: Fixed costs and Variable costs
- Fixed costs do not change as a result of products being produced or sold – here are some common examples
  - Utilities – gas and electricity bills
  - Loan repayment – usually with interest
  - Rent – paying for property the business doesn't own
  - Salaries – a fixed amount of money paid to staff
- Variable costs do change as a result of products being produced or sold – here are some common examples
  - Raw materials – components of incomplete stock
  - Stock – products ready to be sold to customers
  - Wages – money paid to staff per hour or output

Interest

- One of the costs businesses should prioritise is paying off bank loans; this includes the interest that is added to the amount of money borrowed
- Interest rates vary depending on how much is borrowed, the bank used for the loan and economic factors such as the value of the pound
- Interest can be calculated as: $\frac{repayment\ - amount\ borrowed}{amount\ borrowed} * 100$
- The result of this calculation will be a percentage, this is the amount of interest that will be or has been paid to the bank on top of the borrowed sum
  - A general rule is when a formula uses $* 100$ it is a percentage, this is the case for all the formulae you are expected to learn for GCSE Business
- The interest rate of a loan is usually fixed and part of the loan agreement between the business and bank, therefore this would be a fixed cost until the loan is paid back

Profit and Loss

- When businesses make more sales revenue than total costs, they make a profit
- When business make less sales revenue than total costs, they make a loss
- Total costs are calculated as: $\boldsymbol{fixed\ costs + variable\ costs}$
- Profit or loss is calculated as: $\boldsymbol{sales\ revenue - total\ costs}$
  - If the answer is negative, a loss has been made
- This calculation is the first thing owners look at, before looking at the other figures in more detail to understand the outcome a little better
  - The profit or loss calculation is usually calculated monthly and yearly
- An indication as to whether the business is likely to make a profit is to calculate profit or loss per product sold (rather than in total)
  - This is simply $\boldsymbol{selling\ price - variable\ cost\ per\ product}$…

Video – Profit & Loss

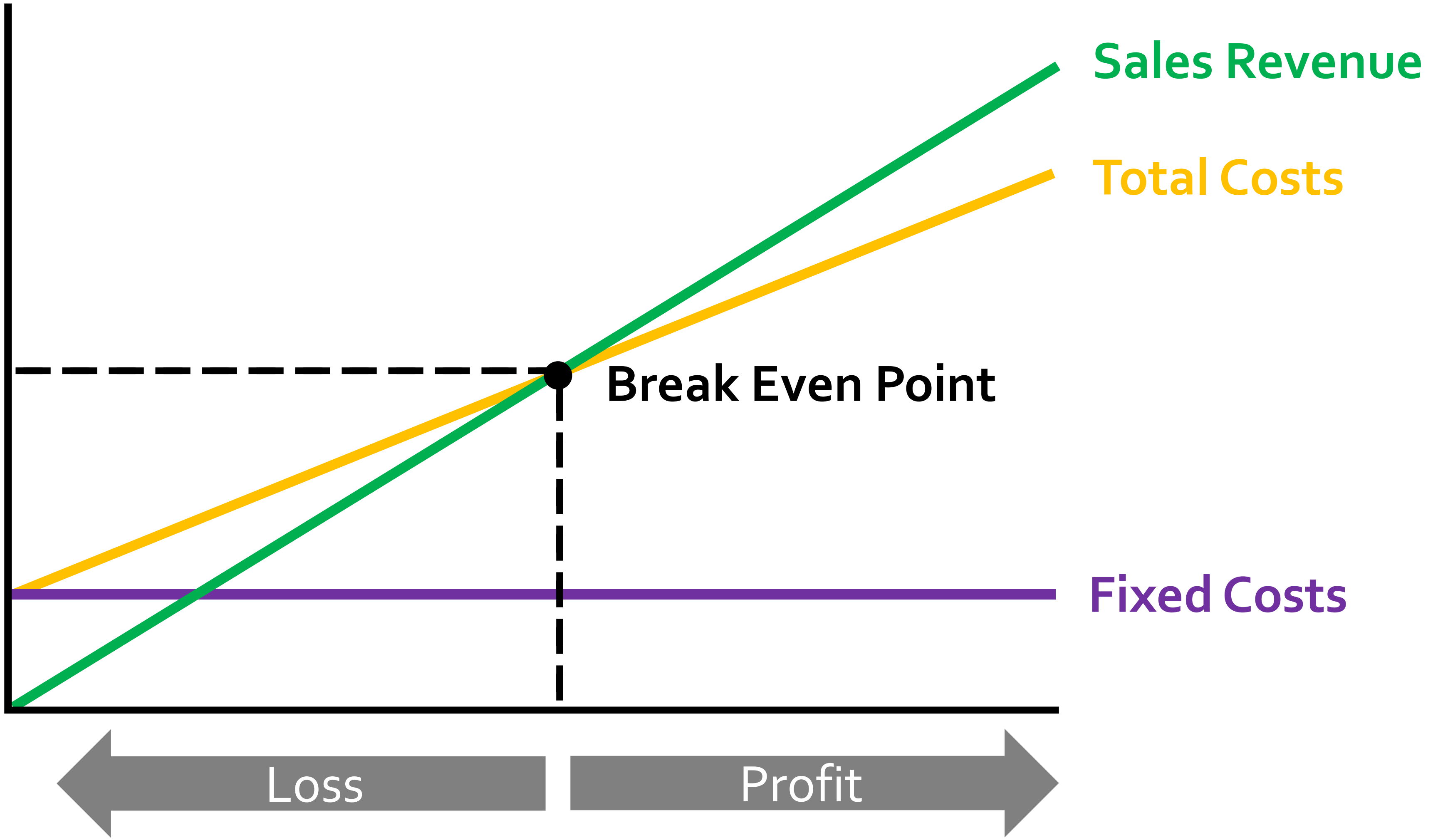
- This extract from the popular TV series 'The Hotel Inspector' shows a confused hotelier who is struggling with finance
- This lunch spread cost her £5.30 per guest, but she is only charging £4.75 per guest
- As previously discussed, as a loss is being made per product sold, the business will not make a profit overall!
- What would happen if the hotelier paid exactly the same in costs (£5.30 per guest) as she charged the guests?
- She would break even on each product…

Break even

- The break even point in business is the point in which sales revenue is equal to total costs – at this point the business has not made a loss, but not made a profit
- The breakeven point can be calculated by taking fixed costs and variable costs and calculating how many sales would be required
- The formula for break even is: $\dfrac{\boldsymbol{Fixed\ Costs}}{(\boldsymbol{Price} - \boldsymbol{Variable\ Costs})}$
- Calculating break even helps businesses to identify how many products they need to sell and at what price; this could be used to set targets
- It may not be as easy as it seems, variable costs may change depending on many factors (e.g. supplier prices), and also fixed costs can change from year to year
- Increases in costs will cause the break even point to increase (i.e. more sales required to break even) and decrease in costs will cause the break even point to decrease (i.e. less sales require to break even)
- Break even can be drawn as a chart…

Break even chart

The break even point is shown as the cross over point between sales revenue and total costs. Anything from this point and left shows increasing loss, anything from this point and right shows increasing profit.



Changing break even

- Break even can fluctuate (change in either direction) as a result of various factors
- An increase in total costs would cause the break even point to shift to the right
  - This would mean more sales revenue would be required to break even
- A decrease in total costs would cause the break even point to shift left
- An increase in selling price would case the break even point to shift left
  - This would mean less sales revenue would be required to break even
- A decrease in selling price would cause the break even point to shift right

Video – Coffee Addiction

- This short video looks at the total costs used to sell coffee, and the total price customers would pay each year to buy a cup of coffee every working day

CHAPTER EIGHT

Cash & Cash flow

Cash in business

- Cash, also called working capital, is the money a business has to use on a day to day basis
- Cash works in a cycle… firstly it is used to purchase raw materials or finished stock, next the product is made and/or sold, customers pay and cash is used to buy more raw materials or stock
  - The difference between raw materials and stock is that in a manufacturing business they purchase raw materials for which to turn into a finished good, whereas a retailer will buy finished or semi-finished goods (stock)
- Cash is also required to purchase assets, employee wages and unexpected costs
- There is a difference between cash and profit; a business making a loss can still have cash, the same as an individual who owes lots of money can still have cash in their wallet

Concept of Cash Flow

<u>Over to you</u>

Brian did not have enough money for his lunch, but why not? At the end of that day he has 30p more in his pocket?

Press the space bar or click anywhere to begin the animation

8am | 9am | 10am | 11am | 12pm | 1pm | 2pm | 3pm | 4pm | 5pm

- Brian begins the day with £3.00 change in his pocket
- At 9am his mom gives him an extra £2.00 for lunch at school
- At 11am Brian buys a business revision guide for £4.00
- At 1pm Brian does not have enough money for lunch
- After school, at half 3, Brian receives £3.50 a friend owed him
- Brian catches the bus home which costs him £1.20

Cash at start of day	£3.00
Current cash	**£3.30**
Cash at end of day	**£3.30**

Cash flow discussion

- In the animation on the last page, we learned that Brian went hungry because he didn't have enough cash to buy his lunch. The issue here was cash flow.
- Brian has a number of options…
  - He could have asked his friend for the £3.50 debt back sooner, in time for lunch
  - He could have bought his revision guide at a later time (although he must prioritise bus fare)
- Cash flow is not about profit or loss, it is about movements in cash, i.e. cash coming in and cash going out
- The time frame for a business is over a month period, rather than a year as with other financial accounts (or Brian's busy day!)
- We will now look at cash flow in a business context…

Cash flow in business

- This example makes you ask many questions…
  - The business has more total inflow and less total outflow in august than July, why did they close in more debt?
  - How might the business buy raw materials when they are in debt?
- You can see that inflows consist of any form of cash being received by the business, even if it is borrowed
- Outflows are any form of cash leaving or being paid by the business, such as rent and tax
- Net cash flow is simply $cash\ inflow - cash\ outflow$
- We can then calculate closing balance as $opening\ balance - net\ cash\ flow$
- The closing balance is the money left at the end of the month, this is transferred as the opening balance to the next month
  - Note figures in brackets () are negative sums of money

	Jul	Aug	Sep
	£ £	£ £	£ £
Inflows			
Revenue	1,450	1,020	1,060
Sale of Assets	0	0	200
Bank loan	0	1,000	0
Total Inflow	1,450	2,020	1,260
Outflows			
Wages	420	420	560
Rent	700	700	700
Raw materials	920	1,000	900
Loan repayment	0	0	150
Tax	100	125	120
Total Outflow	2,140	2,070	2.430
Net cash flow	(690)	(50)	(1,170)
Opening Balance	550	(140)	(980)
Closing Balance	(140)	(190)	(2,150)

Improving cash flow

Increase cash in-flow

- Increase sales through marketing strategies
- Sell unused stock at a sale price
- Obtain external finance
- Negotiate faster payments from debtors
  - E.g. make a debtor pay before a payment is due

Decrease cash out-flow

- Spread costs out, move payment dates for fixed costs
  - E.g. moving a payment date to after some form of in-flow is received
- Lease rather than buy new assets
- Negotiate later payment dates with creditors / suppliers

CHAPTER NINE

Sources of business finance

Small business sources of finance

A source of finance is simply a method of gaining cash for the day to day running of the business – for example paying suppliers, debts and unexpected costs

- Internal sources of finance involve generating cash from within the business itself, which is often a benefit over external sources as there are no interest rates to repay
- External sources of finance involve generating cash from outside the business itself, often with contracts and interest rates added
- Short term sources of finance are used to cover a period of time less than 6 months
  - E.g. overdraft, trade credit
- Medium term sources of finance are used to cover a period less than 12 months
  - E.g. bank loan, hire purchase
- Long term sources of finance are used to cover a period over 12 months
  - E.g. mortgage, grants

Internal sources of finance

- Retained Profit – Profit that can be re-invested into the business rather than being given to the owners
- Sale of Assets – Selling physical property such as machinery or land; or non-physical assets such as a patents and brands
- Owners' Cash – Owners (or the entrepreneur) of a business using their own personal cash
- Friends & Family – Lending money from close friends and family – this can cause disputes and arguments if the agreement is broken
- Crowdfunding – Raising finance through donations from the general public or potential customers, in return for free or discounted products once released

External sources of finance

- Bank Loan – A fixed amount of money borrowed from a bank which is paid back over an agreed period with added interest
- Overdraft – Spending more cash than the balance in the bank; usually a charge or interest rate applies
- Trade Credit – Paying back suppliers at an agreed later date, sometimes with interest
- Hire Purchase – Acquiring an asset (e.g. car or machinery) but paying for it in monthly amounts of an agreed amount; the property is only owned by the business after the final payment is made
- Grants – A sum of cash given (or 'granted') to a business for a set project which doesn't need to be repaid, often from the government
- Mortgage – A form of loan specifically for a building; similar to hire purchase, the building is owned only when the final payment is made

TOPIC FOUR

Making the business effective

CHAPTER TEN

The options for start-up and small businesses

Types of ownership

There are two types of ownership that start-ups operate under

- A sole trader is an entrepreneur that owns and runs their business by themselves, although it is possible for them to employ another member of staff
  - The advantages are that they are able to keep the profits made and make all business decisions; on the other hand if the go on holiday or become ill they can't run the business!
  - An example of a sole trader is a window cleaner
- A partnership is when a minimum of 2 (and maximum of 20) people own and run a business together
  - This means profits and decision making are shared, although the advantage of a partnership is that workload is shared and each partner can invest money
  - An example of a partnership is a lawyers firm

Private Limited Companies (LTD)

- When a sole trader or partnership wishes to expand or develop more security they can form a Private Limited Company or LTD
- This involves registering their business with a government body, known as Companies House, who will issue a registered company number
- Becoming an LTD opens two major qualities for the business
  - The owners will have limited liability which means if the business runs up high debt, although the business assets can be taken, their personal assets are safe (e.g. home)
  - In addition to limited liability, a private limited company can sell shares to relations and people they know personally – i.e. they can take on shareholders
- If the business wishes to expand more, and is highly profitable, they can become a Public Limited Company (PLC); we will explore this later…

Franchises

- Another option for an entrepreneur is to open a franchise
- A franchise is a business that allows others to purchase the rights to their products and services as well as their brand and marketing
  - The most common example used is Dominos Pizza, although there are many more
- The franchisee (person buying a franchise) will make an agreement with the franchisor (the owners of the franchise brand) and will invest their own money into opening an outlet of their own
  - In some cases the franchisee will provide some investment
- The benefits of becoming a franchise are that they will be operating under a familiar name and selling familiar products to an existing market
  - They wont have to spend much on marketing except on a local level, as the franchise will usually advertise for the brand as a whole (E.g. McDonalds adverts on TV)
- The drawbacks are clear – there is a large cost involved with launching a franchise, and as you are representing the brand, the owners will be closely monitoring you!

Case study – Subway

- Subway are a franchise with over 2,400 locations in the UK and Ireland, and more than 44,000 stores in over 110 countries
- Subway describe their franchise opportunities as "perfect for anyone keen to run their own business" whilst "benefiting from the brand's finely tuned and developed franchise system"
- Stephen Coulter opened a store in Belfast after "almost 12 months spent researching, planning, training and preparing"
- Stephen now employs seven full-time staff at the store, and he "takes the time to get to know his regular customers"
- It is clear from this insight that launching a franchise is not easy, but it appears to be worth the investment!

