

# GCSE: Business Theme 1 & 2

## Knowledge Booklet



Name: .....

Tutor Group: .....

## Using your knowledge organiser for homework

Use the knowledge organisers and test yourself after learning.

1. **Check** the homework you have every day on the timetable.
2. **Read** a section of your knowledge organiser for the homework given.
3. **Cover** it up.
4. **Write out** what you remember.
5. **Check** the knowledge organiser to see if you are right.
6. **Mark** and **correct** your work using a green pen.
7. Remember your teachers will **test** you to see how much you remember

Do this **every day** to help commit the information to your long-term memory

## How to present homework

1. Write the **date**, **title** and **subject** from the knowledge organiser.
2. **Underline** using a ruler. Use a black pen to write.
3. If your homework is on learning keywords, write the **first five words** in your exercise book. Leave two lines between each word.
4. **Cover** the definitions apart from the first; **read it, cover it, say it** in your head and check it.
5. If you got it right, move on and **quiz** yourself on the rest in your head, one by one.
6. **Cover up all** definitions and **write** them out from memory
7. **Correct** your answers using a **green pen**
8. **Repeat** the process for other tasks

**Excellence for all**



# **GCSE: Business Theme 1**

Subject Content	What students need to learn?
1.1.1 The dynamic nature of business	<p>Why new business ideas come about:</p> <ul style="list-style-type: none"> <li>● changes in technology</li> <li>● changes in what consumers want</li> <li>● products and services becoming obsolete.</li> </ul> <p>How new business ideas come about:</p> <ul style="list-style-type: none"> <li>● original ideas</li> <li>● adapting existing products/services/ideas.</li> </ul>

### Key Definitions:

#### Enterprise

Business Enterprise involves starting something of your own. It is usually a business but it might also be a charity or sports club.

#### Entrepreneurship

An entrepreneur is willing to put his or her career and financial security on the line and take risks in the name of an idea, spending time as well as capital on an uncertain venture.

### Why do new business ideas come about?

#### 1. Changes in consumer demand

New business ideas come about because of changes in what consumers demand. For example, Activia yoghurts have recently experienced a decrease in demand. This may be because of consumer taste e.g. they now prefer Greek-style yoghurt.

### Why do new business ideas come about?

#### 2. Changes in technology

New technology is a cause of new business ideas. 3G was launched in 2004 but no mobile phone devices could use it. Apple developed the iPhone in 2007. This was the first mobile phone that could use the 3G technology.

### Why do new business ideas come about?

#### 3. Products and services becoming obsolete

A product or service is obsolete if no one wants it any longer. There is no longer great demand for chimney sweeps, as few people have an open fire. As people change their behaviour some businesses become irrelevant.

### How do new business ideas come about?

#### 1. Original Ideas

These are ideas that have not been done before. For example the launch of the iPhone in 2007 which was 3G enabled. This allows a business to gain a competitive advantage over their rivals.

#### 2. Adapting existing products/services

Developing new products based on the original one such as Wall's white chocolate magnum.



Subject Content	What students need to learn?
1.1.2 Risk and Reward	The impact of risk and reward on business activity: <ul style="list-style-type: none"> <li>● risk: business failure, financial loss, lack of security</li> <li>● reward: business success, profit, independence.</li> </ul>



- Rewards:**
1. Business Success
  2. Profit and wealth
  3. Independence

Risk	Reward
<i>Risk is about chance. What is the chance that a particular outcome will occur?</i>	<i>Risks are taken in the hope they will generate rewards</i>

**Profit** = The difference between sales revenue and total costs. If the figure is positive, then the business has made a profit. This is the main aim of most businesses!

**Independence** = being able to make your own decisions and be your own boss.

Why are entrepreneurs concerned about the following risks?	Reason:
<b>Business failure</b>	Half of UK business start-ups fail within five years. This means they are no longer able to keep trading. It can also be very expensive if they have invested a lot of money.
<b>Financial loss</b>	If a limited company gets into financial trouble they are personally protected from the losses. However, an unlimited company is not. Their own possessions may be seized to cover the debt.
<b>Lack of security</b>	When you start a business you are not guaranteed to get paid each month unlike a regular job. If you have responsibilities this can be a worry.



Subject Content	What students need to learn?
1.1.3 The role of business enterprise	<p>The role of business enterprise and the purpose of business activity:</p> <ul style="list-style-type: none"> <li>● to produce goods or services</li> <li>● to meet customer needs</li> <li>● to add value: convenience, branding, quality, design, unique selling points.</li> </ul> <p>The role of entrepreneurship:</p> <ul style="list-style-type: none"> <li>● an entrepreneur: organises resources, makes business decisions, takes risks.</li> </ul>

## Adding Value Example!

- **Tyrrells Potato Chips**
  - Will Chase had been farming potatoes for 20 years (loss-making)
  - Wanted to produce something with more added value
  - Came up with idea to make hand-fried chips with distinctive flavours and packaging
  - Successfully created a premium product and turned Tyrrells into a profitable business



### The role of business enterprise and the purpose of business activity:

#### 1. To produce goods and services

A business needs to make goods and services that satisfy consumers wants and needs. The profit made is reinvested by businesses, leading to further growth. Business enterprise has an important role to play in society by creating jobs and wealth.

#### 2. To meet customer needs

A business needs to meet customer needs by offering them products and services that they want. A business will not succeed if they are unable to do this.

#### 3. Adding Value

Adding value is the difference between the price of the finished product/service and the cost of the inputs involved in making it. There are a number of ways of adding value:

- **Convenience and speed:** in Britain most people will pay extra to save their own time e.g. takeaways are more expensive than cooking your own meal from scratch.
- **Branding:** A Nike tick adds tens of pounds to the 'value' of a pair of trainers. A Mercedes badge adds thousands of pounds to a new car.
- **Quality and design:** Good quality and well-designed products command higher prices as they are more desirable
- **Unique selling point (USP):** an original feature that competitors aren't offering which customers are willing to pay more for.

### The role of a café entrepreneur:

#### 1. Organising resources:

- Physical resources e.g. premises, kitchen equipment
- Daily resources e.g. drinks, crockery
- Human resources e.g. good chef

#### 2. Making important decisions e.g

closing a loss making café

#### 3. Taking risks e.g. opening a café in a new location



Subject Content	What students need to learn?
1.2.1 Customer needs	Identifying and understanding customer needs: <ul style="list-style-type: none"> <li>• what customer needs are: price, quality, choice, convenience</li> <li>• the importance of identifying and understanding customers: generating sales, business survival.</li> </ul>

### Identifying and understanding customers

**Identifying customers:** Finding out who they are including the following:

- Age
- Gender
- Incomes
- Where they live
- What they want

**Understanding customers:** Learning why customers do what they do, making it easier to see how to make a product that better suits them.

If a business understands their customers, they can develop a product that they want to buy. As long as it is priced correctly, sold in the right place and marketed effectively, the business is likely to be successful.

They are more likely to generate high volumes and sales and survive for a long period of time.



### **Key Terms:**

**Price:** For most people price is a critical factor when purchasing. The price point needs to be in line with the type of product and its key features.

**Quality:** To a customer quality means getting what they want or perhaps better than expected. Businesses aim to delight their customers.

**Choice:** Giving customers options and increasing the chance that the product will be perfect for the tastes/habits of one type of customer.

**Convenience:** Making life easier for customers, perhaps by a great location (next to a bus stop) or a product that saves time in preparation or consumption.

Subject Content	What students need to learn?
1.2.2 Market research	<p>The purpose of market research:</p> <ul style="list-style-type: none"> <li>● to identify and understand customer needs</li> <li>● to identify gaps in the market</li> <li>● to reduce risk</li> <li>● to inform business decisions.</li> </ul> <p>Methods of market research:</p> <ul style="list-style-type: none"> <li>● primary research: survey, questionnaire, focus group, observation</li> <li>● secondary research: internet, market reports, government reports.</li> </ul> <p>The use of data in market research:</p> <ul style="list-style-type: none"> <li>● qualitative and quantitative data</li> <li>● the role of social media in collecting market research data</li> <li>● the importance of the reliability of market research data.</li> </ul>

**Key Definition:** Market research involves gathering information about consumers' needs and preferences.

**Methods of Market Research:**

**Primary:** New research the business carries out themselves.

- Surveys
- Questionnaires
- Focus groups
- Observations

**Secondary:** Research carried out in the past either by the business or somebody else.

- Internet
- Market reports
- Government reports

**The purpose of market research:**

1. To identify and understand customer needs - what do they want?
2. To identify gaps in the market – this allows them to identify which customer requirements are covered and which are not.
3. To reduce the risk of spending a lot of money on developing a product that nobody wants
4. To inform business decisions – by conducting market research a business can make informed business decisions that are more likely to be successful.

**The use of data in market research:**

**Qualitative data:** In depth research into opinions and views. It can provide an insight into why consumers buy what they buy. (Detailed)

**Quantitative data:** Factual research that is based on statistics and data. (Numerical)

**The role of social media in collecting data:** Social media feedback has now become invaluable. E.g. 48.9% of 7000 Center Parcs visitors rated the experience excellent. This provides quantitative information. Individual comments are also very useful. This provides qualitative information.

**Importance of reliability of market research data:** Market research is important however you need to be careful that the information is actually valid and reliable. If it is not, then this could influence the business to make the wrong decision.

Subject Content	What students need to learn?
1.2.3 Market segmentation	<ul style="list-style-type: none"> <li>market mapping to identify a gap in the market and the competition.</li> </ul>

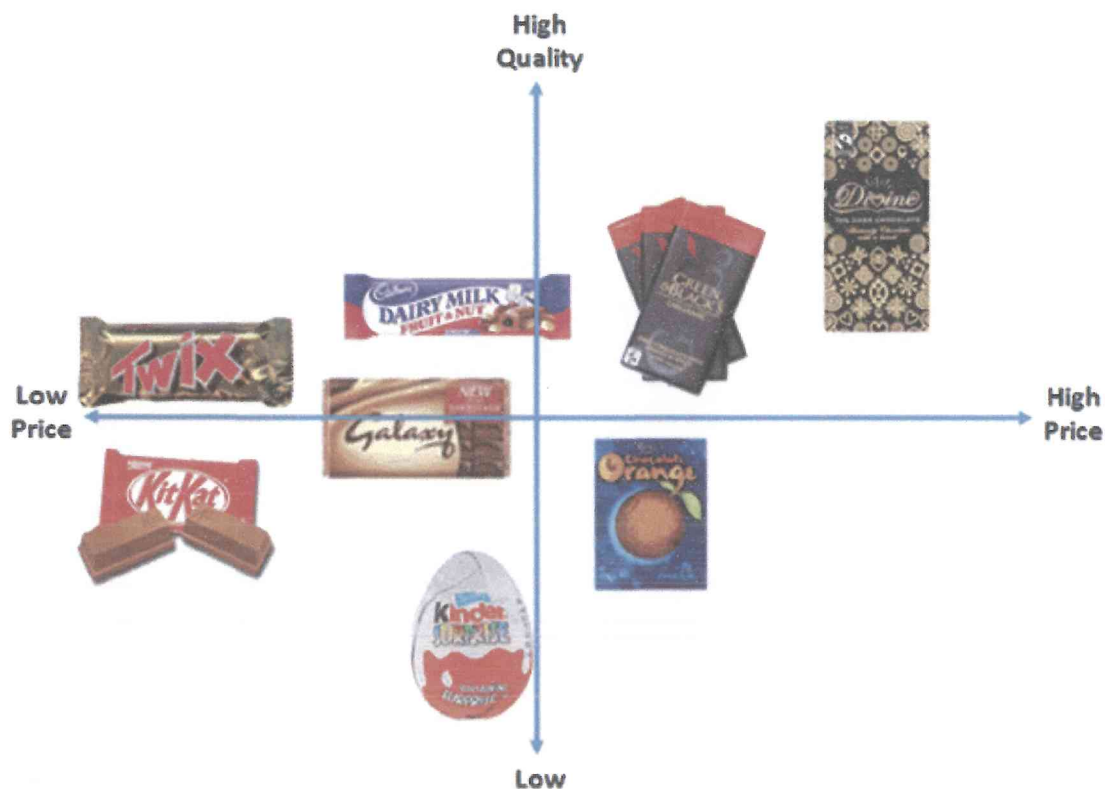
**Market mapping** measures where existing brands sit on a two factor grid. For example, high/low quality and high/low price.

**Market mapping** involves setting out the key features of a market on a diagram, then plotting where each brand fits in.

Businesses use market mapping to identify *gaps* in the market or to show where a particular section of the market is overcrowded.

They aim to produce a product that fills the *gap* in the market.

If they can do this successfully, there is more chance that the product will be successful as that part of the market is not



**Market map of the chocolate market!**

**Key Terms:**

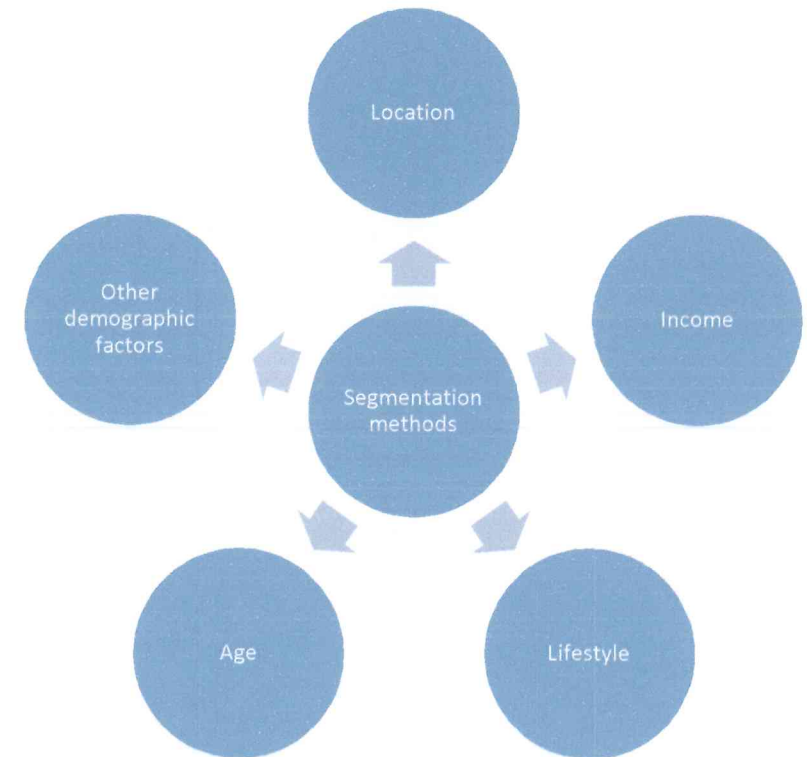
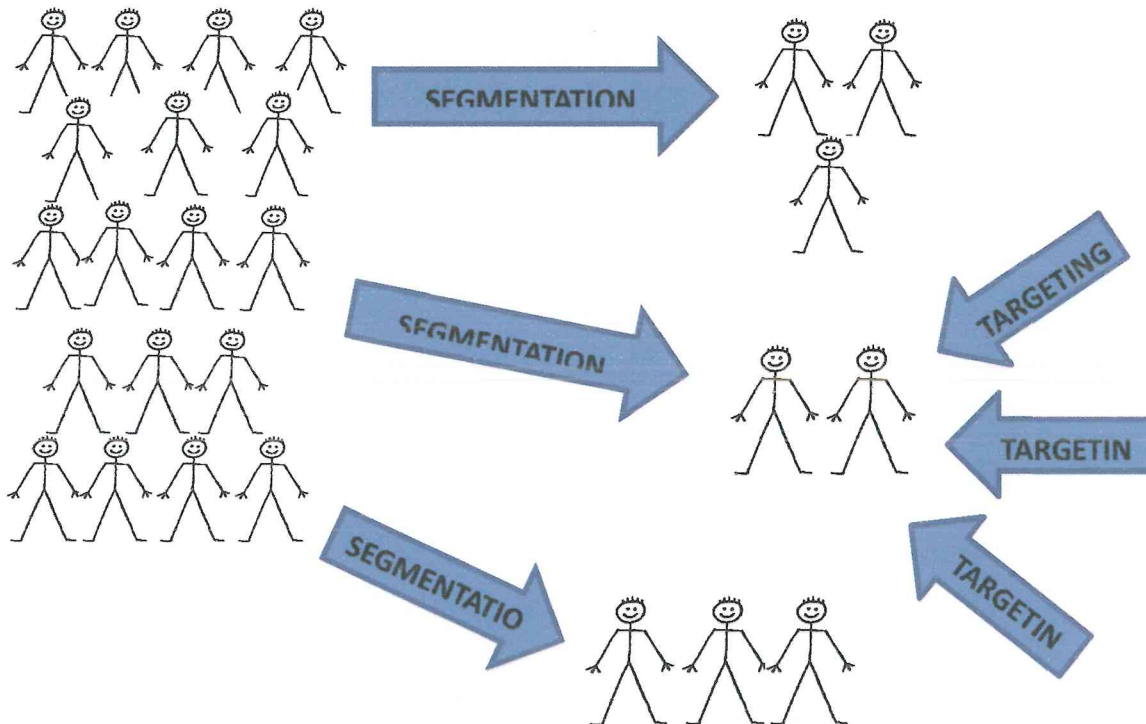
**The Competition:** companies operating in your market or market sector.

**Gap in the market:** An area on a market map where few or no existing brands operate, implying a business opportunity to fill an unmet consumer need.

Subject Content	What students need to learn?
1.2.3 Market segmentation	<p>How businesses use market segmentation to target customers:</p> <ul style="list-style-type: none"> <li>identifying market segments: location, demographics, lifestyle, income, age</li> <li>market mapping to identify a gap in the market and the competition.</li> </ul>

- Segmentation methods:**
- Location:** Are there regional differences in preference? E.g. Yorkshire tea in the North of England.
  - Income:** Is their income high or low? What is their disposable income like?
  - Lifestyle:** Are they vegetarian? What are their hobbies/sports?
  - Age:** Which age bracket should you focus on? Under 18's? Over 50's?
  - Other demographic factors:** Gender, race religion?