Information and image from https://subwayfranchising.com/en-gb - Accessed Jan 2017

CHAPTER ELEVEN

Business Location

Location, location, location…

- An important aspect of planning a business is deciding where to locate it, one of the factors we can use is the sector in which the business will operate in…

- Is it in the primary sector? – e.g. extraction
  - A business in the primary sector will need to locate near to the source of its materials, for example near a quarry for a business sourcing clay

- Is it in the secondary sector? – e.g. manufacturing
  - A business in the secondary sector will need good transportation links to ship stock, and make it accessible to employees

- Is it in the tertiary sector? – e.g. retail
  - A business in the tertiary sector will need to be close to customers, unless they operate fully online (e-commerce); they must also consider the location of competitors

- It is important to remember some businesses operate in two or even all three sectors

More location

- It is also important to consider the specific goods and services the business will offer, for example a motorway service station wouldn't be a suitable location for a barbers!
- Another factor to consider is cost – has the business got enough cash to purchase or rent space in a location?
- One of the ways in which the government can encourage businesses to choose a location with the potential for opportunities is by using enterprise zones
- Enterprise zones are set-up by the government and include a range of incentives such as specialist support, reduced rent, access to infrastructure and even high speed fibre optic broadband!
  - One example of an enterprise zone is located on the M54 motorway in Staffordshire, it is named the i54 and is home to several manufacturers including Jaguar Landrover
  - This project launched in 2005 between the government and local councils – the site has had much media coverage and even a visit from the then prime minister David Cameron

Case study – Post Office

- A few years ago the Post Office announced a 10 year plan to relocate hundreds of it's high street stores into WH Smith stores
- The Post Office argued the move would increase flexibility to customers as many WH Smith stores open Saturdays and Sundays
- The benefits to the Post Office will likely include lower costs such as rent and shared maintenance costs
- The Post Office said "We know that people place huge importance on the presence of a Post Office branch on their High Street"
- They continued "Our collaboration with WH Smith will help to secure this, as well as bring new investment into the network"
- Many other Post Office stores have been franchised to entrepreneurs or placed within other stores such as Spar, it is not known whether all stores will follow

Information and image http://www.bbc.co.uk/news/business-36033110 - Accessed Jan 2017

CHAPTER TWELVE

The Marketing Mix

Introducing the marketing mix

- Marketing is an essential aspect of business, in fact in large businesses there is a whole department dedicated to it!
- The marketing mix consists of the 4 P's which stand for product, price, place and promotion – four key areas important to consider when marketing
  - Product refers to the design, quality, how well it meets customer needs and any unique selling points (USPs)
  - Price refers to the amount customers will pay for the product and a range of pricing strategies businesses can use
  - Place refers to the location in which customers can purchase the product, and the supply of stock or materials used to sell the product
  - Promotion refers to reaching customers in the target market(s) through advertising tools and techniques, and competing with rival brands
- Using the marketing mix effectively could be the key to success

Customer needs and the marketing mix

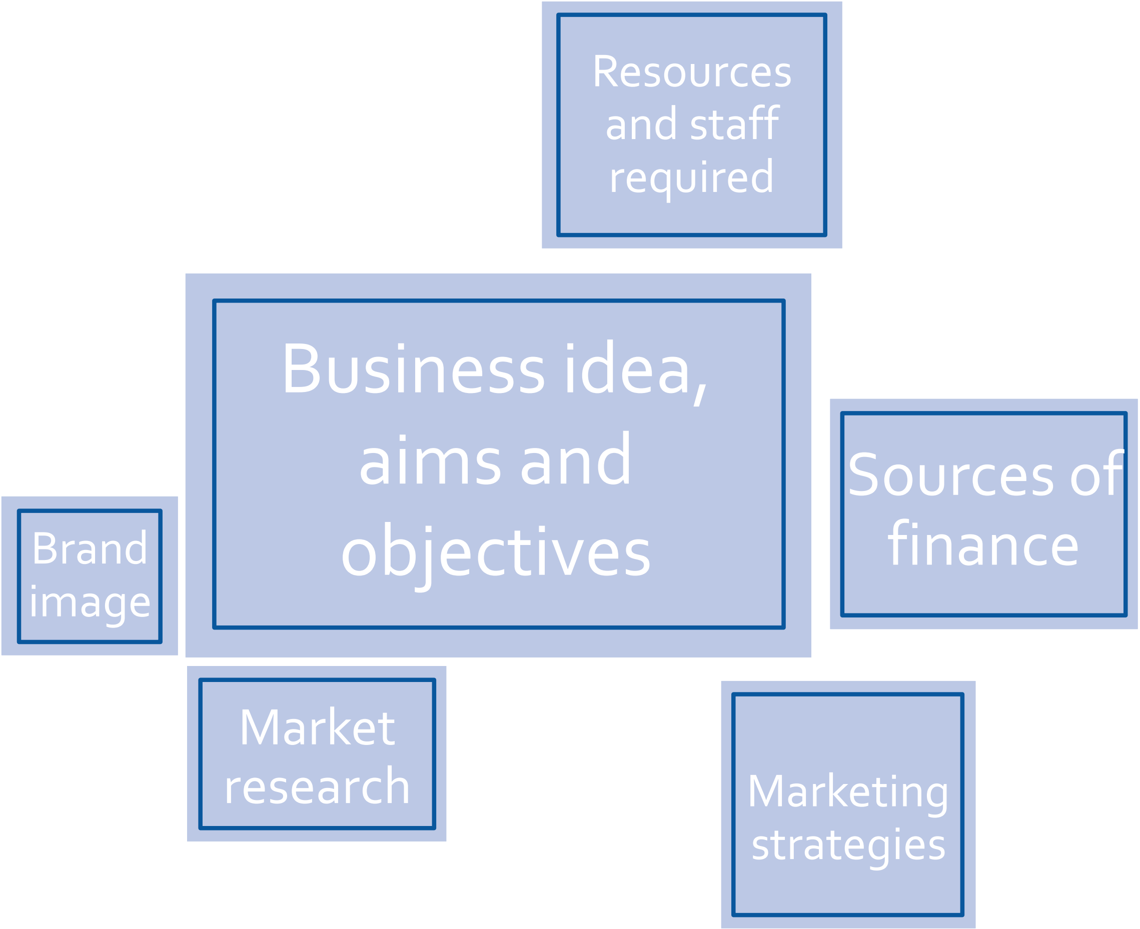
- Customer needs and trends are always changing so the marketing mix must be reviewed on a regular basis to ensure the business is still meeting customer needs, maintaining competitiveness and spending efficiently
- The most rapidly changing markets is clothing and fashion, not only do the products change every season, but the promotions customers respond to also change
  - For example click and collect services are used by many fashion retailers, imagine if one of the big brands such as Topshop didn't offer this service, they would be at risk of losing customers
- Changes in technology also influence the marketing mix:
  - Product – both the product itself or the manufacturing of it could be improved with new technologies
  - Promotion – methods of reaching the target market and communicating with existing customers shift towards social media and e-commerce

CHAPTER THIRTEEN

Business Plans

What is a business plan?

- A business plan is a formal document written by an entrepreneur or partners of a new start-up business
- A business plan is very important to keep for accessing finance – it shows banks where the money will be spent
- Business plans should begin with the business idea including any unique selling points, before moving onto aims & objectives
- Management should return to the business plan to review and adapt it



Limitations of a business plan

- Success – More than 50% of small businesses fail in the first 12 months of trade, although a business plan minimises risk, it does not grantee success
- Targets – The owner(s) may become demotivated if the business doesn't meet the objectives set out in the business plan – it is good practice to review and update the business plan
- Accuracy – Information should be up to date and accurate, particularly with any sensitive data that must comply with the Data Protection Act (see chapter 16)
- Agreement – If the business has more than one owner (i.e. in a partnership or LTD), they may disagree with the aims and objectives

TOPIC FIVE

Understanding external influences to business

CHAPTER FOURTEEN

Business Stakeholders

What is a stakeholder?

- A stakeholder is anybody who has an interest in, or is affected by the business
  - Stakeholders can be grouped into the following categories:

What do stakeholders want?

- We defined a stakeholder as having an interest in or being effected by a business, but what exactly are stakeholders interested in?
  - The one interest ever group has in common is business success

Stakeholder power

- Stakeholders often have a lot of power to influence business decisions; particularly employees and customers
  - Sometimes suppliers have power over a business, for example if they are the only source of a component or product they could enforce faster payments and higher prices
- Employees can expose the business they work in using press (newspapers, TV) and the internet (websites or social media pages) if they feel unfairly treated or don't agree with unethical practices
  - In some cases employees will protest or strike which will attract the attention of press
- Customers can spread negative views using the internet, and are able to report the business for breaking a consumer law (see chapter 16)
  - BBC's Watchdog programme expose businesses who are unethical or illegal on TV
- All this power can cause stakeholder groups to clash

CHAPTER FIFTEEN

Technology and Business

E-commerce – Business perspective

Advantages

- Access to the global market
- A business using e-commerce can get ahead of its competitors
- Increased sales, leading to increased profit
- Savings on expensive showrooms
- Reduced advertising costs
- Business is open 24/7
- Businesses online only don't need shop

Disadvantages

- Being part of the global market is a high risk
- Designing and keeping the website running is expensive and requires specialist skills
- Packing and distribution of products can be very costly and involve long distances
- Rely on Royal Mail or private couriers to deliver
- Online businesses affect high-street shops, especially smaller businesses

E-commerce – Customer perspective

Advantages

- Customers have a huge range of goods to choose from
- They can 'shop around' the 'web' for the best bargain
- Internet prices are often lower than in shops
- Customers can shop from the comfort of their own home '24/7'
- Protected under distance selling act (see Chapter 16)

Disadvantages

- Customers need to own or have access to a computer and internet
- It is not easy to assess the quality and suitability of products – e.g. clothing
- Inconvenience (and sometimes cost) of returning unsuitable goods
- Customers usually need a credit card to purchase
- Security risks of buying online

Social Media for Marketing

- Social media can be used for marketing, unlike standard advertising on websites, adverts on social media sites can be targeted to an audience more effectively
  - For example, a clothing advert on Facebook shown only to users aged 18-25
- Social media websites and apps such as Facebook, Twitter, Instagram and Snapchat all use advertising to generate revenue for running their site or app
- Marketing campaigns also make use of social media to get their brand, product or slogan made viral using clever techniques
- Marketing campaigns are free, targeted advertising is still a cost however
- They don’t always go to plan however, in 2012 Starbucks launched a Twitter campaign where users could Tweet using #SpreadTheCheer to see their message appear on large screens in shopping centres
  - However, protestors took advantage and tweeted rude messages telling Starbucks to pay their *bleep* taxes

http://www.telegraph.co.uk/technology/twitter/9750215/Starbucks-Twitter-campaign-hijacked-by-tax-protests.html

Case study – #PastySanta

- During Christmas 2016, Greggs placed a cartoon Santa Clause on their pasty bags and told customers to 'face swap' using a feature on Snapchat
- Customers then tweet their picture using the hashtag #PastySanta in a chance to win prizes such as another free pasty!
- A Greggs spokesperson, said: "[...] social media has been flooded with people wanting to show off their festive spirit, so we thought we'd go one better this year and offer the ultimate chance to face swap with Santa."
- "Face swapping is a huge craze so we really wanted to bring something different to the competition this year [...] there are hundreds of prizes up for grabs."

Information from http://qsrmedia.co.uk/marketing/news/greggs-launches-its-annual-limited-edition-pastysanta-bags- Accessed Jan 2017

Payment Systems – Contactless

- Modern technology has enabled new ways of paying for goods and services, both physically and using e-commerce. First, lets look at contactless technology...
- One of the latest and rapidly growing payment systems is the use of contactless technology, called NFC, which uses a chip storing a small amount of data
- The chip may be inside a smartphone, smartwatch or debit card and when presented near a reader, it uses the data on the chip to process payment of up to £30
- Currently most banks provide contactless cards and apps from Apple, Android and EE also enable contactless payment to be made
- The advantages of contactless payment to a business is customers are more likely to make a purchase, particularly a small one, due to the quick process
  - It's also likely to reduce queues which benefits both business and customer
- The disadvantages of contactless payment is the risk of fraud or theft – if the card or device is stolen, money can be spent (although users are usually insured)

Payment Systems – Biometrics

- Another modern technology is biometrics which uses the unique pattern in your fingerprint or retina (in your eye) to identify who you are to make payment
- Biometrics is most often used for security such as to unlock your smartphone, unlock an office door or even kept in police records
  - This security makes an effective payment system
- You may already have biometrics at your school or workplace, if so you will know it's more efficient and more hygienic than carrying cash
- On the other hand, it is only available within an organisation, you can't use your fingerprint or eye to make payment in Tesco! (Yet…)
  - It could be used in a small business where customers make repeat purchases, for example at a local barbers, customers could register an account
- Customers must register an account to add cash to in order to pay, in a similar way to a pay-as-you-go sim card which requires 'top-ups' in advance of use, and in some cases you have to add cash in multiples of five or ten pounds

Payment Systems Summary

System	Advantages to Customers	Disadvantages to Customers	Advantages to Businesses	Disadvantages to Businesses
Traditional Systems	• Universal • More reliable • May spend less	• Card fraud • Always need wallet & cash	• No extra costs • Cash available instantly	• May fall behind • Counting cash • Cash theft
Contactless Payment	• Quick payment • Shorter queues • Convenient	• Risk of theft • £30 limit per transaction	• Impulse buys • Shorter queues • Marketing	• Cost of upgrading • System failure
Biometric Payment	• Very secure • Shorter queues • More hygienic	• Add cash to account upfront • Initial set-up	• Very secure • Shorter queues • Track debt	• Cost of upgrading • Internal use only

POS Systems in business

- Point of sale (POS) systems are found in almost every retail shop; it is used to scan items using a barcode scanner which totals the transaction and allows a receipt to be printed for the customer
  - This speeds up the payment process in shops compared to typing in each item into a till
  - On the other hand, POS systems are costly to maintain and can often break
- Another type of POS system is the self-service checkout which enables customers to scan and pay for their shopping without the need for staff
  - This allows customers with a few items to checkout more quickly
  - On the other hand, it may put staff out of jobs, and they very often don't work!
- Software packages can be used to monitor and change stock levels stored in computer databases; additionally financial data can be stored and exported into a spreadsheet or report to show sales over a given period
  - This is a benefit to businesses as this data may be more accurate and can be shared with different departments or managers (more on stock control systems in Topic 3)

Video – Self Checkout

- As mentioned previously, self-checkout systems don't always work!
- This clip from Channel 4 prank show "FaceJacker" demonstrates the potential frustration of customers when technology fails…

CHAPTER SIXTEEN

Legislation and Business

Consumer Laws

- Consumer Protection Act 1987:
  - This legislation makes manufacturers liable for damage or injury caused by defective products including damage to property above £300 value, personal injury or death
- The Consumer Rights Act 2015:
  - This legislation replaces 'The Sale of Goods Act' and 'Supply of Goods and Services Act'
  - A 30-day right to reject goods not of satisfactory quality, not fit for purpose or not as described, receive a full refund
  - The right to replacement or repair of faulty goods for up to six months from purchase or a full refund if neither option possible
- The Distance Selling Act 2000:
  - This gives consumers the right to return a good or service within 7 days of receipt, the right to cancel an order that has not been shipped and the right to a refund within 30 days

Employment Laws

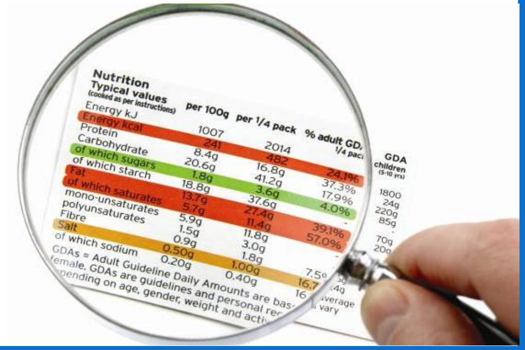
- The Equality Act 2010:
  - This legislation replaced ‘The Equal Pay Act’, ‘Race Relations Act’ and ‘Disability Discrimination at work Act’
  - This sets out that businesses must not treat employees unfairly because of their gender, age or disability; and should make reasonable adjustments for disabled staff
  - The new legislation covers additional employee traits such as religion, sexuality, marriage status, gender reassignment status and pregnancy status

- Health and Safety at Work Act 1974:
  - This legislation makes the business responsible for the safety of employees including taking measures to reduce risk, providing appropriate tools and making risk assessments
  - It also covers the basic rights and needs such as providing toilet facilities, breaks etc.