**Market Segmentation:**  
 Market segmentation means dividing customers within a market into smaller groups with common wants or needs. The business then creates/finds a product or service that fulfills those wants or needs.



Subject Content	What students need to learn?
1.2.4 The competitive environment	Understanding the competitive environment: <ul style="list-style-type: none"> <li>● strengths and weaknesses of competitors based on: price, quality, location, product range and customer service</li> <li>● the impact of competition on business decision making.</li> </ul>

**The competitive environment:**

The strength of competition between companies in the same market.



What are the **strengths** and **weaknesses** of your competitors:

- **Prices:** What do they charge for their products?
- **Quality:** This is now more important than ever before, if your competitor's products are poor quality it could lose them customers.
- **Location:** Location, location, location! Is still as important as ever. You may have a good business with loyal customers but if a new business opens up in a better location they may be in danger.
- **Product range:** it is important to have a range of different products so all customer needs can be met or they will go to a competitor.
- **Customer service:** Customers expect efficiency, speed and politeness. In some areas after sales service is just as important.

Careful analysis of the local competition is a must for a new business! If all rivals are really strong, you may decide not to set up at all. Unless you know how you can be better than the competition, you should not risk your money.

Competition forces businesses to be at their best – always!

- Offer good products and a good service
- Keep prices down
- Bring in new, innovative products or services to break away from fierce price competition.

Fierce competition may force a firm to:

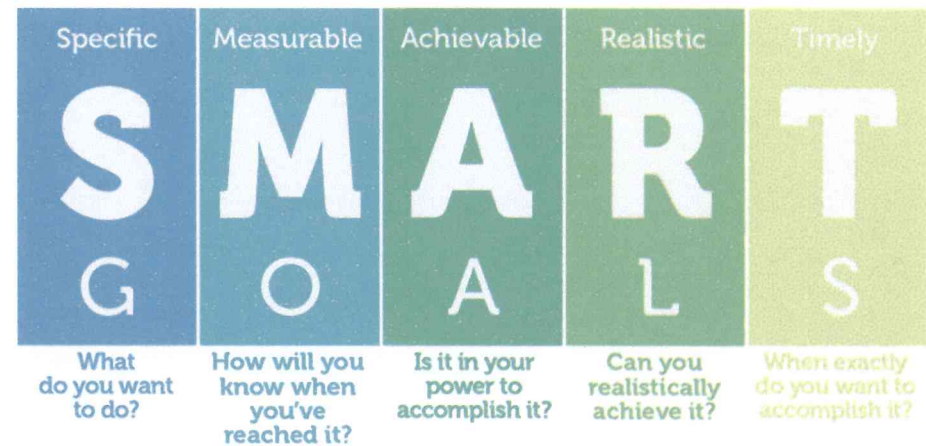
- Cut costs by cutting staff – bad for the staff and also service may decline
- Take short term action such as price cutting which may damage the long term health of the business
- Adopt unethical practices such as dumping waste materials or injecting water into meat to plump it up



Subject Content	What students need to learn?
1.3.1 Business aims and objectives	<p>What business aims and business objectives are.</p> <p>Business aims and objectives when starting up:</p> <ul style="list-style-type: none"> <li>• financial aims and objectives: survival, profit, sales, market share, financial security</li> <li>• non-financial aims and objectives: social objectives, personal satisfaction, challenge, independence and control.</li> </ul> <p>Why aims and objectives differ between businesses.</p>

**Aim:** Business aims are the broad targets that an entrepreneur has at the back of their mind.

**Objective:** Business objectives are clear, measurable targets of how to achieve business aims. (The stepping stones for how they are going to achieve them.)



Financial	Non-Financial
Survival	Personal satisfaction
Break even	Challenge
Improve reputation	Independence
Increase motivation of staff	Control
Increase market share	Helping others
To grow	Being your own boss
To sell in a new market – e.g. abroad	Something to be proud of

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

**Charities, social enterprises and voluntary organisations** – their aims and objectives are led by the beliefs they stand for e.g. Divine Chocolate want to support the cocoa growers by giving back profits to help them get education and jobs so they are no longer living in poverty

**Public sector businesses like the leisure centre, schools, doctors or library in Witney** are run to not only generate a profit but provide a service to the public. This service will need to meet the needs of the less well off in society or help improve the ability of the economy to function: e.g. cheap and accessible transport service

Subject Content	What students need to learn?
1.3.2 Business revenues, costs and profits	<p>The concept and calculation of:</p> <ul style="list-style-type: none"> <li>● revenue</li> <li>● fixed and variable costs</li> <li>● total costs</li> <li>● profit and loss</li> <li>● interest</li> </ul>

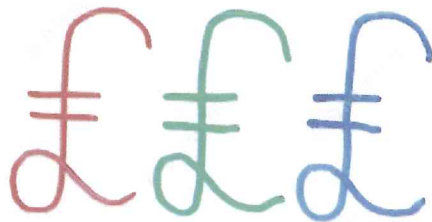
Before a business starts to sell their products and services, money needs to be spent setting up the business so it can run properly.

### START – UP COSTS

Start-up costs are not paid on a regular basis and are often one off. E.g. buildings, equipment and machinery.

### RUNNING COSTS

A business will also have costs that they have got to pay regularly as a normal part of trading. These are usually paid monthly. These are known as **running costs**. Eg. Rent, raw materials, **wages**.



**COSTS** are the spending that is necessary to set up and run a business.

### FIXED COSTS

Are costs that **DON'T** change when sales go up or down i.e. they **DO NOT** vary with output. E.g. Rent, salaries, insurance.

### VARIABLE COSTS

Are costs that **DO** change when sales go up or down. i.e. they **DO** vary with output. E.g. Raw materials, electricity, wages.

**Variable Costs = Variable cost per unit x Output**

### TOTAL COSTS

All the costs a business must pay in a set period of time.

**Total Costs = Fixed Costs + Variable Costs**

### REVENUE

Revenue is the money generated from selling products/services. It is often referred to as sales revenue. **Revenue = Selling price x Quantity Sold**

### PROFIT

Profit is the amount of money the business has to keep once all costs have been covered.

**Profit = Sales Revenue – Total Costs**

If the figure is **positive**, the business has made a **profit**. If it is **negative**, the business has made a **loss**.

### INTEREST

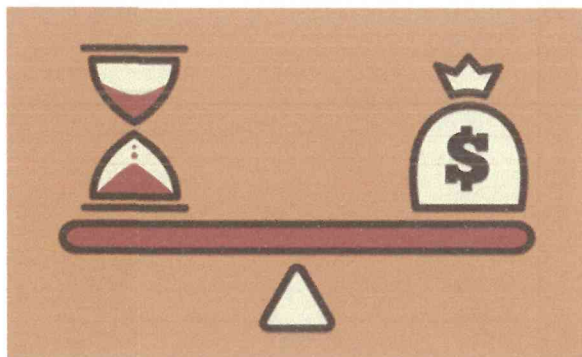
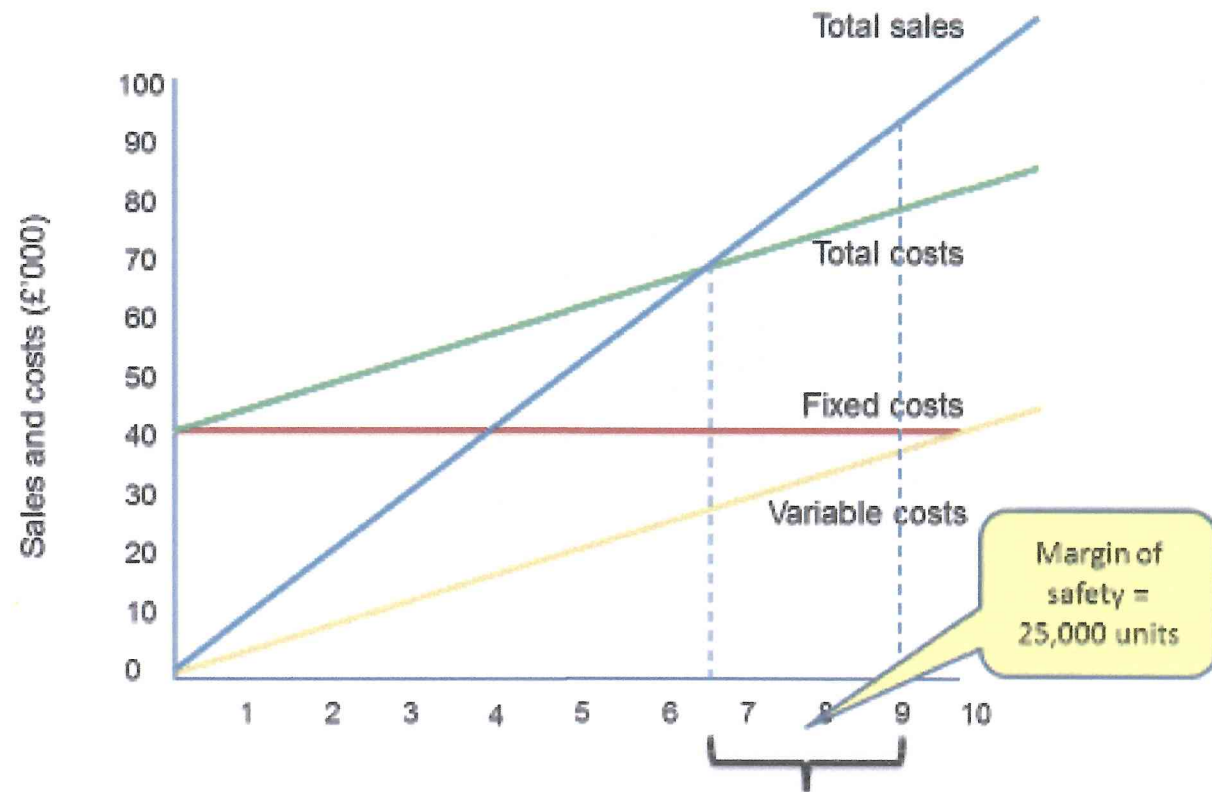
Interest is the **cost of borrowing** money. When you take out a bank loan you must pay back the amount with interest. E.g. a loan of £100 at a rate of 5% interest you pay back £105.

It is also the **reward for saving**. If you saved £100 in your bank account with an interest rate of 1%, by the end of the year you would have £101 in your account.

Subject Content	What students need to learn?
1.3.2 Business revenues, costs and profits	<ul style="list-style-type: none"> <li>● break even level of output</li> <li>● margin of safety.</li> </ul> Interpretation of break even diagrams: <ul style="list-style-type: none"> <li>● the impact of changes in revenue and costs</li> <li>● break even level of output</li> <li>● margin of safety</li> <li>● profit and loss.</li> </ul>

**BREAK EVEN =**  
 The point at which **sales revenue = total costs**. At this point the business is neither making a **profit** nor a **loss**.

**Calculating break even without using a graph.**  
 Break even charts can be time consuming to make so often a formula is used instead:  
**BREAK EVEN =  $\frac{\text{FIXED COSTS}}{\text{SELLING PRICE} - \text{VARIABLE COST PER UNIT}}$**



**MARGIN OF SAFETY =**  
 The difference between the break even level of output and actual level output.  
**MOS = CURRENT OUTPUT – BREAK EVEN OUTPUT**  
 In this example = 90,000 – 65,000 = 25,000 units

Subject Content	What students need to learn?
1.3.3 Cash and cash-flow	<p>The importance of cash to a business:</p> <ul style="list-style-type: none"> <li>● to pay suppliers, overheads and employees</li> <li>● to prevent business failure (insolvency)</li> <li>● the difference between cash and profit.</li> </ul> <p>Calculation and interpretation of cash-flow forecasts:</p> <ul style="list-style-type: none"> <li>● cash inflows</li> <li>● cash outflows</li> <li>● net cash flow</li> <li>● opening and closing balances.</li> </ul>

### Cash Flow

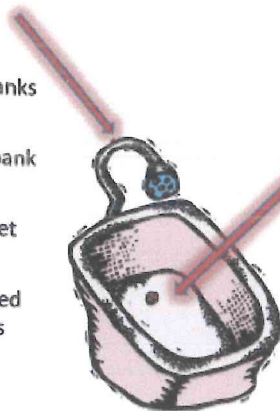
Cash flow is the money that **flows into and out of the business on a day to day basis**

Money that flows **INTO** the business are known as **CASH INFLOWS**

Money that flows **OUT** of the business are known as **CASH OUTFLOWS**

### **IN**

- Sales
- Loans from banks
- Interest on money in the bank (savings)
- Sale of an asset (like a Lorry)
- Money invested by a businesses owners
- Grants from governments



### **OUT**

- Purchase of stock/raw materials
- Wages/salaries
- Interest on loans
- Bills (electricity)
- Rent/mortgage
- Taxes
- Business rates
- Start up costs

### Key Definitions:

**Cash:** 'The money a firm holds in **notes** and **coins** and in its bank **account**.'

**Cash Flow:** 'The movement of money **in** and **out** of the business.'

**Cash Flow forecast:** 'Estimating the **likely** flows of cash over the coming months – therefore showing the state of a business's bank balance

### Why is cash important?

Cash is like air; profit is like food. You need cash all the time but you can survive for a while without profit.

Cash is needed to:

- Pay suppliers
- Overheads e.g rent
- Employee wages

Cash and profit are **DIFFERENT** – you need to remember this and understand the reasons why

If a business does not have enough cash to pay for these things it is likely they will fail as they will have become **insolvent**. (Not enough cash to pay their debts.)

### Cash flow forecast

- Cash **IN**
- Cash **OUT**
- **Net cash flow** – the difference between cash in (inflows) and cash out (outflows). You want this to be in **CREDIT**
- **Opening balance** – a businesses cash position at the start of the month (*Use last months closing balance*)
- **Closing balance** – how much a business has at the end of the month. **It is calculated by: adding the net cash flow and the opening balance.** This figure then becomes the opening balance for next month

Subject Content	What students need to learn?
1.3.4 Sources of business finance	<p>Sources of finance for a start-up or established small business:</p> <ul style="list-style-type: none"> <li>● short-term sources: overdraft and trade credit</li> <li>● long-term sources: personal savings, venture capital, share capital, loans, retained profit and crowd funding.</li> </ul>

### Short term finance:

This is money the business borrows and pays back within one year.

### Long term finance:

This is money the business borrows and pays back over a long period of time, over one year.

### Short Term Finance

**Overdraft:** This allows a business to spend more money than it has in its account. The bank and business will agree on a limit and interest is charged when the account goes overdrawn.

**Trade Credit:** This is when businesses buy raw materials and components and pay for them at a later date, usually within 30-90 days.

### Long Term Finance

**Personal savings:** Owners may be planning to set up their own business for a number of years. This will involve regular saving in order to have enough capital to set up the business/keep it running.

**Venture Capital:** These are industry experts who invest in small and medium sized businesses in return for a stake in the company.

**Share capital:** This is money raised through the selling of shares in the business. There are two main types – ordinary shares and preference shares.

**Bank loans:** This is an arrangement where the amount borrowed must be repaid over a clearly stated period of time, in regular instalments. The amount is paid back with interest.

**Retained Profit:** Profit kept within the business that is not paid out in dividends to the shareholders. This source of finance is the best if the business wants to expand.

**Crowd funding:** Raising capital online from many small investors to fund a project. (This does not involve the stock market)



Subject Content	What students need to learn?
1.4.1 The options for start-up and small businesses	<p>The concept of limited liability:</p> <ul style="list-style-type: none"> <li>● limited and unlimited liability</li> <li>● the implications for the business owner(s) of limited and unlimited liability.</li> </ul> <p>The types of business ownership for start-ups:</p> <ul style="list-style-type: none"> <li>● sole trader, partnership, private limited company</li> <li>● the advantages and disadvantages of each type of business ownership.</li> </ul> <p>The option of starting up and running a franchise operation:</p> <ul style="list-style-type: none"> <li>● the advantages and disadvantages of franchising.</li> </ul>

**Unlimited liability:**

If the business gets into debt, the owner of the business is **liable**. They will need to find the money to pay off these debts. This could mean they have to sell off their car or house to cover the debt.


**Limited Liability:**

If the business gets into debt, the shareholders are **not required** to pay these off. The shareholders only lose the money they **originally invested** in the business, no more.

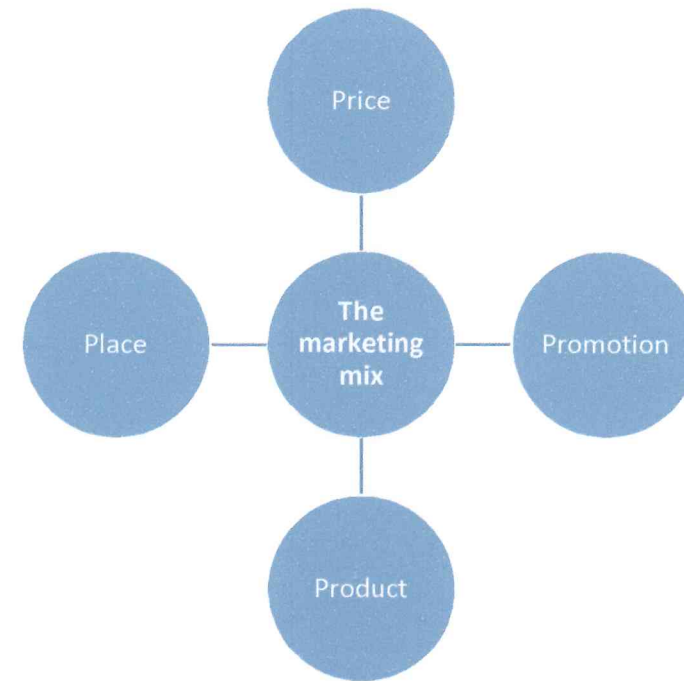
	Description	Advantages	Disadvantages
<b>Sole Trader</b>	Owned and controlled by one person, who usually also manages the business.	<ul style="list-style-type: none"> <li>● Easy to set up</li> <li>● Own boss</li> <li>● Keep all profits</li> </ul>	<ul style="list-style-type: none"> <li>● Finance difficult to raise</li> <li>● No established reputation</li> <li>● Unlimited liability</li> </ul>
<b>Partnership</b>	Controlled and owned by 2-20 people. Each have a share in the business. All or some of the partners manage the business	<ul style="list-style-type: none"> <li>● Shared workload</li> <li>● Share ideas and expertise</li> </ul>	<ul style="list-style-type: none"> <li>● Disagreements</li> <li>● Share profits with partners</li> </ul>
<b>Private limited company</b>	Owned and controlled by a group of private individuals. Shares can be sold to family and friends NOT TO THE PUBLIC.	<ul style="list-style-type: none"> <li>● Control over who sell shares to</li> <li>● Seen as reputable due to private limited company status</li> <li>● Limited liability</li> </ul>	<ul style="list-style-type: none"> <li>● Shares can only be sold to family and friends – not as easy to raise finance as a public limited company</li> <li>● Dividends (share of the profits) must be paid to shareholders</li> </ul>
<b>Franchising (buying into a franchise like McDonalds)</b>	Paying a franchise owner for the right to an established business name, branding and business methods.	<ul style="list-style-type: none"> <li>● Benefit from brand image</li> <li>● Loyal customers</li> <li>● Greater chance of success then setting up new business</li> </ul>	<ul style="list-style-type: none"> <li>● Royalty payments to franchisor (% of profits goes back to McDonalds)</li> <li>● No freedom to bring in new ideas</li> </ul>