- National Minimum Wage Act 1998:
  - This forces businesses to pay employees a minimum wage using the amount from the correct category (under 18, over 18, over 21, apprenticeship)
  - The amount changes from year to year; at the time of making this resource the rate is £7.20 per hour for an adult over 21

Product Laws

- During the UK's time in the European Union there have been various rules that apply to make product packaging clear and standardised in places example include:
  - The traffic light system on food and drink to show salt, sugar and fat levels
  - The type of materials used on packaging – plastic types, metal types etc.
  - Shelf life of the product, how soon to use once open, when to be taken off sale
  - Weight of the product and advice on storage
  - Manufacturers name and address, including the production location
- Another way to regulate products is using taxation, a recent example was introduced by the government to regulate the amount of sugar in drinks
- All of these regulations add cost to the production process
  - Businesses must comply with these laws or face fines



Business Regulators

- Regulators are independent bodies that are set-up by the government for industries that have considerable market power and operate in the public sector
  - i.e. when there is little competition
- The main regulators are…
  - OFGEM—The office of Gas & Electricity Markets
  - OFCOM—The office of Communication Markets
  - OFWAT—The office of Water Suppliers
  - ASA – The advertising standards agency
- Their main role is to ensure that businesses within their market are trading fairly and within the law, and they are able to settle disputes between customers
- Another major regulator is the 'Competitions and Markets Authority' who authorise whether large businesses are able to merge or takeover

Case study – Britvic vs. Sugar Tax

- Britvic is a British based drinks manufacturer that manufacture some of the largest and most popular brand names including Pepsi, Robinsons, Tango, J2O, Gatorade on their behalf
- As you can imagine, most of these products contain high levels of sugar and therefore are at risk of having tax added on to the price of their products due to the 'Sugar Tax'
    - The effects of this would result in a reduction in sales and potentially negative press
- According to The Guardian "Britvic plans to change the recipes for more of its drinks in order to avoid the sugar tax, which is expected to be introduced in the UK in 2018"

CHAPTER SEVENTEEN

The Economy and Business

Taxation

- Who pays tax? Customers, employees and businesses themselves pay taxes
  - Taxes contribute towards investments and expansion in public services such as the NHS, schools and police force
- Businesses pay corporation tax which is a sum of money taken from a business' profits, depending on the amount of profit they make
- Employees of a business pay income tax which is taken from their wages; in large businesses the employer will pay this sum before the wage is paid to staff
- Customers pay tax on goods and services that are considered 'non essential'; this is called value added tax or VAT and is rated at 20%
  - Non essential products include food, children's clothing etc.
- Taxes do vary, with the exception of VAT which remain the same for many years, it was last changed in 2011 when it increased to 20% from 17.5%

Exchange Rates

- Exchanging cash is the process of converting one currency to another; the amount you receive for the other currency is called the exchange rate
- Exchange rates vary depending on the economy, we describe the currency in terms of its strength compared to another currency
- We can use the acronym SPICED to remember the effects of a stronger pound
  - STRONGER POUND IMPORTS CHEAPER EXPORTS DEARER
  - You can reverse this to WPIDEC to remember the effects of a weaker pound
- When the pound is stronger, it is worth more than the other currency and therefore more goods can be imported at the same cost
- When the pound is weaker, it is worth less than the other currency and therefore goods being imported will be more expensive
- Imagine, for example, the exchange rate from dollars to pounds is \$1.50 for every £1.00
  - If the exchange rate changed to \$1.20 for every £1.00, the pound is weaker
  - If the exchange rate changed to \$1.75 for every £1.00, the pound is stronger

Interest Rates

- In chapter seven we learned that interest rates are the cost of borrowing money, which is added onto loan repayments
- To recap interest can be calculated as: $\frac{repayment - amount\ borrowed}{amount\ borrowed} * 100$
- If interest rates increase, businesses will have to pay back more on bank loans which would result in a lower net profit
  - Additionally customers may have mortgages and loans, or may not be able to afford to take out a new loan and therefore have less money to spend on luxuries
- If interest rates decrease, businesses will pay back less on bank loans which would result in lower overheads (fixed costs)
  - Additionally customers may have more money to spend on goods and services

Inflation

- Inflation is an increase in the cost of goods and services which varies based on the economic status
- In a booming economy, demand is growing fast but businesses can still increase their prices to maximise profit
- In a recession, consumers have less income, so therefore businesses are more likely to keep prices the same or lower them to retain sales

Effects on a business	Effects on a consumer
Makes the future more uncertain for a business which is a risk	Consumers become less confident in spending on luxuries
Its harder to estimate the short-term demand for a product	May rely on loans and government benefits such as Job Seekers Allowance
Costs will increase	Wages will decrease

Unemployment

- When somebody is employed, it means they are willing and able to work but do not have a job
- When somebody is unemployed they will receive Job Seekers Allowance, often referred to as ‘the dole’
- When unemployment rises, more people are out of work and this can have both positive and negative effects on businesses…

Positive effects	Negative Effects
More choice in recruitment	Consumers have less money to spend
May be able to pay lower wages	Consumers spend less on luxuries
Budget brands such as Tesco Value may benefit	Inflation will likely increase

THEME TWO

Building a Business

© Pearson


TOPIC ONE
Growing the business

CHAPTER EIGHTEEN

Business Growth

Business scale

Businesses operate in different sizes and can grow in size over time...

- Local – One or Two small firms whom operate in close proximity, usually a sole trader or partnership
  - E.g. Family run chip shop
- Regional – A business whom operates in a specified area
  - E.g. London Midland train operator
- National – A business whom operates within a country or trading area
  - E.g. Greggs bakers
- International – A business whom operates in several countries or trading zones
  - E.g. Acardia Group
- Global – A business whom operates all around the world in many different trading zones and cultures, usually a PLC
  - E.g. Apple

Sources of finance

Sources of finance for larger businesses

- Retained Profit – Profit that can be re-invested into the business rather than being given to the owners
- Venture Capital – Cash given by an investor in return for a large share of the business and input into decision making (like on Dragons Den)
- Share capital – Cash raised by selling shares to shareholders on the stock exchange, without input to decision making (PLCs only)

Inorganic Growth

- When a business is taken over or merges with another business, this is called inorganic growth

Examples of inorganic growth are…

- Horizontal Integration – Where companies merge or take over competitors
  - *E.g. Nestlé buying Rowntree's*

- Vertical Integration – Where companies merge or take over their supplier, or customer
  - *E.g. Walkers owning their own potato farms*

- Diversified Integration – Where companies merge or take over a company in a different market
  - *E.g. BT providing gas and electricity*

Organic Growth

- Organic growth occurs when the business expands internally, rather than takeovers and mergers

Most often methods used are…

- Product Development – using innovation and research to develop new or improve existing goods and services
- Market Development – reaching out to a wider market to increase sales, or selling in a foreign location
- Franchising – selling the right to the brand and products to franchisees (recap chapter 10)
- E-commerce – selling goods and services online (recap chapter 15) to reach a wider market
- Stock exchange – converting to a public limited company to sell shares to the public on the stock exchange…

Public Limited Companies

- Public Limited Companies (PLCs) form when a Private Limited Company (LTD) grows bigger and begins to sell shares on the stock exchange
- When a business is on the stock exchange, anybody can buy shares whereas in a Private Limited Company only friends and family can
  - This is a good source of finance for large businesses
- PLCs have a board of directors who run the business on a day to day basis
  - The shareholders and owners still have limited liability like LTDs
- Examples include:

Organic or inorganic?

Organic

Advantages

- Maintains branding and objectives
- Creates new jobs, promotion opportunities

Disadvantages

- May be difficult in a saturated market
- Franchisors can damage reputation

Inorganic

Advantages

- Greater market share
- May gain patents, trademarks etc.

Disadvantages

- Large risk involved
- Must be approved by Competitions and Markets Authority

Case study – Tesco Booker deal

- In January 2017, the UK's largest supermarket Tesco PLC agreed a deal to buy the UK's largest wholesaler, Booker PLC, for £3.7 billion
- The deal is an example of **vertical integration** which will enable Tesco to supply their stores using their own supplier which could save millions of pounds over time
- Booker Group supplies everything from baked beans to teabags to 700,000 convenience stores, grocers, pubs and restaurants
- Booker also owns the Premier, Budgens and Londis convenience-store brands
  - Tesco could keep these brands separate, or convert them into Tesco Express brands
- Ultimately this will give competitive advantage to Tesco over competitor supermarkets such as Sainsbury's and Asda, and bargaining power over other wholesalers such as Makro
- In 2016 Tesco and Unilever, one of UK's largest manufacturers, were in dispute over wholesale prices causing a temporary pull of their products – this merger will reduce the risk of further disputes
- The deal was approved by shareholders, and the Competition & Markets Authority

Information from http://www.bbc.co.uk/news/business-38767862 Accessed Jan 2017

CHAPTER NINETEEN

Changing Aims & Objectives

Reviewing objectives

- In Chapter 6 we looked at aims and objectives – larger businesses review and change their aims and objectives as time goes on and based on various factors
  - Larger businesses have to respond more often to external changes
- Businesses should respond to changes in…
  - Market conditions – when there is a recession, consumer income and willingness to spend are lower, therefore new marketing and pricing strategies may be required
  - Technology – businesses could utilise new technologies for operations, sales or in the products and services they sell
  - Legislation – changes in legislation affect business operations, e.g. the recent changes to cigarette packaging means companies may need new strategies to maintain profits
  - Performance – the end of a financial year is a useful time to review objectives and the business plan, if profit margins fall the business must assess the reason for this

Growing businesses and objectives

- Aims and objectives in growing businesses should reflect the changes that take place during the organic or inorganic growth process
- If two businesses merge, each will have very different aims and objectives so they will usually need to develop a new set of aims as a single company
- Changes in workforce will affect objectives, in particular those based on sales (for tertiary sector businesses) or production (for secondary sector businesses)
  - For example an increase in production staff could exceed efficiency targets within a few weeks, therefore the objective would become pointless unless changed
- When a business enters a new market, particularly international markets, aims and objectives will often be unsuitable in the context of the new location

CHAPTER TWENTY

Business & Globalisation

International Trade

There are two ways businesses can trade internationally…

- Importing involves shipping goods from a foreign location to the country in which the business is located
  - E.g. buying goods from Spain
- Exporting involves shipping goods from the business location to a foreign location
  - E.g. selling British products to America

Globalisation

- Globalisation is the process of exchanging business, politics, cultures and travel
  - If you study Geography or Travel & Tourism, you will look at travel and cultural aspects, we will focus on business and political aspects
- The most important outcome of globalisation is the exchange of goods and services between countries, but this is only possible when agreements take place
- Countries can agree trade opportunities with other countries by setting up a trade bloc which involves free trade and in some cases sharing laws and currency
- An example of a trade bloc we are all familiar with is the European Union which is the largest trade bloc in the world containing 28 countries
  - The European Union shares laws and regulations on top of free trade, which is one of the reasons 52% of the UK voted to leave in the referendum in 2016
- Another trade bloc is the Central American Integration System

Trade Barriers

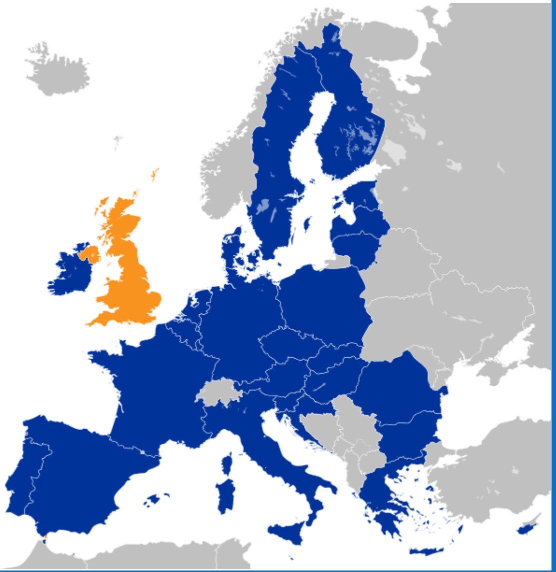
- One of the barriers globalisation and trade blocs reduce is the use of tariffs
- A tariff is a form of tax that is applied to goods being imported or exported, therefore adding an extra cost to the goods
- The benefit of using tariffs is it encourages businesses and consumers to purchase goods and services from their own country, and therefore benefiting the country as a whole
- The drawback is the added cost which is applied even if the good isn't readily available in the same country – e.g. bananas in England
  - This cost is usually passed down to customers
- We call these factors 'barriers' as they make international trade more challenging

Social Barriers

- Social and Cultural differences occur between foreign locations during international sales, importing or outsourcing production
- It is important for businesses to consider these differences…
  - Language – There should be bi-lingual staff available to enable collaboration internationally
  - Communication – There must be clear guidelines regarding the way in which businesses can promote their products
  - Marketing – There should be appropriate translations and adverts that will not offend or disrupt locals
- Foreign locations have different laws and opinions on ethics, if a business imports production from a foreign company with unethical practices, although this is legal customers and the media could find out
  - This occurred with Primark when journalists discovered suppliers treated staff unfairly in poor conditions and with little pay

Effects of ‘Brexit’ on business

- You are not required to learn the details of Britain leaving the European Union for your GCSE exams, however it is a relevant topic for discussion
- The UK joined the EU in 1973, and voted to leave in 2016
- By leaving the EU trade bloc, businesses based in the UK wishing to export their goods, or import stock, may be subject to tariffs
  - This would cause costs to increase and therefore businesses may increase their prices to compensate, ultimately affecting customers
- One of the benefits is that there are more production opportunities in the UK as a method of avoiding tariffs
  - The UK will therefore rely less on foreign imports and boost the economy
- The process was officially triggered on 29th March 2017



Smaller Business Opportunities

- Market Saturation – This occurs when there is no room for a business to expand in the current market, perhaps when there are no extension strategies in the product lifecycle or high competition
- New Technology – There may be an opportunity to bring new or existing technology to a new location
- New Gap – There may be a gap in the market in an international location
- Niche Market – When a business operates in a niche market, it can be difficult to expand, therefore selling in a foreign location would be a possible option
- E-Commerce – As previously discussed, online selling enables businesses to sell their products and services around the world

Multinational Businesses

- A multinational business is one that has operations in multiple countries
- Multinationals usually have a central location where owners locate, and production or retail premises in other countries
  - They often have a vertically integrated model - i.e. they supply raw materials from their own sources, manufacture themselves, distribute and sell themselves
- The majority of Multinationals are American, Asian and European
  - American examples – Coca-Cola, Time Warner, Google
  - Asian example – Samsung, Suzuki, Tata Steel
  - European – Jaguar, GlaxoSmithKline, Sky
- Multinationals often have a large influence on the market, and in some cases have a monopoly (i.e. own all market share)

Case Study – P&G Multinational

- Procter and Gamble (P&G) is a multinational company operating in 80 countries, with products reaching 180 countries
  - Including Europe, Americas, Asia and Middle East
- They describe how the business started in 1830 - "Our story began with a simple handshake between two men: William Procter and James Gamble. As partners, they put their soap and candle business on the map"
- P&G don't label products with their own brand name, for example you wouldn't find 'Procter and Gamble Shampoo', instead they use various brand names many of which they have bought over past years
  - Mondelez do the same, they own brands such as Oreo, Kenco and Belvita
- P&G own brands in the health & beauty market, and the household cleaning market – they have competitors such as Unilever and Nestlé
- They reported 65.3 billion dollars in sales revenue in 2016

Information - http://www.pg.co.uk/who_we_are Accessed Feb 2017

CHAPTER TWENTY ONE

Ethics and Environmental factors

The only way is ethics…

- Making ethical decisions involves businesses make decisions based on the values and culture of it's stakeholder groups, not based on legislation
- Ethics should be consistent throughout the operations of the business
  - They may act ethical for marketing and the media, but it may not act ethically in every aspect (e.g. staff treatment)
- Ethical decisions should also be truthful and meaningful
  - They may act ethical for the marketing and the media, but do they actually mean it?
- Most of all ethical decisions should be up to date and effective!
  - Global warming, air pollution, ocean pollution are the most current environmental factors businesses should consider
  - The Sky Ocean Rescue is a campaign launched in 2017 to promote recycling amongst other issues

Ethical decision making

- **Marketing**
  - Are they targeting the appropriate market?
  - Are they telling the truth?
- **Finance**
  - Are they investing into ethical projects?
  - Are they avoiding taxes?
- **Suppliers**
  - Are they supporting human rights?
  - Are they sourcing materials responsibly?
- **Human Resources**
  - Are they treating staff fairly?
  - Are they employing appropriate staff and paying them accordingly?
- **Manufacture**
  - Are they making suitable products that meet regulations?
  - Are they making it in the most efficient way?
- **Environment**
  - Are they disposing waste properly?
  - Are they supporting the environment?