Subject Content	What students need to learn?
1.4.2 Business location	<p>Factors influencing business location:</p> <ul style="list-style-type: none"> <li>● proximity to: market, labour, materials and competitors</li> <li>● nature of the business activity</li> <li>● the impact of the internet on location decisions: e-commerce and/or fixed premises.</li> </ul>

<p><b><u>Location</u></b></p> <p>This is where the business is based e.g. high street, shopping centre, online.</p> <p><b><u>Fixed premises</u></b></p> <p>Buildings that have to be where they are (for example, the high street, e-commerce buildings can be located anywhere.</p> <p><b><u>Proximity</u></b></p> <p>How near a business is to key factors that might influence their success. For example, suppliers and competitors.</p>
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<p><b><u>Factors influencing business location, proximity to:</u></b></p> <p><b><u>Market</u></b></p> <p>How near are they to their customers? E.g. for a physical service like a shop, restaurant or hotel, customer convenience will be critical to revenue.</p> <p><b><u>Labour</u></b></p> <p>Are there staff nearby who are willing and able to work for you?</p> <p><b><u>Competitors</u></b></p> <p>Lots of a businesses want a location far away from competitors e.g. local corner shop. However, some businesses e.g. restaurant chains find it better to be on the busy high street where other competitors are.</p> <p><b><u>Nature of activity</u></b></p> <p>Depending on what the business is will influence what is the most important factor to consider. For example, a manufacturer would need to be near materials, whereas a shop will want to be near the market (consumers).</p> <p><b><u>Impact of the internet</u></b></p> <p>If the business is online, location is not as important as customers can access their products no matter where the head office is based. E.g. ASOS head office is in North London, while their distribution depot is in Barnsley.</p>	
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Subject Content	What students need to learn?
1.4.3 The marketing mix	<p>What the marketing mix is and the importance of each element:</p> <ul style="list-style-type: none"> <li>● price, product, promotion, place.</li> </ul> <p>How the elements of the marketing mix work together:</p> <ul style="list-style-type: none"> <li>● balancing the marketing mix based on the competitive environment</li> <li>● the impact of changing consumer needs on the marketing mix</li> <li>● the impact of technology on the marketing mix: e-commerce, digital communication.</li> </ul>



### Product

Targeting customers with a product that has the right blend of functional and aesthetic benefits without being too expensive to produce.

### Price

Setting the price that retailers must pay, which in turn affects the consumer price.

### Place

How and where the supplier is going to get the product or service to the consumer, it includes selling products to retailers and getting the products displayed in prominent positions.

### Promotion

All the methods the business uses to persuade customers to buy for example branding, packaging, advertising to boost the long term image of the product and

A firm must make sure that its marketing mix is **co-ordinated and coherent**. E.g. a stylish product aimed at a stylish market should have a high price, be promoted in stylish magazines and stocked in stylish shops.

A firm will base their marketing mix on the **competitive environment** in which it operates. E.g. Rolls Royce is not in a very competitive environment as it is one of a kind. EasyJet, however will have to compete with Ryanair on their prices.

Changes to **consumer needs** affect the marketing mix. Firms will have to adapt them based on consumer needs. E.g. cooked breakfast gave way to cereals, cereals have given way to breakfast bars and other on the go foods.

Due to advances in **technology** firms are now changing certain parts of their marketing mix. E.g. Apps, promotions.

Subject Content	What students need to learn?
1.4.4 Business plans	<p>The role and importance of a business plan:</p> <ul style="list-style-type: none"> <li>to identify: the business idea; business aims and objectives; target market (market research); forecast revenue, cost and profit; cash-flow forecast; sources of finance; location; marketing mix.</li> </ul> <p>The purpose of planning business activity:</p> <ul style="list-style-type: none"> <li>the role and importance of a business plan in minimising risk and obtaining finance.</li> </ul>

A **business plan** is a detailed document setting out the business idea and **showing HOW** it is to be financed, marketed and put in place

It is a **CRUCIAL** part of getting finance from external sources e.g. a bank loan and helps **COORDINATE** all of the different tasks and strategies, so the business is more likely to be successful

Business plan sections	What is it?
Business idea	What have you decided to do? Product? Service?
Aims and Objectives	What are the aims/objectives for the business?
Target market	Who is your product aimed at and why?
Marketing plan	What promotional activities are you going to do? TV? Billboards? Online? Social media?
Forecasts of revenue, costs and profits	What are your predictions for sales revenue, costs and profits? When do you expect to reach them?
Cash flow forecast	Plan of the money coming in and going out of the business
Sources of finance	How will you raise finance, which methods are you going to use and why?
Location	Where will you be based? Physical store? Online? Both?
Marketing Mix	Product? Price? Promotion? Place?

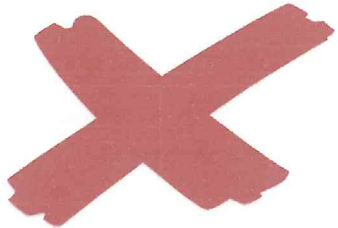
A business plan allows a business to:

- Think carefully about each step of the process – maximise success
- May help them realise they are lacking in skills – hire specialist help
- Attract investors if plan is good
- Plan is written down if entrepreneur gets ill



A business plan can cause some problems:

- If entrepreneur not experienced the predictions may be wrong
- Can be too rigid, a new business can be unpredictable so a flexible approach is needed
- Time consuming to create when time could be better spent elsewhere



Subject Content	What students need to learn?
1.5.1 Business stakeholders	<p>Who business stakeholders are and their different objectives:</p> <ul style="list-style-type: none"> <li>● shareholders (owners), employees, customers, managers, suppliers, local community, pressure groups, the government.</li> </ul> <p>Stakeholders and businesses:</p> <ul style="list-style-type: none"> <li>● how stakeholders are affected by business activity</li> <li>● how stakeholders impact business activity</li> <li>● possible conflicts between stakeholder groups.</li> </ul>

### Stakeholders

Individuals or groups of people who have an interest in a business  
 A stakeholder will be **affected** by the decisions and actions of a business.  
 Stakeholders are important to businesses as they can have a **big influence** on them.

### CONFLICT

A disagreement or argument between people / groups.  
 As Stakeholders all have different objectives, businesses need to minimise the conflict between the groups.

Stakeholder	Objective
<b>Shareholders</b>	Private limited companies - long-term organic growth Public limited companies – high share price in short term, as much profit as possible for big dividends
<b>Employees</b>	Employment security, opportunities for promotion / career development, fair pay, good fringe benefits (e.g. pension, holiday, company car)
<b>Customers</b>	Consistently high quality, value for money, honesty, fairness, innovative products
<b>Managers</b>	Employment security, opportunities for promotion / career development, fair pay, good fringe benefits (e.g. pension, holiday, company car)
<b>Suppliers</b>	Honesty and fairness, especially on pricing and credit terms, good communication, regular orders, loyal customers
<b>Local community</b>	Honesty and fairness, especially on plans that affect local employment and the environment.
<b>Pressure groups</b>	Honesty and fairness, especially on plans that affect customers and the environment
<b>The government</b>	Honesty and fairness, especially on paying tax, high levels of employment

These stakeholders all have different objectives (expectations) of the organisation. It is important that organisations are aware of who their KEY stakeholders are, so they can meet their objectives.

Subject Content	What students need to learn?
1.5.2 Technology and business	<p>Different types of technology used by business:</p> <ul style="list-style-type: none"> <li>● e-commerce</li> <li>● social media</li> <li>● digital communication</li> <li>● payment systems.</li> </ul> <p>How technology influences business activity in terms of:</p> <ul style="list-style-type: none"> <li>● sales</li> <li>● costs</li> <li>● marketing mix.</li> </ul>

### Social Media

Interactive channels of communication via words, photos or videos such as blogs, Facebook and Instagram.

### Digital Communication

Messages conducted via email, text or social media.