The value of being ethical

Advantages

- Staff may become more motivated and therefore productive
- Creates a positive brand image and appeal to investors & new markets
- Less risk of pressure group action
- Can gain recognition (E.g. Fairtrade stamp)

Disadvantages

- Cultures or values may clash, particularly during a merger
- Expensive to start-up and retain
- Organic/Free Range products are often more expensive
- May not be able to please all stakeholder groups easily

Fairtrade

FAIRTRADE FOUNDATION

- Fairtrade products are produced with an agreement with primary sector producers in poorer countries – for example tea farmers in Kenya
- Why do some Fairtrade products cost more?
  - Products are packaged differently
  - Farmers may be paid more than cheaper those exporting cheaper products
  - As more Fairtrade products enter the market, they have to be more competitive
  - Companies may be investing into better working conditions for the producers & their workers
- Businesses can charge a higher price for Fairtrade products to cover additional costs
  - Customers will often be willing to pay a premium price as the additional cost will help support farmers

CLIPPER®
NATURAL, FAIR & DELICIOUS™

Case study – Clipper

- Clipper is a UK company that imports tea leaves for making, packaging and selling tea bags in supermarkets
- Their products sell at a premium price which is justified by the use of fair trade and organic materials, including the tea leaves and packaging
- Clipper discuss on their website that "Taste' alone has never been enough for us. We saw it as our duty to improve the lives of the workers on the tea estates."
- They became the "UK's first Fairtrade tea company and we decided never to add anything artificial to our drinks."
- They continue to say "Together this forms the spirit of Clipper – and it's as true today as it always has been. So you see, 'natural, fair and delicious' isn't just a strapline; it's a guide to every single decision we make."
- Their branding reflects their ethical values; they use green and orange colours on their recycled boxes using no plastic

Information from https://www.clipper-teas.com/our-story/ - Accessed Mar 2017

TOPIC TWO

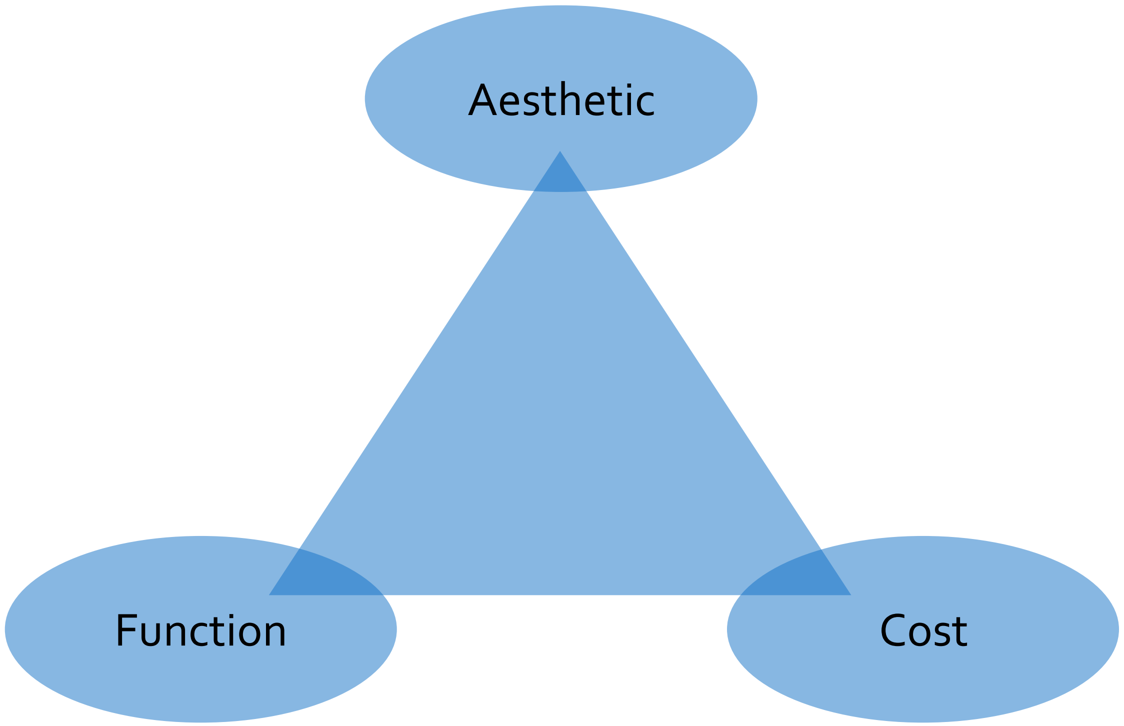
Making marketing decisions

CHAPTER TWENTY TWO

Product

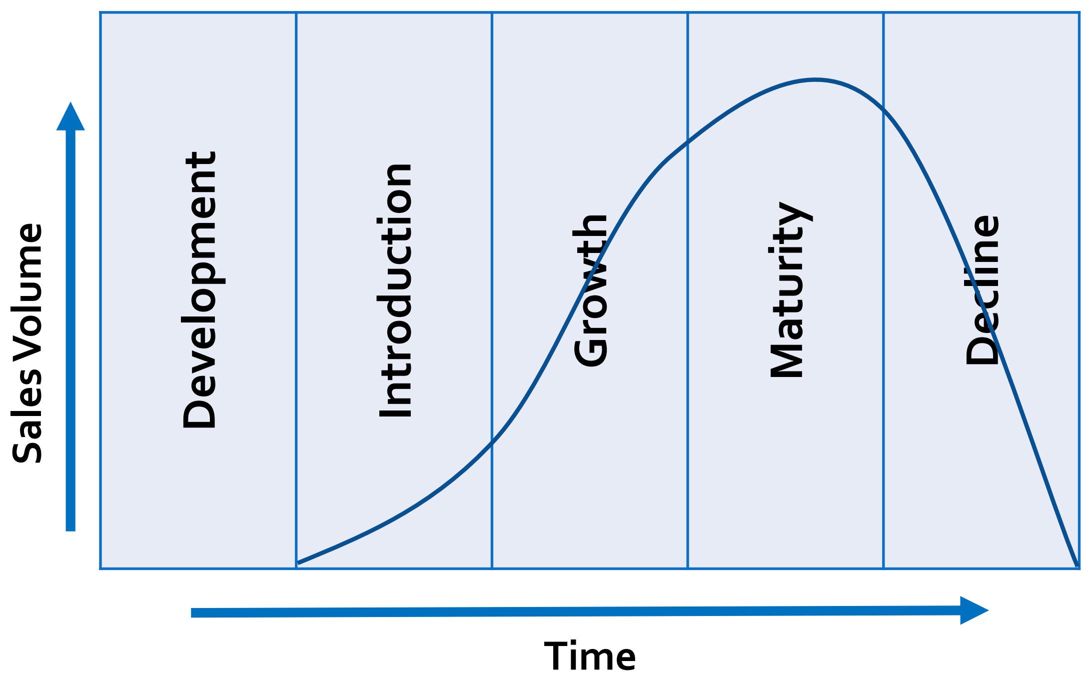
The Design Mix

- The design mix is a tool used to identify the three features a product should have
  - It can also be used assess existing products on the market
- Aesthetics – Refers to the looks and feels of a product; how appealing it is to customers
- Function – Refers to whether the product works as it should, and to the standard expected
- Cost – Refers to whether the supply chain and production is viable in terms of cost



Product Life Cycle

- The first stage is research and development, notice there are no sales here as the product has not been released
- The introduction stage is where sales grow and marketing should be strong
- At the growth stage sales increase further as the product becomes popular
- During the maturity stage, the product reaches its peak sales before beginning to decline, when sales decline the business must decide between an extension strategy or allowing a natural end
  - This depends on success and opportunity

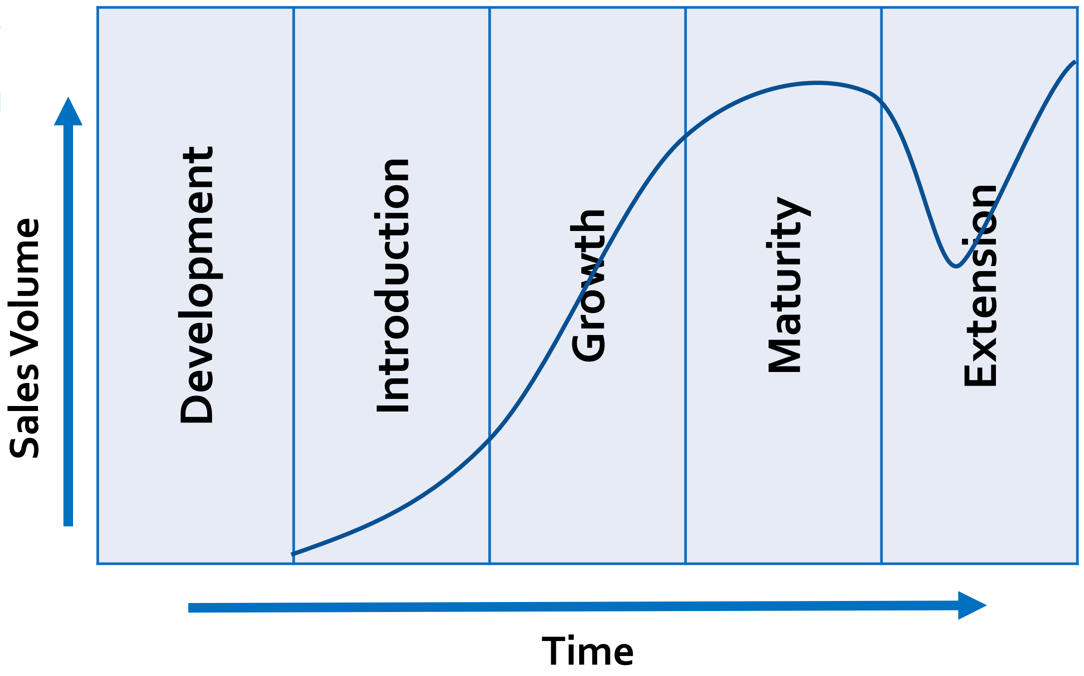


Extension Strategies

- The extension strategy will cause the curve to increase at the point of introduction before quickly growing
  - Note the introduction phase is much shorter

- Possible extension strategies:
  - Updating packaging
  - Adding more or different features
  - Changing or expanding market
  - New marketing campaign

- The most common use of extensions are smartphone brands, such as the iPhone



Video – Product Lifecycle of TVs

- Like fashion, technology has a very short lifecycle as products become out of date quickly
- 3D TV's were introduced in around 2010
- In 2017, major technology brands like Samsung announced they would stop making new models
- 3D TV's are in decline unless an extension strategy can be identified

CHAPTER TWENTY THREE

Price

Price Sensitivity

- Some products can be described as being price sensitive
  - This means customers will respond negatively to an increase in the price of that product
- Other products can be described as being price insensitive
  - This means customers will not respond to an increase in the price of that product
- The most price insensitive products are necessity products like bread, milk and utility providers – you can also argue cigarettes are insensitive as they are an addiction therefore customers will still buy them if the price increases
  - Necessity products have little or no alternative – you could save some money on a utility package, however stopping water and electricity is not an option!
- The most price sensitive products are non-necessity or luxury products like sweets, restaurant meals and TV packages; customers will stop buying these products or find a cheaper alternative if the price increases
  - There are usually cheaper alternatives such as a local takeaway instead of an expensive restaurant or switching to a lower TV package – alternatively these can be stopped altogether!

Pricing Strategies

There are a range of pricing strategies businesses can use…

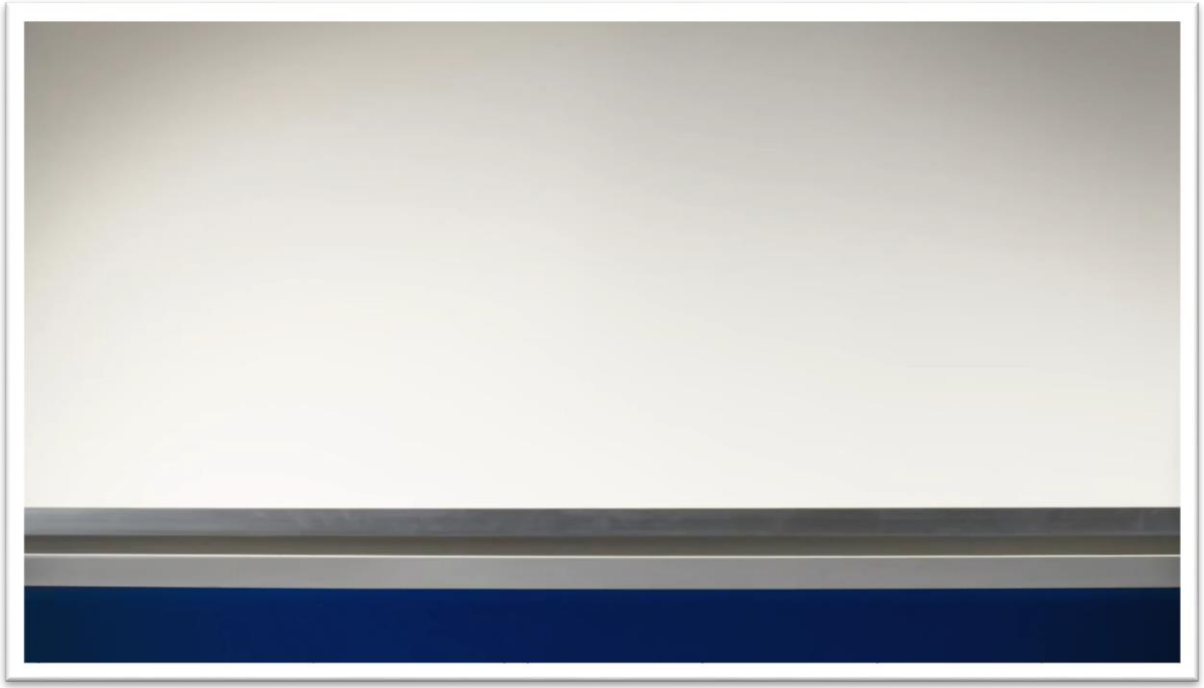
- Premium Pricing (Skimming) – setting a higher price on premium and large brand products that customers are willing to pay more for
- Penetration Pricing – setting a lower price on new products entering the market to encourage potential customers to make a purchase
- Competitive Pricing – setting prices based on what competitors are offering, for example supermarkets using 'brand matching' to sell at the same price or less
- Loss Leader – setting prices lower than variable costs, therefore making a loss on each sale, to boost quantity of sales and encourage repeat purchases
- Cost Plus (Markup) – setting prices based on variable costs per product, e.g. adding 30%
- Psychological Pricing – setting prices in such a way that customers believe they are getting a good deal, for example selling at £9.95 rather than £10.00

Influences on Pricing

- There are factors to consider when implementing pricing strategies, the first one to consider is whether the product is up to date – this can be in terms of technology, fashion, current affairs or simply product life cycle stage
  - Good or services that are out of date will be best sold at a lower price, with the exception of really old goods which can be sold at a premium price for being vintage (E.g. Vinyl)
- Another factor to consider is locality or place – i.e. looking at the type of area the product is being sold in and the type of store if applicable
  - For example if a service like window cleaning is in an upper class area a higher price could be justified and there would be an opportunity for offering additional services
- Also to be considered is competition; as we mentioned, competitive pricing is most appropriate when other products exist and your product has no USP
  - For example when selling a product in a supermarket, you would need to consider competitor's products which will most likely be on the same shelf!

Video – Tesco Brand Guarantee

- Amongst the many different pricing strategies using in store and online, Tesco use a competitive pricing strategy in a unique way
- Rather than changing the price on the label, Tesco will match the price competitor supermarkets are offering for the same item at the checkout…

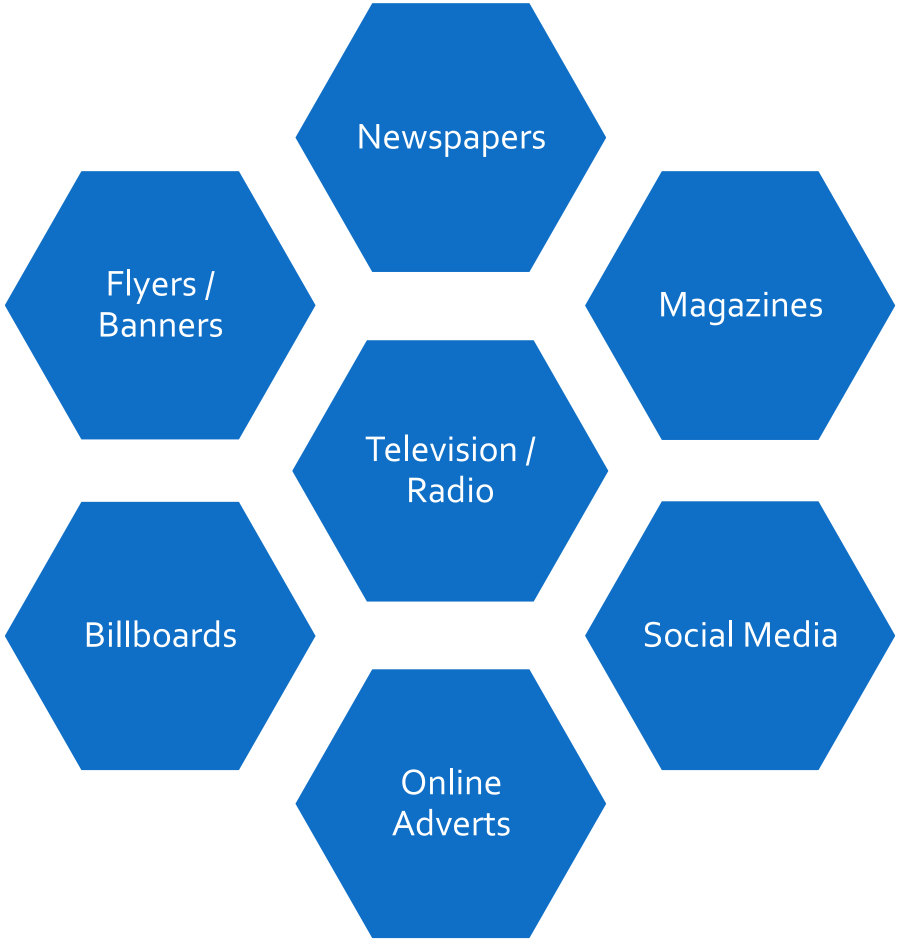


CHAPTER TWENTY FOUR

Promotion

Promotion by advertising

- Advertising involves promoting a good, service or brand through one or multiple ways
- The choice of advertisement depends on the size of the business
  - E.g. a TV advert for a local bakery would not be suitable
- The internet has enabled businesses to advertise in new ways – whether it be sponsored links on Google, social media adverts or website graphics
- Some of these methods of advertising are costly, the most expensive being TV adverts
  - The cheapest is flyers and posters; it is important they look professional however, which could add more cost



Promotion by displays

- As discussed in chapter 24, pricing strategies can play a big role in drawing customers in to purchasing your product in retail
- Promotion displays can be used alone or to draw customers to an offer, then the offer will close the sale
- One form of display is known as a point of sale unit (not to be confused with computer checkouts)
  - These are placed on the end of supermarket aisles or near the entrance of a shop
- Another form of display is to present the goods and services sold in a shop window
  - This is very popular with clothing retailers like Topshop and shops selling food like bakeries

Promotion by psychology

- Businesses can use psychology to generate more sales
- One example is a token collection promotion where the customer receives a token on each product
  - The example shows a token for Yorkshire Tea promotion to receive a free teabag caddy (tin) when x tokens are sent off
- Another example is to use coupons for money off a good or service of the same or partner brand
  - McDonalds often print coupons on the back of bus tickets
- As mentioned in chapter 24, psychological pricing works by using .99 instead of a round figure or writing ONLY before the price to make the customer believe they are getting a deal
- Sponsorships from celebrities is popular with large brands, potential customers trust celebrities – they use celebrities specific to a product or age range
  - i.e. male footballers for men's shaving, or middle aged actors for women's products

Case Study: McDonalds Monopoly

- Each year in the UK McDonalds fast food chain run a promotion where customers collect monopoly stickers from each item of food they purchase
  - They have agreement with Hasbro, the owner of the Monopoly brand
- Customers have the chance to win items from the menu, cash and other prizes such as top tech, holidays and discount codes
  - The collection is so popular, stickers are often sold on social media!
- The promotion encourages customers to purchase more expensive items including meals which have the most stickers
- Competitors such as Burger King and KFC will probably see some loss in sales, whilst McDonalds will see an increase
- Businesses who’s products are prizes as part of the promotion will also benefit; many of the prizes will lead to extra sales
  - For example a free Now TV pass which has an option to automatically renew after the free period

Information from https://monopoly.mcdonalds.co.uk/enter & http://www.mcdonalds.co.uk - Accessed Jan 2017

CHAPTER TWENTY FIVE

Place

Supply Chain

- The place element of the marketing mix looks at how the product is produced and sold to the customer
- The supply chain is the process that takes place from raw materials to the customer, from the primary sector to the tertiary sector

Primary Sector (Extracting)	Secondary Sector (Manufacturing)	B2B Supplier stocks and sells	Tertiary Sector (Sold in shop)	Customer

Example – computers from plastic/metals, to manufacture, to supplier and to shop such as Currys

Primary Sector (Extracting)	Secondary Sector (Manufacturing)	Tertiary Sector (Sold in shop)	Customer

Example – washing machines from plastics/metals, to manufacture, then stored and sold in shop such as Argos

Primary Sector (Extracting)	Secondary & Tertiary (Manufactured and sold)	Customer

Example – fresh fruit and vegetables grown/picked/washed, sent to supermarkets such as Tesco to be sold

Customers in detail

- Now we know how goods and services are produced from start to finish, its important to learn in more detail the final process – the sale
- Customers can make a sale in a number of ways…
  - Retail – customers go into a shop to order or purchase goods to take away/deliver (tangible) or use as a service (intangible)
  - E-commerce – customers shop online for products to collect, deliver or use digitally (i.e. through download or on a website)
  - Catalogue – customers use catalogues to shop for products to collect in a shop, order on the telephone or through direct selling
  - Direct Selling – customers order from their home with a local sales representative, often after using a catalogue (e.g. Avon or Betterware)
- Sales techniques in detail will be discussed in chapter 31

Case Study – Dominos

Have you ever thought about the journey of your Dominos pizza?

- The journey begins at primary sector businesses where flour and yeast are sourced and shipped to wholesalers
- Next, dedicated Domino's factories around the country purchase these raw goods form suppliers for which to make the pizza dough (amongst other ingredients)
- The pizza dough is then sent fresh to stores on a daily basis; the stores use the dough to make pizzas (along with other ingredients from suppliers)
- The customer will then collect their order from store, or have it delivered by a driver

Dominos could outsource their dough production to an external business, however they choose this vertical approach to produce their own

As ingredients are required daily, outsourcing from suppliers could be risky if the relationship breaks up or in the event of unexpected lead times (see chapter 29)

Primary Sector farm Flour, Tomato, Meat → Tertiary sector supply raw stock → Secondary sector Domino's Factory make dough/sauce → Domino's Franchise (Stores) make and sell food → Delivery Driver (optional) → Customer

Information adapted from http://news.sky.com/video/dominos-feels-heat-from-price-pressure-10670725 Accessed Jan 2017

CHAPTER TWENTY SIX

Marketing Mix

Using the 4P's

- Now we have explored all 4 P's, we should understand how they can be used together to form the marketing mix
- Businesses should use the marketing mix in two ways…
  - For a new start-up business, or new product
  - For an existing product
- When a business is ready to launch a new product, or review an existing product, using the marketing mix will increase the chances of being successful
- The business can analyse how the product fits into the market to meet customer needs, what pricing strategy to use, how best to promote the product and how to get the product to the customer
- Businesses should refer to and review their marketing mix and business plan at appropriate stages, or at least once a year

Case study – Food Warehouse

- In 2014 frozen food store Iceland announced it would open a couple of new stores under a different brand name – The Food Warehouse
- Iceland described the stores as being "located on out-of-town retail parks and in most cases are twice the size of traditional Iceland high street stores"
- They added the stores will "offer a wider range of goods, including a much larger range of frozen, chilled and grocery products along with a selection of premium lines"
- They described the look as "a warehouse-type look and feel with wide shopping aisles, polished concrete floors, no ceilings and exposed services"
- Iceland have used the marketing mix to develop a new concept for their traditional stores, by combining their own label alongside premium brands and bulk-buy stock
- The products, location, promotion and visual aspects of these new stores create the warehouse feel which psychologically translates to cheap deals supermarkets wouldn't offer
- It creates the feeling the customer is at a wholesaler to a retailer, rather than an actual retailer

Information from http://www.expressandstar.com/news/2017/02/25/dozens-of-jobs-for-walsall-as-iceland-plans-new-food-warehouse/ - Accessed Feb 2017

TOPIC THREE

Making operational decisions

CHAPTER TWENTY SEVEN

Business operations

Operations Management

- Operations management is an umbrella term for all of the processes that take the product from plan to sale
- Design – where all aspects of the product are defined so that it can be carefully positioned. The more closely it fits to the consumer requirements, the better it will sell.
- Planning Production – finding the most efficient and cost-effective way of creating the product. This will involve all the necessary inputs such as the people required, capital equipment and technology.
- Suppliers – deciding on suppliers that might provide raw materials, components, distribution or advertising services. Some business have their own 'in-house' departments for this depending on the size, efficiency and costs of the business and product.
  - Getting raw materials or components from external suppliers is called outsourcing

Flow Production

- Flow production is most simplistic and involves a constant chain of stages
  - Each stage will add to the product until complete and packaged
- The production line can be manual, automated or a combination of both
- Flow production is most suitable for large scale production with identical products being made, or the same product with some variation (e.g. Crisps)

Advantages	Disadvantages
Most efficient process with room for specialisation	Staff absence or broken machinery will affect the whole process
Reduces cost per unit	High machinery cost
Consistent quality	Repetitive work causes demotivation

Batch Production

- Batch production is when groups of items are passed through the production chain at the same time
- This allows products to be made to order or when required
  - The easiest example to use is a bakery – imagine loafs of bread baked in batches of 6
- Batch production is most suitable for a small business

Advantages	Disadvantages
Better quality control	Higher cost per unit
Variation between batches	Longer production time
Works well with limited equipment	Limited room for expansion

Job Production

- Job production is when each item is produced individually, rather than in batches or on a continuous flow
- This is most suitable for bespoke, high quality or niche products
- Examples include website development, wedding cakes, mobile phone repairs, tailor made clothes etc.

Advantages	Disadvantages
Easy to set up	Time consuming
Premium pricing	Often expensive materials
Use specialist skills to meet needs	Higher cost per unit

Video

- Choccywoccydoodah is a niche chocolate cake business in Brighton specialising in making bespoke products for customers
  - This is an example of job production

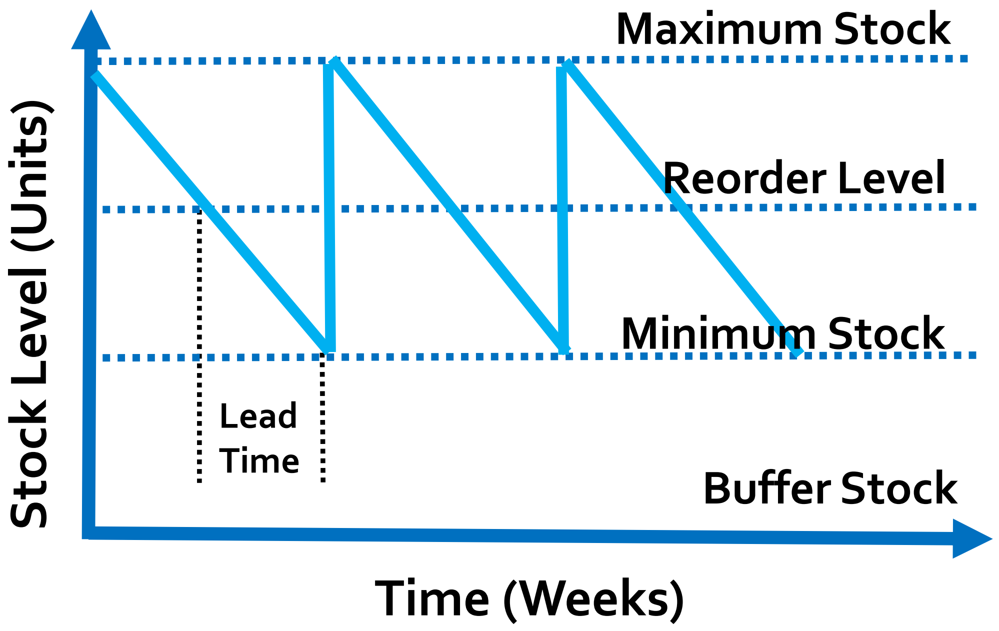
CHAPTER TWENTY EIGHT

Working with suppliers

Stock control

- Stock control or stock management is one of the most important parts of business operations
  - Without available stock to meet demand, customers will go to competitors
  - Too much stock and not enough demand could mean waste (we will look at this later)
- Systems can be put into place to help businesses manage their stock, particularly large businesses and businesses that outsource suppliers
  - One method is to use record delivery and use a 'first in first out' system to ensure stock is sold whilst fresh (important when selling goods such as fresh fruit and veg)
  - Tracking stock by warehouse data tracking technologies such as barcodes and radio-frequency identification (RFID) stickers on boxes to track movement using readers
- Businesses can use a stock control chart to identify the point at which new stock should be ordered, and the average time taken for stock to arrive…

Stock Control Chart



The chart can be broken down into these elements:

- Maximum Stock – The highest capacity the business can store
- Reorder Level – The level at which the business should reorder
- Minimum Stock – The lowest capacity of stock the business can have to continue to run
- Buffer Stock – Backup stock stored in the event of unexpected demand or longer lead times
- Lead Time – The time taken for new stock to arrive from the point of re-ordering

Supplier relationships

- Having good relationships with suppliers can be highly beneficial
- When a business and their supplier work closely together trust and reliability forms which benefits both sides
  - The supplier will have confidence they can continue to supply the business
  - The business will have confidence their supplier will give good quality materials at a fair price and in a suitable lead time
- As shown on the stock chart, lead time is the time taken for a delivery of materials to arrive from the point of placing the order
- When businesses have a good relationship with their supplier(s), they may be able to use a Just-in-time (JIT) system which is when stock is ordered when almost empty
- There are risks with JIT, for example unexpected delays in delivery may result in the business running out of stock; particularly damaging when there is a promotion and demand is higher
- There are benefits however, as stock will arrive quickly as it is needed meaning less storage space will be required, and ultimately less waste stock…

Waste Stock

- The most common type of stock that can become unable to sell is what is known as a ‘fast moving good’ which is a type of product that must be sold within a short period of time from the point of delivery
  - General examples of fast moving goods are fresh groceries (e.g. bread, milk, fruit) that must be sold within days of arrival before they become out of date
- When stock can no longer be sold due to being out of date or damaged, it is referred to as being obsolete, and usually occurs when too much stock is ordered or lack of demand
- Obsolete stock is a cost to businesses as no revenue can be made on those products which have to be disposed of; this is also an environmental and moral issue

CHAPTER TWENTY NINE

Managing Quality

Checking quality

- Quality Control is where the product is checked for defects at the end of production – this includes the product itself or the packaging
  - For example tasting a chocolate bar from the production line
- Quality assurance involves having a well publicised system that documents the processes to ensure quality is achieved by all departments, at each stage, from the design process to the final product
  - For example ensuring each component of a car in production is satisfactory
- Many businesses will use both quality control and quality assurance, but the decision depends on the type of product being made and the scale of production (batch, flow, job production)
- Quality assurance often reduces waste as any defects are found before the product has been completed

Total Quality Management (TQM)

- TQM is a form of Quality Assurance where every employee is responsible for maintaining quality to minimise waste
- It is a form of culture or team work that all staff working in operations should be part of, this is vital for TQM to be successful
- The management team must trust staff to give them the responsibility; and this responsibility may in turn motivate staff
- This is particularly useful when staff on the production process have specialist skills and can monitor their own quality rather than being told by management how to do their specialist work

Total Quality Management

Advantages

- Generates better quality products
- Customers will be more satisfied and make repeat purchases which will increase revenue
- It will reduce waste which may reduce costs and enable the business to achieve accreditations

Disadvantages

- There are costs of implementing it – i.e. Planning and Training
- If one person fails to stick to TQM, it will put the whole system out of place
- Expectations of staff may be high and cause stress
- Not all issues can be foreseen

Why check quality?