This may revolve around social media but it is important to remember **email**. This is a cheap method of communication and is effective with one to one communication.

### Online payment systems

Methods of paying electronically such as PayPal.

Payment systems such as PayPal are at the heart of all e-commerce. Before PayPal people were concerned about the online security of their money when using e-commerce.

- Electronic funds transfer – payments settled and bills paid online.

### E-commerce

This means selling **online** rather than in a physical one to one transaction. This might be done through a PC/laptop via a website or more commonly through a smartphone via an app.

This mobile form of e-commerce is called **m-commerce**.

Technology affects every area of business management, but there are three areas of special focus: sales, costs and the marketing mix.

#### Sales:

Advances in technology allow a business to produce a more high tech product therefore demand is high and sales increase (e.g Games Consoles)

Ability for customers to order online e.g. Dominos therefore sales increase

#### Costs:

Impact on fixed costs such as advertising – able to be reduced as they can focus on target market more easily

Impact on variable costs – easier to research who is the cheapest supplier and thus get cheap raw materials

#### Marketing Mix:

- **Product** – improved technology can allow a product to gain high market share
- **Promotion** – improve effectiveness of marketing allowing costs to fall
- **Place** – Not only a physical shop but now online too
- **Price** – Now more competitive as customers more aware



Subject Content	What students need to learn?
1.5.3 Legislation and business	<p>The purpose of legislation:</p> <ul style="list-style-type: none"> <li>● principles of consumer law: quality and consumer rights</li> <li>● principles of employment law: recruitment, pay, discrimination and health and safety.</li> </ul> <p>The impact of legislation on businesses:</p> <ul style="list-style-type: none"> <li>● cost</li> <li>● consequences of meeting and not meeting these obligations.</li> </ul>

### Principles of consumer law:

**Consumer law:** Acts of parliament that are intended to protect consumers from misleading or dangerous practices by companies.

There are two especially important pieces of consumer protection legislation:

#### **Consumer Rights Act 2015:**

This act states that:

- Goods must be fit for the purpose in which they are sold
- The buyer has their right to get their money back or could have it repaired at the seller's expense
- The person responsible for correcting any problems is the seller (shop) not the manufacturer

#### **Trade Descriptions Act 1968:**

This act states that:

- It is an offence for a trader to use false or misleading statements
- It is an offence to misleadingly label goods and services
- The act carries criminal penalties and can therefore lead to a jail sentence.

**Legislation:** Laws passed by acts of parliament; breaking these laws may result in a fine or even a prison sentence.


**Principles of employment law:** Parliament passes laws to protect employees from being exploited at work.

**Recruitment:** The main law involved in recruiting new staff is the Equality Act 2010. This brought together many other acts of parliament focused on preventing discrimination to certain characteristics.

**Pay:** Equal Pay Act 1970. Prevent pay differences between different groups of people e.g. men and women, age, race.

**Discrimination:** Prevent issues with regards to recruitment, promotion, men, women, race, religion.

**Health and Safety:** Health and safety at work act 1974. Employers must protect the 'health, safety and welfare' at work of all their employees, as well as others on their premises, including temps, casual workers, the self-employed, clients, visitors and the general public.

The impact of legislation on business	
Negatives	Positives
Lots of paper work that is not always relevant, time consuming and expensive	Helps a business to know what is acceptable and what is not
Rules can restrict creativity and initiative	Rules do take time and money, but not enough to ruin the business and their success
	Consumer protection law is too valuable to dismiss – stop people dying from unsafe cars, faulty food or drugs

Subject Content	What students need to learn?
1.5.4 The economy and business	The impact of the economic climate on businesses: <ul style="list-style-type: none"> <li>● unemployment, changing levels of consumer income, inflation, changes in interest rates, government taxation, changes in exchange rates.</li> </ul>

**The economy:** The Economy concerns the interactions between people and groups of people in a certain area.

**Here are the rules to follow when making an exchange rate calculation:**

**Rule 1:** When exchanging from pounds to a foreign currency, multiply

**Rule 2:** When exchanging from a foreign currency to pounds, divide

Definitions	Descriptions:
<b>Unemployment</b>	When someone of working age wants a job but cannot get one.
<b>Changing levels of consumer income</b>	Consumer incomes is the amount households have available to spend after income taxes have been deducted.
<b>Inflation</b>	Inflation is the sustained increase in prices over a period of time.
<b>Changes in interest rates</b>	Interest rates can take two forms: <ul style="list-style-type: none"> <li>• The additional <b>cost of borrowing</b> money from a bank that has to be paid each month</li> <li>• The <b>reward</b> received each month for <b>saving</b> your money in a bank</li> </ul>
<b>Government taxation</b>	Charges placed by the government on goods, imported products and incomes of both individuals and businesses
<b>Changes in exchange rates</b>	The value of one currency expressed as another. There is not just one exchange rate, it is between 2 currencies only

<b>S</b>	trong
<b>P</b>	ound
<b>I</b>	mprts
<b>C</b>	heaper
<b>E</b>	xports
<b>D</b>	earer

**Key terms:**

**Recession:** A recession happens when there is a significant decline in economic activity. It is visible in areas such as production and employment.


**Imports:** Bringing goods and services into a country from other countries in order to sell to consumers

**Exports:** Exports are the goods and services produced in one country but sold overseas.



Subject Content	What students need to learn?
1.5.5 External influences	The importance of external influences on business: <ul style="list-style-type: none"> <li>● possible responses by the business to changes in: technology, legislation, the economic climate.</li> </ul>

**External influences** occur in the external environment that the business operates in. the main influences are: technology, legislation and the economic climate. The business has no control over these influences and will need to respond effectively.

Technology	Legislation	Economic climate
<p>Businesses will need to adapt to keep up with advances in technology. For example, black cab drivers had to respond to Uber entering the taxi market. In order to compete, Black cab drivers now have free ultra-fast Wi-Fi, contactless card readers and zero emissions cabs.</p> 	<p>New laws can present opportunities or threats to new businesses.</p> <p>Most business people tend to focus on the threats, calling the new legislation 'red tape'. This means they may have to hire new staff to cope with the additional paper work which could be expensive for the business.</p> <p>However, it can create opportunities for some. For example, changes to the Food Safety Act in 2013 forced businesses to take further measures to protect consumers. This included keeping records about who supplied each batch of food (traceability).</p> <p>Various new small businesses set up to provide simple software programs for recording food origins, and suppliers started to help restaurants and cafes by texting the source of the food.</p>	<p>The economic climate is like the weather; the economy can run hot or cold. The economic climate measures the position the economy – positive or worrying.</p> <p>As the economy is constantly changing businesses need to be able to respond to economic ups and downs.</p> <p>When the economy is doing well they will:</p> <ul style="list-style-type: none"> <li>● Hire more staff</li> <li>● Invest in new equipment</li> <li>● Spend more on developing new products</li> </ul> <p>In the long term bigger companies respond to the changing climate by spreading their risk. Jaguar and Land Rover used to produce only in England but that left the business vulnerable if a rising pound hit export profitability. Now they have factories in China, Brazil, Austria and Slovakia.</p>

Subject Content	What students need to learn?
2.1.1 Business Growth	<p>Methods of business growth and their impact:</p> <ul style="list-style-type: none"> <li>• Internal (organic) growth: new products (innovation, research and development), new markets (through changing the marketing mix or taking advantage of technology and/or expanding overseas)</li> <li>• External (inorganic) growth: merger, takeover</li> </ul> <p>Public limited company (PLC) Sources of finance for growing and established businesses</p>

### Internal (Organic) Growth

Internal growth occurs when businesses choose to expand using their own initiative to increase sales. This could be:

- Through the creation of new products that have been researched
- Entering into new markets with an already existing product
- Changing the marketing mix (e.g. through advertisement)
- Take advantage of technological advancements to expand

### External (Inorganic) Growth

**Merger:** An agreement between two firms who join to form a new company

**Takeover:** When one firm buys out the shares of another firm to incorporate them into their company

### Advantages of Internal Growth

- More sustainable as slower
- Less risk than external growth
- Builds on a firm's existing strengths

### Disadvantages of Internal Growth

- Growth based on the growth of the market
- Slow growth
- Hard to increase market share if a market leader

### Sources of Finance

**Selling Shares:** Creating new shares that can be sold on the stock market

**Retained Profit:** Profit kept within the business that is not paid out in dividends to the shareholders. This source of finance is the best if the business wants to expand.

**Bank Loan:** This is an arrangement where the amount borrowed must be repaid over a clearly stated period, in regular instalments. The amount is paid back with interest.