- Ensuring quality is up to standard is important for any business, including those selling the good or service
  - In sales, their role is to ensure the goods are stored properly to avoid damage, and to deal with customer complaints
- Customers expect quality from most products, particularly premium or technical products such as jewellery or smartphones
  - There is a small exception, that is for budget products such as those sold in pound stores and products reduced in price due to a short shelf life or even defective on shelf
  - In these instances the customer should expect to find some quality problems
- When quality is not up to standard, customers will choose competitors and reputation can become damaged from word of mouth
  - This would result in a loss from the refund/replacement plus the loss of a potential repeat purchase

THE BREADROLL Co.
Fresh ideas,
Freshly baked

Case study – The Bread Roll Co.

- The Bread Roll Co. is an independent supplier of bread based products for supermarkets such as Sainsbury's.
- As a supplier to such a large company, it is important they meet every need else they risk losing them as a customer
- On their website they explain "As you would expect from your bakery supplier, we offer the highest standards of food safety and standards conformance."
- They continue "Our bakery is accredited by the British Retail Consortium (BRC) at Higher Level standard, grade A."
- "Our quality control team ensures that tight specifications on size, shape and colour are followed. We are a nut free bakery, producing no items with nuts or sesame seeds."
- It's clear they use their quality assurance as a selling point to encourage their customers (e.g. Sainsbury's) to repeat purchase

Artisan Bakers Basket

Information from http://breadroll.co.uk/qualityassurance.php - Accessed Mar 2017

CHAPTER THIRTY

The Sales Process

Sales techniques

- Personal selling is the process of selling face-to-face to close a sale
  - Personal selling involves engaging with customers, recommending suitable goods and services, offering advice and demonstrating products
  - The right candidate for a sales job would have confidence, a friendly and welcoming personality and willingness to help others
- Pitching or crowd selling is the process of drawing in potential customers
  - This is most often used in shopping centres, high streets and supermarket foyers for example RAC selling break down cover and insurance
  - This could involve drawing a single customer in for a face-to-face talk, or pitching to a small group of people passing by – confidence is definitely needed here!
- Telesales is the process of closing a sale over the telephone
  - This technique is used by businesses from call centres, often the company owning the brand will outsource to a call centre specialist company
  - The disadvantage of telesales is that many people find these calls annoying and can often be abusive to staff – also fraudsters may pretend to be from your company to commit crime

After sales service

- After sales service is when a business offers support and advice after the customer has bought the good or service
- This includes delivery services, for example if a customer purchases a washing machine in a shop, the after sales service would be delivery
- If the customer has experienced poor customer service during the sale, the after sales service could be the last opportunity to change their opinion of the business

Consequences of selling

Good sales techniques

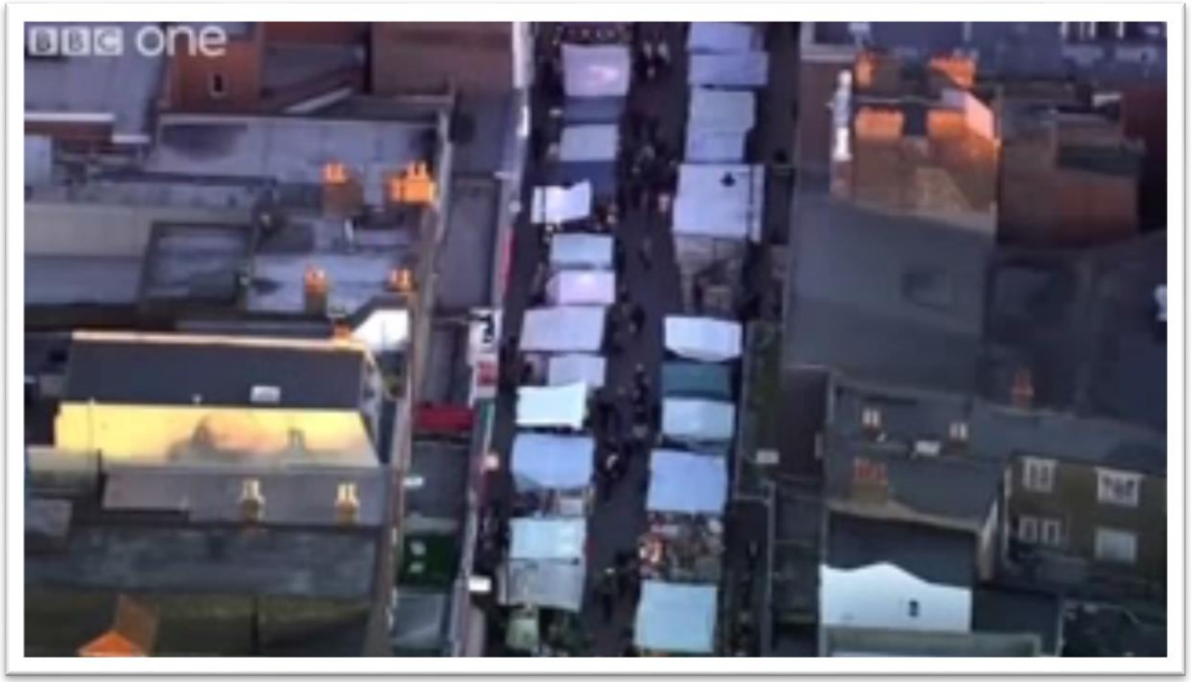
- Customers will return and make repeat purchases
- Customers will become loyal
- Customers will use word of mouth to tell friends and family
- Customers will respond to surveys which can be used for marketing
- Market share could increase

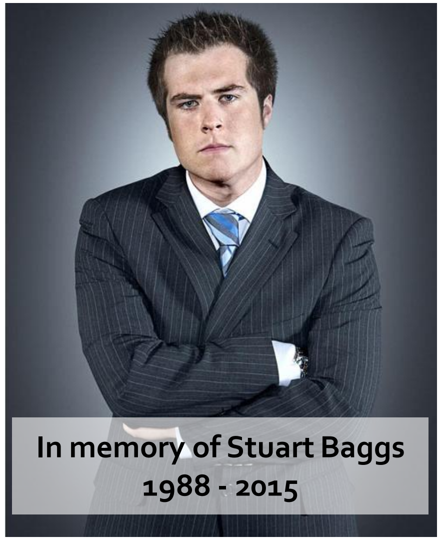
Poor sales techniques

- Customers will not return and go to competitors
- Market share could reduce as a result of lower sales
- Negative word of mouth and press will spread
- Employees may also become demotivated, particularly those with a good sales technique

Video – Selling Sausages

- This clip shows Stuart and his team pitching their sausages to potential customers on the reality television show 'The Apprentice'
- They also use free samples to draw customers in, to then close a sale





TOPIC FOUR

Making financial decisions

CHAPTER THIRTY ONE

Business calculations

Income Statement

- The income statement is a formal document produced each financial year
- The main purpose is to show gross profit and net profit, and to identify the reason for increases and decreases in each
  - In some income statements, operating profit is shown which is the same as net profit except taxation isn't used
- Expenses (also called overheads) are costs in the business that do not change based on sales, i.e. fixed costs
  - Note salaries are fixed, wages are not
- Gross profit is calculated as $revenue - cost\ of\ sales$
- Net profit is calculated as $gross\ profit - expenses$

	Jul		Aug		Sep	
	£	£	£	£	£	£
Sales						
Revenue	23,400		20,100		19,650	
Cost of sales	9,200		8,120		7,850	
Gross profit		14,200		11,980		11,800
Expenses						
Rent	1,000		950		950	
Utilities	900		900		900	
Salaries	1,120		1,120		1,120	
Taxation	1,800		1,700		1,600	
Net profit		9,380		7,310		7,230

Profit margins

- As we have seen, there are two types of profit – gross and net profit
  - When we refer to 'profit' on its own, we are referring to net profit
- Gross profit is calculated as sales revenue minus cost of sales, from this we can calculate the gross profit margin: $\frac{Gross\ profit}{Revenue} x100$
  - The gross profit margin shows the difference between gross profit and revenue, expressed as a percentage
  - The margin can be improved by increasing revenue or decreasing cost of sales
- Net profit is calculated as gross profit minus expenses, from this we can calculate the net profit margin: $\frac{Net\ profit}{Revenue} x100$
  - The net profit margin shows the effects of expenses (overheads) on profit
  - This margin can be improved by reducing expenses

Average Rate of Return (ARR)

- When a business makes a cash investment or project, it can calculate the return on that investment – i.e. the profit made as a percentage of the investment
- The first step is to calculate the average annual profit which is simply the total net profit made over a given period, divided by the number of years
  - For example £56,000 divided by 4 years = £14,000
- Average rate of return is calculated as: $\frac{average\ annual\ profit}{cost\ of\ investment} * 100$
  - Remember whenever the calculation is multiplied by 100, the result is a percentage
  - A higher percentage is better than a lower percentage
- Although we are talking in terms of analysing a past investment, the calculation can be used to forecast the result of different investment options
  - This may be a question in your exam, in which case the highest % means a higher return, however you should consider the risks and upfront costs also
- If the Average Rate of Return is 0% the investment has not returned any profit and has broke even , but if the result is less than 0% is has made a loss

Using business calculations

Advantages

- Identify areas to improve finance, i.e. increase profit / reduce costs
- Enables managers to compare different options available
- Scenarios can be modelled round a 'what if?' analysis
- Can be used as evidence to justify more investment or loan applications

Disadvantages

- It is purely based on quantitative information, there may be explanations
  - E.g. period of inflation caused fall in profits, not due to sales
- Can be difficult to calculate for small businesses, large businesses must rely on employees' accuracy

TOPIC FIVE

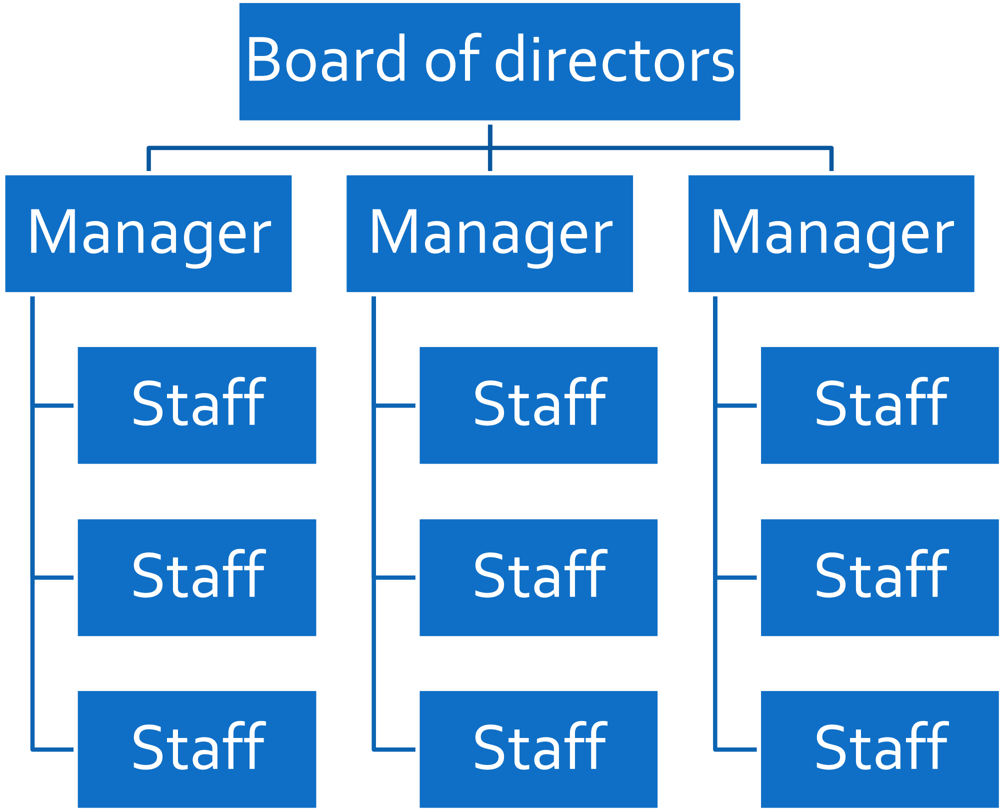
Making human resource decisions

CHAPTER THIRTY TWO

Organisational structures

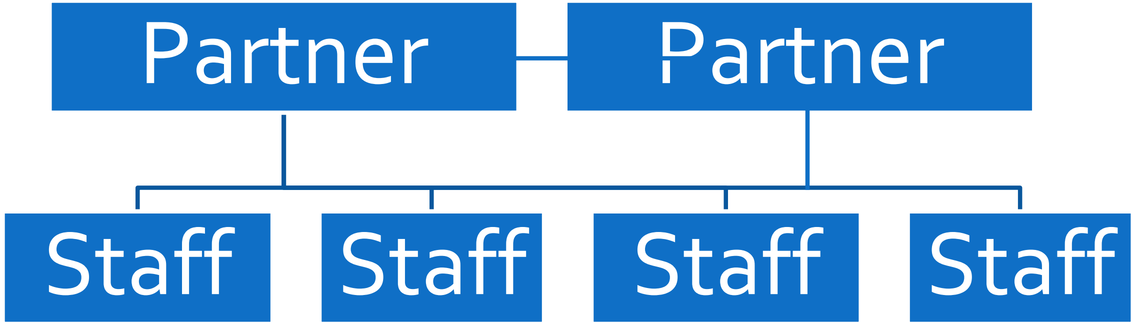
Tall organisational structure

- This structure consists of a director or board of directors at the top
- Managers for different departments or stores follow below, for example:
  - Finance, Marketing, Operations, IT
  - Birmingham Factory, Cardiff Factory
- Each manager will be in charge of staff who usually have equal jobs
  - The number of staff they oversee is called the chain of command
- This is mainly used in larger businesses
  - Large LTDs and PLCs



Flat organisational structure

- This structure consists of an owner, or partners, followed by staff
- This particular example shows two partners and their staff, however there could be more or less owners
  - Equally there may be more or less staff
- The owner(s) are in charge of a wide horizontal chain staff
  - In this example both partners share a chain of command of 4 staff
- This is mainly used in smaller businesses
  - Sole Trader Partnership, Small LTD



Comparing structures

Tall structures

Advantages

- Staff know clearly who to report to
- Promotion opportunities
- Clearly defined job roles