**Selling Assets:** Selling items that the business owns to raise funds. For example, selling property or machinery.

### Advantages of External Growth

- Quicker than internal growth
- May get rid of competition
- Can get new ideas and new expertise

### Disadvantages of External Growth

- May be a clash of culture
- May be stopped by the competition authorities
- Increased costs in the short term

### Public Limited Company

A company that sells its shares on the stock market

This makes it much easier to raise finance but makes the business prone to takeovers

Subject Content	What students need to learn?
2.1.2 Changing Aims and Objectives	<p>Why business aims and objectives change as businesses evolve:</p> <ul style="list-style-type: none"> <li>• In response to: market conditions, technology, performance, legislation, internal reasons.</li> </ul> <p>How business aims and objectives change as businesses evolve:</p> <ul style="list-style-type: none"> <li>• Focus on survival or growth</li> <li>• Entering or exiting markets</li> <li>• Growing or reducing the workforce</li> <li>• Increasing or decreasing product range</li> </ul>

**Business Aims and Objectives**

Business aims are the broad targets than an entrepreneur has at the back of their mind

Business objectives are clear, measurable targets of how to achieve business aims. (the stepping stones for how they are going to achieve them)

Influences:	Description:
Changing market conditions	Markets evolve over time. For example customers now want more luxury chocolate. As a result, Cadbury is now setting new objectives in relation to the luxury/higher prices segment of the UK chocolate market.
Changing technology	Due to advances in technology businesses have had to respond. For example Ted Baker's sales accelerated dramatically after introducing ecommerce. They were then more ambitious in their sales targets. With the help of ecommerce Ted Baker grew their whole business by 17.7% in 2016.
Changing performance	If costs start to rise, profits will be squeezed. This is linked to the performance of the business or it could be the industry as a whole. When this happens new objectives will need to be set to cut back costs to increase profits. A new manager will usually be appointed.
Changing legislation	Changes in legislation influence aims and objectives. Or example after Britain voted to leave the EU there was great uncertainty about what changes would be made to EU laws. Some may be beneficial, others not. This makes setting new objectives very difficult.
Internal reasons for change	Aims and objectives are influenced by a change at the top of the business. If a boss is pushed out and a new one is appointed there will be changes to aims and objectives.

**S** PECIFIC - Objectives should specify what they want to achieve. - i.e. one named person is responsible for delivering the objective

**M** EASURABLE - You should be able to measure whether you are meeting the objectives or not.

**A** CHIEVABLE - can the objectives be met?

**R** EALISTIC - Can you realistically achieve the objectives with the resources you have?

**T** IMED - When do you want to achieve the set objectives? i.e. within a given period e.g. 12 months

Subject Content	What students need to learn?
2.1.3	The impact of globalisation on businesses
Business and Globalisation	Barriers to international trade
	How businesses compete internationally

### Impact of Globalisation on Businesses

**Imports:** Globalisation allows businesses to be able to access wider markets, which increases the choice of suppliers. This allows businesses to find the cheapest supplier and lower their overall average costs

**Competition from overseas:** Due to the increased ability to operate in multiple countries it is now easier to move into new markets. This makes sales easier but also is likely to increase competition which can make smaller firms struggle.

**Exports:** Companies can now increase their number of sales by trying to sell their products overseas, this can increase revenue for the business and help the government pay for the imports that are brought in.

**Changing business locations:** Some countries are cheaper to operate in than the UK because they have less laws in place or more raw materials on offer. Globalisation allows businesses to open factories in multiple countries to take advantage of the cheapest places, this lowers costs and allows businesses to maximise profits

### Globalisation

Globalisation is the tendency for economies to trade increasingly with each other, creating opportunities for international and multinational companies.

### Barriers to International Trade

**Tariffs:** These are taxes imposed on imported goods, this increases the cost of the import which may be passed onto the consumer in the form of higher prices.

**Trade Blocs:** This is an agreement between countries to trade freely with each other behind a tariff wall that discourages outsiders. This makes trade within the bloc cheaper and provides easier access to bigger markets whilst potentially reducing competition of non trade bloc countries. However if a company operates outside the trade bloc it is much more expensive to trade with all countries within the bloc.

### How Businesses Compete Internationally

**Use of internet and ecommerce:** Small businesses are able to use the internet to access a much wider range of customers without the added cost of setting up physical shops in these countries. This makes it possible for small businesses to achieve global success on the back of one trend or even a short term fad. For larger businesses, the internet can help to lower costs and allows the business to become more dynamic.

### Changing the Marketing Mix to Compete Internationally

If a business is now operating in multiple countries it will need to adapt its 4 Ps to accommodate. Product will need to be adapted to fit with the laws in different countries e.g. H+S. Pricing may be different in different countries to account for popularity. Promotion will change based on what the country uses most, e.g. TV advertisement is much bigger in the US. Place will change based on the development of the country, e.g. ecommerce is popular in the UK but will be less popular in Africa, so companies will need to adjust their distribution channels.

Name of the Trade Bloc	Trading Bloc Members	Main Features of the Bloc
EU (European Union)	27 members (after UK withdrawal) led by Germany and France	Free movement of goods and labour with a single market backed by common, EU-wide legislation
ASEAN (Association of South East Asian Nations)	Ten members including Thailand and Vietnam, but excluding China	Free movement of goods; started in 1965 with five members; members have enjoyed high economic growth
NAFTA (North American Free Trade Association)	America, Canada and Mexico	Free movement of goods; just three members; 2 rich and one much less so (Mexico)

Subject Content	What students need to learn?
2.1.4	How ethics influence business activity
Ethics, the environment and business	How environmental considerations influence business activity The potential impact of pressure groups on the marketing mix

### Ethics and Profit

A business may have to accept lower profits when behaving in a socially responsible way, however this may only be a short term issue as the positive publicity gained may increase reputation and customers which could increase profits in the long term.

Although there may be a positive effect in the long run which may counteract any reductions in short run profits, in the short run there is likely to be a trade off between ethics and profit. It is up to the business to decide whether it would rather do what is right and lose profits or continue maximising profits and ignore ethics.

### Pressure Groups

A pressure group is an organised group of people that seeks to influence government policy, legislation and business behaviour e.g. Greenpeace, Amnesty International or Searchlight.

If a business behaves in a way that a pressure group disagrees with, the media may turn against the company. This could lead to consumers boycotting the business, damaging profits and up-setting shareholders.

### Pressure Groups and the Marketing Mix

If a pressure group targets a particular business, the business has little alternative but to respond, this may involve changes to their marketing mix e.g. product. Examples may include the movement away from real fur in clothing or the reduction in sweat shops due to pressure groups.



### Ethics

Weighing up decisions or actions on the basis of morality, not personal gain

### Ethics and Ethical Considerations

In business it is easy to confuse ethics with ethical considerations. Ethics is the real thing—acting to do what is morally right. Ethical considerations may mean no more than thinking about how to make money out of the appearance of being ethical. Proof that a decision is ethical comes when the business accepts a hit to its profits.

### Ethics and the Environment

One particular aspect of ethics that is important in today's society is the environment. Due to the increase in pressure groups such as Greenpeace there is a strong need for businesses to consider their influence on the environment. As such many businesses are now changing their distribution channels to reduce their carbon footprint

### Sustainability

All manufacturing requires resources. Plastics, paints and detergents are made from oil, steel requires iron ore and coal and paper is made from wood. Note the difference however. Wood is sustainable, more trees can be planted whereas oil, iron and coal are very different, they take millions of years to be made and so are essentially irreplaceable.

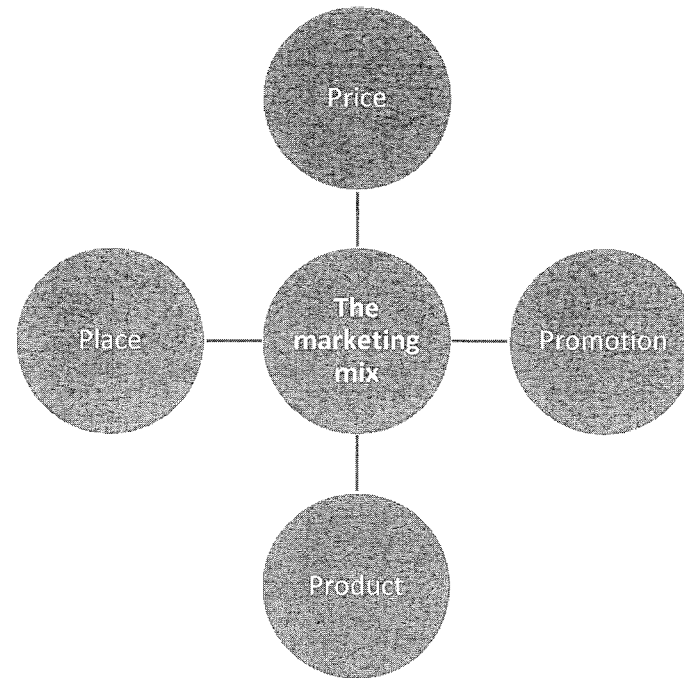
Sustainability: Whether or not a resource will inevitably run out in the future; a sustainable resource will not.

### Trade-offs between Environment, Sustainability and Profit

It should be natural for a business to see sustainability and profit going hand-in-hand. To keep making profits year after year there needs to be raw materials to make the product. However short term profits can something be chosen at the expense of sustainability, e.g. R+D into new, more sustainable processes may increase profits in the long term, but are likely to reduce profits in the short term due to the cost.

Some business will operate normally whilst trying to dress up their actions as being environmentally friendly, this is known as 'greenwashing'.