Disadvantages

- Staff have less control
- More management mean higher costs

Flat structures

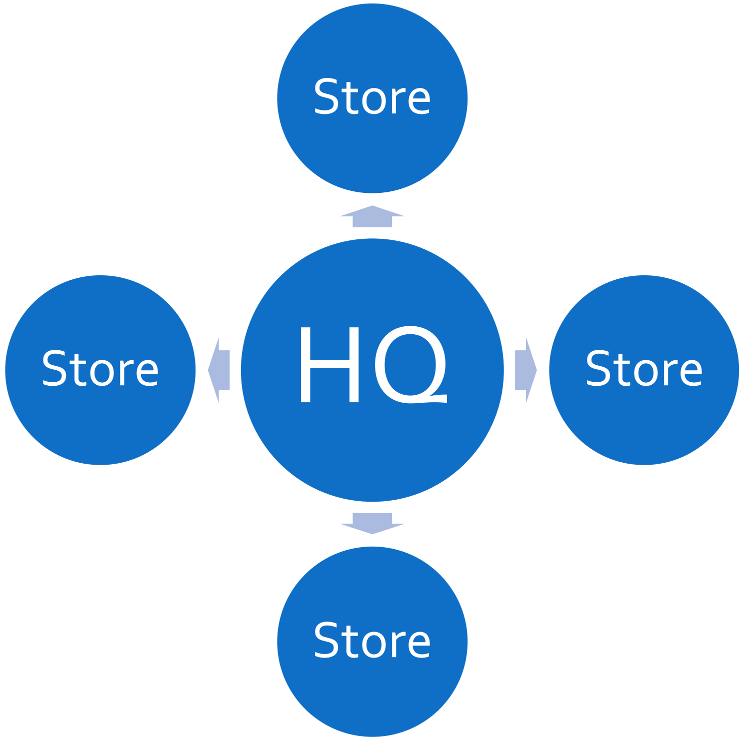
Advantages

- More team work between staff
- Closer communication with owners
- Less or no management costs

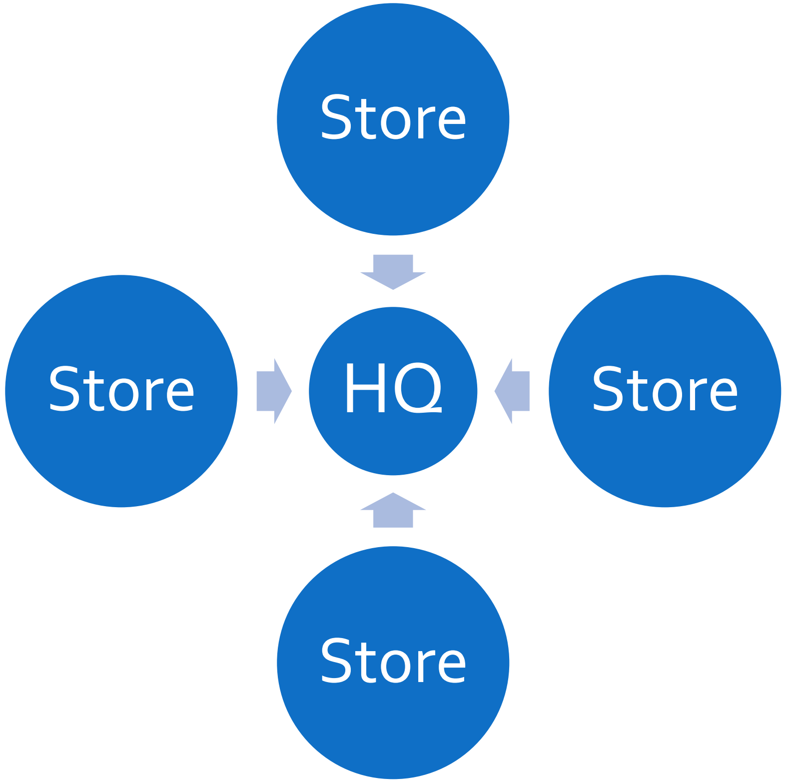
Disadvantages

- Little or no promotion opportunities
- Roles less clearly defined

Where are decisions made?



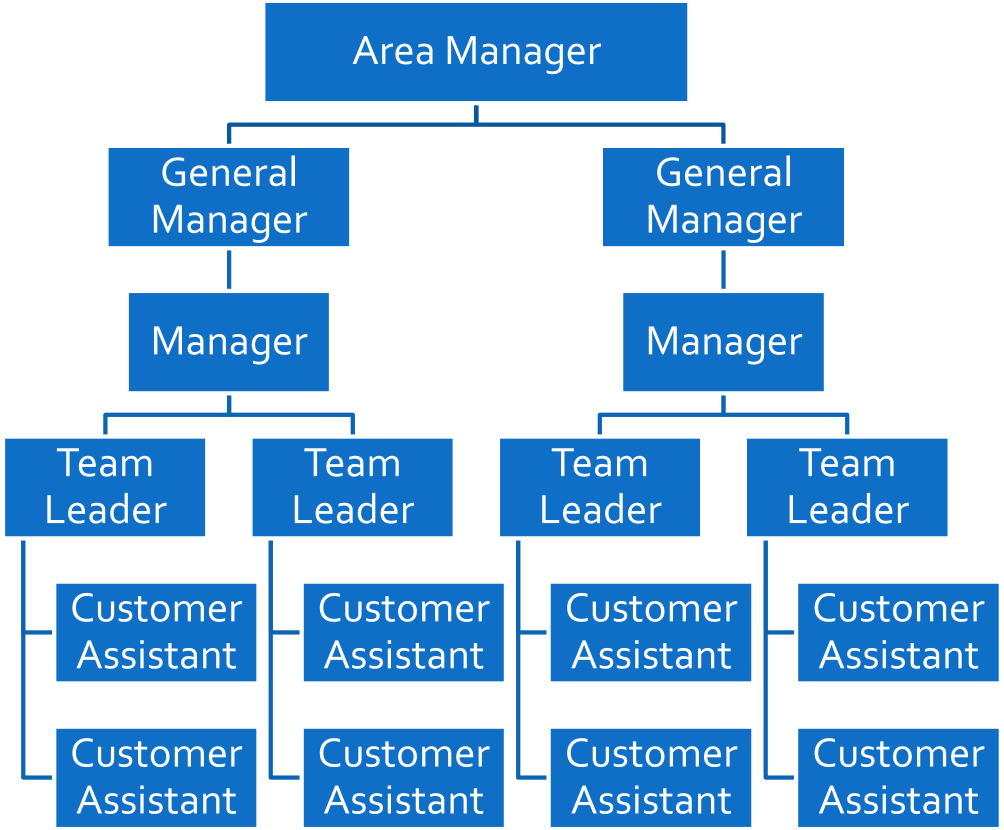
This diagram shows a centralised approach to decision making. The long term and strategic decisions are made by the board of directors, and the day-to-day short term decisions are made by individual stores/factories



This diagram shows a decentralised approach to decision making. The long term and strategic decisions are made by each store or factory who feedback to the board of directors. Often used with franchises such as McDonalds.

Case Study – VUE Cinemas

- At VUE Cinemas there is a head office with functional departments including a team of cinema operations staff
- The operations team work with 8 area managers who oversee stores within their span of control out of a total of 83 cinemas
  - The area managers oversee a general manager at each of their stores
  - The general manager oversees a manager, the manager oversees team leaders
  - Team leaders manage the rest of the staff
- It's clear that VUE have a tall organisational structure and, as one interprets, a decentralised approach to decision making



Information from http://careers.myvue.com/cinema-jobs-at-vue - Accessed Mar 2017

Communication

- It is essential for businesses to communicate effectively both internally and externally
  - Internal communication could take place between staff or managers
  - External communication could take place between customers or suppliers
    - Recall the use of social media for customer service… this is external
- The form of communication taking place depends on the type of message that will be sent and received, for example whether it is formal or informal
  - Formal communications take place in a serious and professional way
  - Informal communications take place in a relaxed and less professional way
- Now that we understand internal, external, formal and informal communication we can combine these to identify suitable and effective methods
  - For example, a member of staff and a manager would usually communicate formally such as via email (and of course this would be internal)
- ICT has improved the way stakeholders communicate with each other

Choosing communication

- Choosing the right communication is important to ensure the correct message gets to the correct place in the correct way and at the correct time
- Firstly one must decide whether the recipient is inside or outside the business, and whether it should be formal or informal
- Next steps should be taken to ensure confidential messages are sent in an appropriate way, e.g. via phone
- Next the urgency should be considered, if it is not that urgent an email could be suitable
- Finally one should decide the correct 'medium' of sending the message

Internal or external?

Formal or informal?

Confidential or non-confidential?

Urgent or non-urgent?

Written, oral, digital or visual?

Barriers to communication

There are several potential barriers that could affect communication and its speed, accuracy and destination…

- Noise pollution can be a problem when talking on the telephone or Skype™ as information being given could be misheard, or even confidential information could be overheard
- When using a third party or 'middle man' (e.g. secretary), the message could be in technical jargon they don't understand and therefore find it difficult to follow; and the information being passed on could get misplaced
- The length of the chain of communication could cause a Chinese whispers effect, where the message is slightly changed between each person involved which could result in the wrong information
- The choice of presenting information if it is visual could be difficult to interpret, or might not be read by the relevant employees – particularly if there is a notice board which is full (information overload)

CHAPTER THIRTY THREE

Employee contracts

Employee contract hours

Full Time

- Employees will work 35 hours or more per week
- Advantages
  - the employee is settled and familiar with their job
  - employee will receive a fixed salary and potentially more benefits/perks
- Disadvantages
  - potentially more employee absence
  - workload may be too low

Part Time

- Employees will work less than 30 hours per week
- Advantages
  - the business can organise staffing for efficiency
  - the employee can work a second job, hobby or family
- Disadvantages
  - employee may become overlooked
  - less promotion opportunity
  - may not be fully committed

Flexible Time

- Employees only work when required by the business
- Advantages
  - the business as they only pay wages when necessary
  - the employee as they can spend time at home or at another job
- Disadvantages
  - The business may not anticipate workload or demand causing stress

Temporary and Permanent

- Employees who are on a permanent contract will stay a member of the business in the agreed position until they choose to leave or retire, or until the business makes them redundant or change positions
  - Permanent workers can be recruited externally or internally
- Employees on a temporary contract will remain a member of the business in their agreed position for a fixed period of time; after this period ends, the business can agree a new contract or close their position
  - Temporary workers are often registered with an agency who locate them jobs each time their temporary contract ends – e.g. an external cover teacher
- Employees can also work from home on either of these contracts, this is known as teleworking and usually occurs with office type jobs
  - Note it is only teleworking when the employee is linked with business premises, but is able to work from home
  - i.e. sole trader artists at home aren't teleworking, however a web designer at Google who works from home on Friday's is teleworking

Zero hours contract

- Employees on a zero hours contract will be an employee of the company, however they do not have any fixed agreement over the number of hours they work – i.e. they are flexible
- There has been controversy about zero hours contracts in the media as businesses are accused of abusing this type of contract
- Employees have no job security – they may have no hours work one week, then 20 the next and do not get paid during their absence
- The business has no obligation to keep the employee, they can lose their job at any time without being paid a redundancy sum
- It is beneficial to businesses as they can request the employees to work when there is work to be done, rather than having permanent employees who arrive at work whether there is lots of work or very little

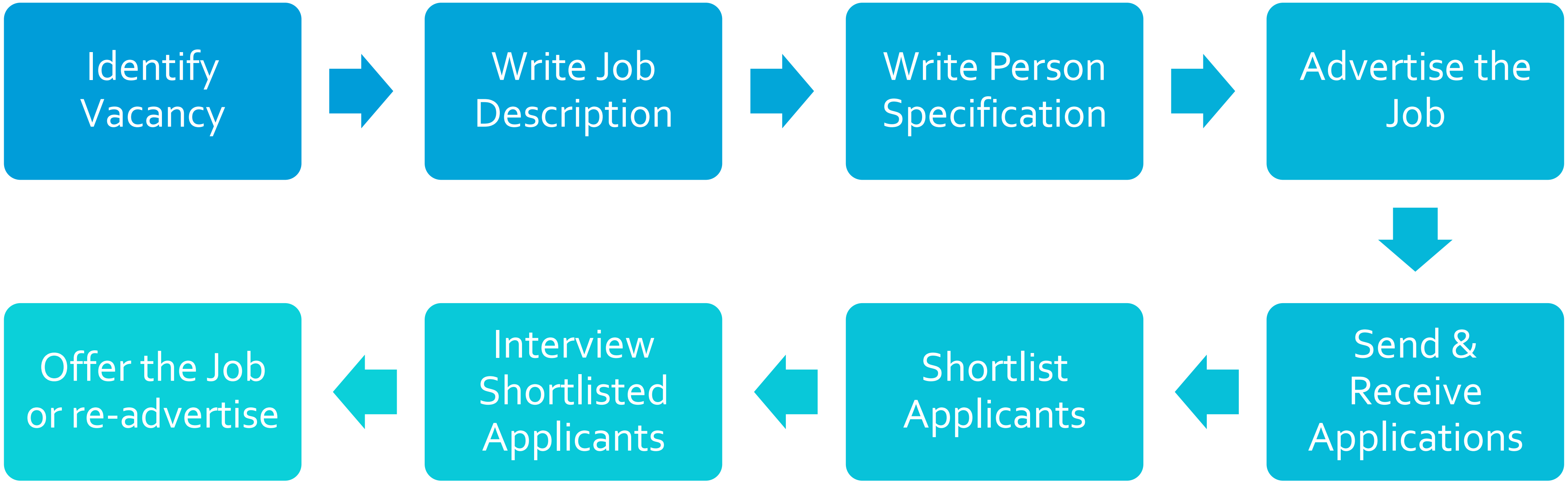
CHAPTER THIRTY FOUR

Effective recruitment

Introduction to recruitment

- A vacancy can be defined as a job position in a business that has not been filled
- When a business wishes to fill a vacancy they must follow what is known as the recruitment process; a list of steps they should take
- A vacancy can become available as a result of a growing business, short term demand (e.g. Christmas), staff retirement or staff promotion
- The first step is to identify what exactly the vacancy is for and what the job title is, for example…
  - Director – an employee that leads a department in a business, e.g. marketing
  - Manager – an employee that leads the day to day running of a department
  - Supervisor – an employee that manages a team, reports to managers or directors
  - Operative – an employee that carries out day to day jobs, e.g. in production
- Let’s look at the full recruitment process…

The recruitment process



Recruitment documents

There are three important documents involved in recruitment…

- A job description is a formal document that informs potential applicants of the nature of the job, the hours of work, the length of the contract (e.g. full time) and the wage or salary – it may briefly mention fringe benefits are available
  - We will look at wages, salaries and benefits later…
- A person specification is a formal document that potential applicants will look at to get an idea of the type of person the business is looking for; this usually consists of 'essential' and 'desirable' qualities, experience and qualifications
  - E.g. *Able to work in a team – Essential, Sense of humour – Desirable, GCSE Maths – Desirable*
- A curriculum vitae (CV) is a formal document presented by a job applicant to the business along with any application forms for the job vacancy
  - A CV will describe personal qualities, past work history, education and qualifications etc.

Recruitment methods

Recruitment can be internal or external…

- Internal recruitment occurs when the job vacancy is advertised within the business
  - The advantage of recruiting internally is that it gives existing employees the opportunity to move to different positions or be promoted
  - Another advantage is the employee will be familiar with the way in which the business works, and therefore they wouldn't need an induction or time to adapt
- External recruitment occurs when the job vacancy is advertised outside the business
  - The advantage of external recruitment is that new employees could bring new skills and techniques of working from past experience
  - Sometimes agencies are used to recruit externally, although it is added cost to the business, it saves a lot of time

CHAPTER THIRTY FIVE

Effective training and development

Introduction to training

- It is important for businesses to train their employees to ensure they are ready to do the job correctly and safely
- Some jobs require more training than others, for example a part time cleaning job may only require a basic certificate in hygiene, whereas to become a teacher one must have a university degree and teacher training certificate
- A brief list of training tools a business uses should be included in the job advert when recruiting for a new position; and the existing qualifications and experience by the applicants will be in their CV (see chapter 36)
- It may also be necessary for existing staff to be retrained or further train for promotion and progression opportunities
- Training can take place internally or externally…

Types of training

- **Internal training** takes place within the business and can take place…
  - On-the-job where the employee works with an existing member of staff to observe and practice the job
  - Off-the-job where the employee is trained through a presentation, simulation, internal assessments etc.
- **External training** takes place off site with another organisation, examples include…
  - Training centres leading to a qualification (e.g. NVQ Beauty Certificate)
  - Being sent to other organisations (e.g. another hotel) to learn
  - Team building exercises (e.g. Go Ape! adventures)
- Training leads to more productive staff, lower waste rates, better health & safety and motivated staff

Internal or external training?

Internal

Advantages

- Cheaper than external training
- Get to know staff and how the business functions

Disadvantages

- Disruption to operations when on-the-job training
- Competitors offering external training may be more attractive

External

Advantages

- May lead to qualifications
- Easier to progress onto more training or qualifications

Disadvantages

- Cost of using centres
- Still need time to adapt to the business

CHAPTER THIRTY SIX

Motivation

Causes of demotivation

There are a number of reasons employees can become demotivated…

- Environment – if the workplace is in difficult conditions, for example in a factory, employees can become stressed and develop health problems like migraines
- Resources – if the resources in the business are out of date or damaged, employees may feel the business do not care about them or feel that their work is taking longer than it should
- Economy – if there is a recession, employees may feel their is at risk, resources may be cut back and their personal finance may be poor
- Leadership – if management have a poor leadership style, for example putting pressure on employees, they may become demotivated
- Skills – finally is employees aren't trained properly they might not be very good at their job and feel there are little promotion opportunities for them

Motivation

- Businesses should ensure their employees are motivated to reduce the risk of them being absent or leaving, to be attractive to new employees when recruiting and to maintain or improve productivity
- Productivity is the amount of work that gets done by an employee over a given period of time, calculated as: $\frac{Total\ Ouput}{Period\ (Hours)}$
- This measure is often used to identify employees that are underperforming, however it could show a demotivated member, particularly if results decrease
  - On the other hand, being monitored by management could be the cause!
- Motivation strategies can be financially related or non-financially related…

Motivation Strategies

Financial

- Giving bonuses or commission rates of pay, or Christmas bonuses
- Offering pension schemes (now a legal requirement)
- Raising salary after a number of years at the business
- Company assets such as a car
- Access to free or discounted products

Non-financial

- Holiday breaks, flexibility, maternity and paternity pay
- Promotion opportunities (not for the salary increase)
- Facilities for making food and having a rest break
- Recognising achievement e.g. employee of the month award
- Freedom and responsibility

Case study – Google

- Google are known for their unique and somewhat crazy employee motivation tools, both financial and non-financial
- Google offer the common incentives such as medical insurance, maternity leave, bonuses and promotion opportunities
- However, Google offer an on-site car wash, bike repair, dry cleaning, gym, massage therapy, comfortable areas, gourmet food amongst others
- Google have a flat organisational structure which allows employees more freedom to work on their projects… even in their pyjamas!
- The most important aspect of these motivation strategies is work still gets done, and Google have some of the most up to date and innovative technology in the world
- Google is still profitable, employees are motivated and customers get the products and service they want

Information from https://www.cleverism.com/google-way-motivating-employees/ - Accessed Mar 2017

EXAM ADVICE

Proper Preparation Prevents Poor Performance

What do I need to revise?

Paper 1 – Investigating small business

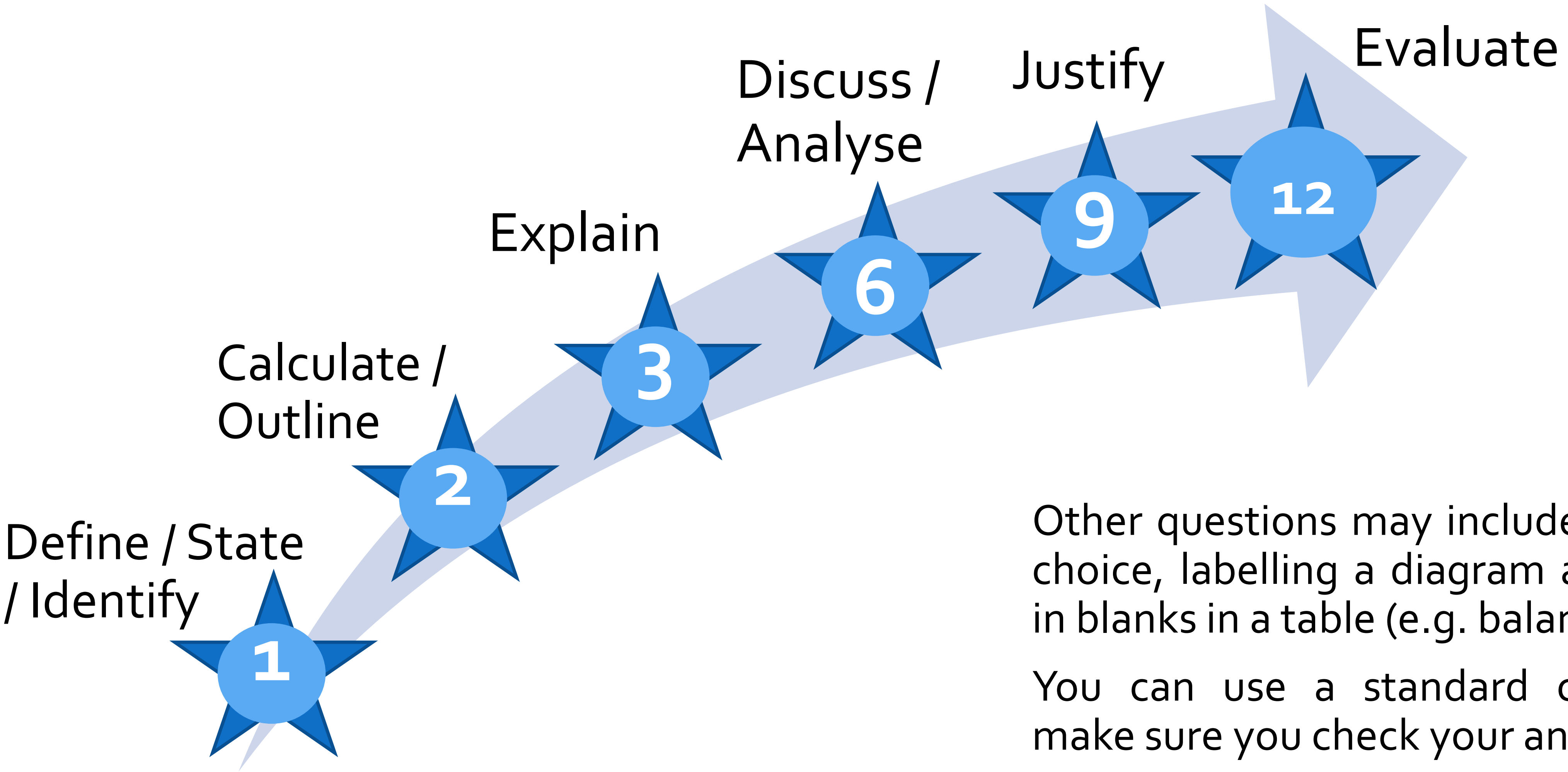
- Topic 1.1 Enterprise and entrepreneurship
- Topic 1.2 Spotting a business opportunity
- Topic 1.3 Putting a business idea into practice
- Topic 1.4 Making the business effective
- Topic 1.5 Understanding external influences on business

Paper 2 – Building a business

- Topic 2.1 Growing the business
- Topic 2.2 Making marketing decisions
- Topic 2.3 Making operational decisions
- Topic 2.4 Making financial decisions
- Topic 2.5 Making human resource decisions

Further assessment information on page 3

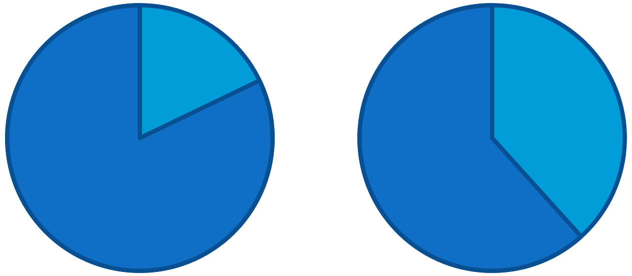
Command Words



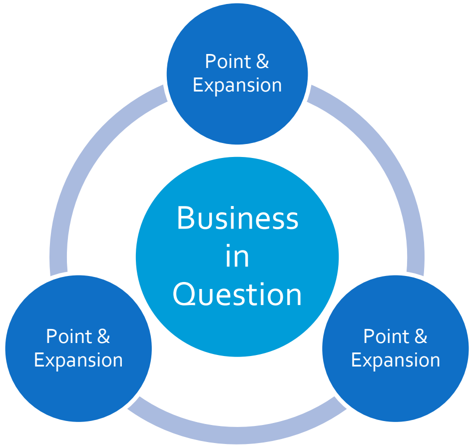
Other questions may include multiple choice, labelling a diagram and filling in blanks in a table (e.g. balance sheet)

You can use a standard calculator, make sure you check your answers

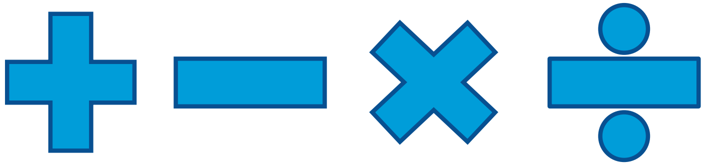
Mark boosting tips!



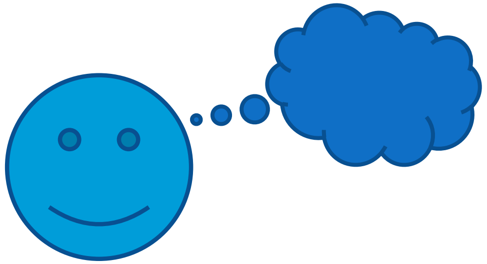
Time management – short 'identify' questions don't require long explanations



Remember to use context – link your points back to the case study or question



Show full workings out, including any formulae and use correct place value



Make a quick mental plan of your answer to ensure the structure is perfect

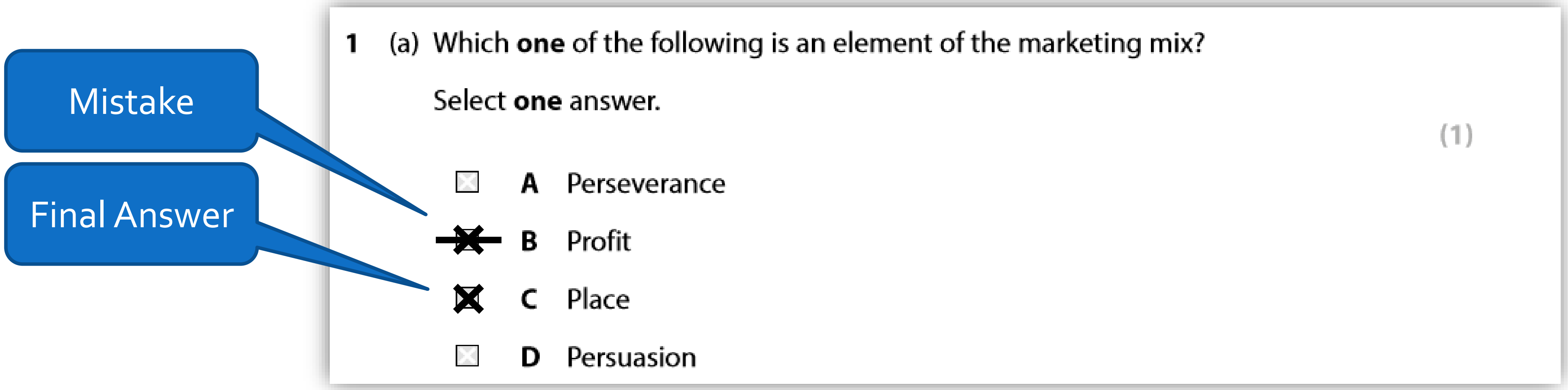
Formulae Summary

- Total Costs = $total\ fixed\ costs + total\ variable\ costs$
- Sales Revenue = $price\ * quantity\ sold$
- Profit or loss = $sales\ revenue\ - total\ costs$
- Break Even = $\frac{total\ fixed\ costs}{price\ - variable\ cost\ per\ unit}$
- Interest on loans (%) = $\frac{repayment\ - amount\ borrowed}{amount\ borrowed} * 100$
- Net cash flow = $cash\ inflow\ - cash\ outflow$
- Gross profit = $sales\ revenue\ - cost\ of\ sales$
- Net profit = $gross\ profit\ - remaining\ expenses$
- Gross profit margin (%) = $\frac{gross\ profit}{sales\ revenue} * 100$
- Net profit margin (%) = $\frac{net\ profit}{sales\ revenue} * 100$
- Average rate of return (%) = $\frac{average\ annual\ profit}{cost\ of\ investment} * 100$

You must remember these formulae as they will not be given in the exam; some students write these on a blank page as soon as the exam begins, whilst they still remember them

You are always expected to show your working out; even if there is only one mark available, it shows the examiner you understand.

Multiple Choice Questions



1 (a) Which **one** of the following is an element of the marketing mix?

Select **one** answer.

(1)

- A Perseverance
- B Profit
- C Place
- D Persuasion

- Multiple choice questions are straightforward; using your black pen simply place a cross in the box next to the correct answer
- Make sure you read the question very carefully to ensure you get the correct answer. Some answers may seem correct but don't answer the question
  - E.g. Which factor is MOST important – they may all be important but which is the most?
  - You may also be asked to select more than one answer – even for 1 mark
- If you do make a mistake, simply void your answer by drawing a clear line through the cross and select a new answer (See example above)

Calculation Questions

- In this example we are asked to calculate total costs – notice it is worth 2 marks
- We must show full workings out for the second mark, including the formula where appropriate
  - If your formula is correct, but numbers and answer are wrong, you <u>may</u> still gain a mark!
- Ensure you use the numbers correctly – in this example do not type 45 into the calculator else you will get an answer of £10,800! 45 pence is £0.45
- Also make sure the decimal place is positioned correctly in the final answer and include any units (e.g. % or £)
  - The unit is given for you in this example

(b) Using the information below calculate the total costs for the business. You are advised to show your workings.

Number of units sold: 240

Fixed costs: £1 100

Variable costs per unit: 45 pence

(2)

Total Variable Costs = Variable Cost per unit x Quantity sold

£0.45 x 240 = £108

Total Costs = Total Fixed Costs + Total Variable Costs

£1,100 + £108 = £1,208

£ 1,208

Table/Graph Completion Questions

- This type of question will require you to fill in gaps in a table or label a graph
- In this example you are asked to fill in the blank cells in the table to calculate (i) net cash flow for August (ii) total payments for September
- *Firstly, net cash flow can be calculated as Total inflow – Total outflow*
  - *We can identify that Receipts are an inflow, and Raw Materials and Fixed Costs are outflows*
  - *£17,400 – (£8,050 + £2,120) = £7,230*
- *Next we simply add up total payments (outflows)*
  - *£9,340 + £2,340 = £11,680*
- You do not need to show workings out unless the question asks you to, or unless it helps you

The table below shows the cash-flow forecast for a small business.

(c) Complete the table with the **two** missing figures.

(2)

	August (£)	September (£)
Receipts	17 400	21 770
Raw materials	8 050	9 340
Fixed costs	2 120	2 340
Total payments	10 170	(ii) **11 680**
Net cash flow	(i) **7 230**	10 090
Opening balance	5 300	12 530
Closing balance	12 530	22 620

A final word…

Business Studies will impact your daily life, it doesn't have to be a specialist subject, and there are many employment opportunities that business skills will support…

Retail | Management | Art & Design | Politics | Computing | Journalism | Accounting

A business qualification could make you favourable over another candidate for a job

Just like computing and economics, it is important to keep up to date with what is happening in the world of business and politics. The best way you can do this is by reading articles in newspapers or online and watching the news on TV.

Ian King Live airs weekdays on Sky News | *Talking Business* airs weekends on BBC News

You can also stay updated by following our Twitter feed *@murphyresources*

Best wishes with your studies and examinations, and remember, mistakes are simply proof that you are trying to succeed!

Murphy Resources

THANKS FOR PURCHASING

© Murphy Resources 2017

0 700461 312970