Subject Content	What students need to learn?
2.2.1 The marketing mix	<p>What the marketing mix is and the importance of each element:</p> <ul style="list-style-type: none"> <li>• price, product, promotion, place.</li> </ul> <p>How the elements of the marketing mix work together:</p> <ul style="list-style-type: none"> <li>• balancing the marketing mix based on the competitive environment</li> <li>• the impact of changing consumer needs on the marketing mix</li> <li>• the impact of technology on the marketing mix: e-commerce, digital communication.</li> </ul>



### Product

Targeting customers with a product that has the right blend of functional and aesthetic benefits without being too expensive to produce.

### Price

Setting the price that retailers must pay, which in turn affects the consumer price.

### Place

How and where the supplier is going to get the product or service to the consumer, it includes selling products to retailers and getting the products displayed in prominent positions.

### Promotion

All the methods the business uses to persuade customers to buy for example branding, packaging, advertising to boost the long term image of the product and

A firm must make sure that its marketing mix is **co-ordinated and coherent**. E.g. a stylish product aimed at a stylish market should have a high price, be promoted in stylish magazines and stocked in stylish shops.

A firm will base their marketing mix on the **competitive environment** in which it operates. E.g. Rolls Royce is not in a very competitive environment as it is one of a kind. EasyJet, however will have to compete with Ryanair on their prices.

Changes to **consumer needs** affect the marketing mix. Firms will have to adapt them based on consumer needs. E.g. cooked breakfast gave way to cereals, cereals have given way to breakfast bars and other on the go foods.

Due to advances in **technology** firms are now changing certain parts of their marketing mix. E.g. Apps, promotions.

Subject Content	What students need to learn?
2.2.2	Pricing strategies
Price	Influences on pricing strategies; technology, competition, market segments and the product life cycle

### Pricing Strategies

Broadly there are two different types of pricing:

- Pricing low for high volume but low profit margins
- Pricing high for low volume but high profit margins

The choice between these two will depend on a range of factors however the biggest influence will be branding. Strong brands are able to set their own prices, whereas weaker ones have to follow the lead set by others

### Pricing Strategy for Different Market Segments

#### Mass Market

Mass market products are aiming their products at a wide range of customers and are likely to be experiencing high levels of competition. As a result pricing is likely to be ensure that they can compete. Due to the wide number of customers there is still a good likelihood of profit overall, even though profit per item will be low.

Examples include New Look, Primark, Lidl and Aldi.

#### Niche Market

A niche market is based on a particular type of customer who wants something different from the majority. Due to this difference there is likely to be less competition and customers will be more willing to pay more which ensures that although there are low sales volumes, profits can still be made.

Examples include Alpro or Jaguar



### How Technology Influences Pricing Strategies

Due to the access of ecommerce there is more ability to shop around and try to get the best deal on products, which means that firms have more competition than just their local area and need to be more price competitive.

On the other hand, ecommerce has also expanded the market making it easier to attract customers, this means that some businesses can charge more for their products because the demand is higher

### Pricing Strategies at Different Stages of the Product Life Cycle

#### Introduction

Lots of businesses will choose a low price initially to encourage customers to try their product, especially if it is an unknown product or brand. If the product is popular the price will start to rise. However some businesses will start with a high price if they are looking to create an image of quality and expense rather than cheap. In addition products with good branding, especially technology will start expensive to ensure high profit margins from the keen before lowering the pricing for everyone else.

#### Growth

In the early stages most businesses will be looking to keep prices low to ensure sales continue to grow and increase prices once the growth is more established.

#### Maturity

When growth is at an end, new pricing decisions may be needed. If during growth prices were kept low to encourage sales there may be an incentive to raise prices to try and improve profit margins now that sales are no longer growing so fast. This may be important if new products are needed before the current product goes into decline, meaning investment.

#### Decline

During decline, profits will be falling, this means that firms need to make a decision about pricing. If an extension strategy is being planned such as adapting the product there may be a basis to increase the price. If there are loyal customers to the product but few new customers, the business may be able to increase prices assuming the loyal customers will still want the product. However some businesses may choose to put deals into place to encourage last ditch sales before it is taken off the market.

Subject Content	What students need to learn?
2.2.3	Appropriate promotion strategies for different market segments
Promotion	The use of technology in promotion

### The Use of Technology in Promotion

#### Targeted Advertising Online

In 2015, UK spending on digital advertising far outstripped TV advertising. By 2017 more than half of all promotional spending in the UK was on digital advertising. Through the use of 'cookies' and other ways of capturing information advertisers today know much more about customers spending habits than previously. As a result advertising can be much better targeted, reducing waste and ensuring that firms are reaching their customers. For mass market products such as Coca Cola, TV advertising can still be cost effective due to the large number of customers they have. Targeting a much smaller customer range means online advertising is much more cost effective.

#### Viral Advertising via Social Media

It is easy to see why great video advertisements can 'go viral', in other words get passed on from person to person via Tweets and other social media. However it is difficult to get a campaign to go viral and many businesses have tried and failed. This is something that can be difficult to rely on as a form of advertising.

#### E-Newsletters

If you buy a cinema ticket online, you are likely to end up receiving the cinema's weekly newsletter. It will tell you about the major new films and offer discounts. From a companies point of view this form of advertising is virtually free. Some businesses will want to spend more on e-newsletters in order to make them more interactive however it is only the initial cost that is likely to increase.

### Promotional Strategy for Different Market Segments

#### Advertising

In the mass market the role of advertising is often to achieve name recognition and little more. For example Just Eat advertises widely on TV in order to foster trust with their customers and ensure that customers are willing to use them. All mass market businesses aim to achieve a level of brand awareness like Audi who are able to sell their products at a premium because of their brand. In niche markets TV advertising is less appealing due to the cost. For example G-Star RAW aim their products at under 25s and have focused on digital advertising to improve street credibility.

#### Sponsorship

Sponsorship means paying to have your brand or company name attached to an activity that has credibility with your customers. Often this involves sport or music. For example Red Bull have sponsored extreme sports and Formula 1 giving it a risk taker image and help it compete with Monster and Relentless. This is an expensive form of promotion and so is unlikely to be used by niche market products.

#### Branding

Branding means giving your product or service a name that helps recall and recognition and gives a sense of personality. Successful branding can mean that an image stays with people years, event decades after the reality has changed. For example Heinz are still the go to product for baked beans, even though there are competitors out there.

#### Product Trials

A product trial means giving potential customers a free taste—or longer trial—of your new product. This approach is used when there is known to be a hurdle that is likely to prevent customers from making a purchase of their own. This is very expensive, not just due to lost products but also due to the amount of labour required to ensure it works well. Social media can help to reduce this if videos are made and posted online. E.g. Pepsi and Coca Cola taste testing.

#### Special Offers

Special offers should be regarding as the last resort. No company wants to 'give away' product, as with a BOGOF offer. Special offers can undermine the brand even if there will be short term gains in profit. There are occasions when special offers work best; after Christmas, a new competitor has arrived, launching a new product and so adding it into a deal with your best selling product.



Subject Content	What students need to learn?
2.2.4 Place	Methods of distribution; retailers and e-tailers (e-commerce)

### Definitions

**Distribution:** How ownership changes as a product goes from producer to consumer

**E-tailer:** An electronic retailer; in other words purchasing electronically, either by e-commerce, or m-commerce

**Retailer:** A shop, usually selling from a building in a high street or shopping centre

### Methods of Retail Distribution

There are 3 main ways to get products from the producer to the consumer:

**The Traditional Channel:** The producer sells in bulk to wholesalers, who sell in smaller quantities to small and independent retailers. Without wholesalers, small shops couldn't exist as it would be too expensive for the producer to deliver to all the different shops.

**The Modern Channel:** This is very important for the grocery sector. The producer delivers huge quantities directly to a supermarket's distribution depot which sends the product to all local supermarkets. This can help the supplier get a higher profit because they are closer to the customer

**The Direct Channel:** Buying directly from the producer, e.g. the original mail order services or more currently using e-commerce or m-commerce.

### Gaining Retail Distribution

First time entrepreneurs are often surprised to find that getting retail distribution is hard, and keeping it is harder. To gain distribution a company need to:

- Show that its brand offers something different for customers
- Show strength in marketing
- Provide a high level of profit to the retailer

To keep stock over a period of years the company will need to:

- Provide regular promotional support to keep sales moving
- Make sure sales continue to grow by advertising

### E-tail Distribution or Ecommerce

There are two main types of e-commerce

- Direct sales from producer to consumer such as buying a MacBook computer direct online from Apple
- Sales through an e-tailer such as ASOS

Direct sales are great for the producer, who received the full retail price instead of having to make do with the wholesale price. E-tailers are more important today though. Their shops display products online and have efficient systems to make it easy to purchase, deliver and return products. Because the e-tailer is saving the cost of a physical shop they choose to live with the higher number of returns than a physical shop would get.

	Advantages	Disadvantages
Physical Retail Distribution	Customers can touch, hold, smell and wear products before buying You can choose exactly the type of product you want, e.g. food	Going shopping is time consuming, especially if shopping around is needed Choice can be overwhelming, leading to too much time being spent
Online Retail Distribution	The convenience of being able to order from home or on the move No time wasted driving, parking or shopping	Encourages a lazy nature, it might be better to go outside Delivery charges may increase prices

Subject Content	What students need to learn?
2.2.5 Using the marketing mix to make business decisions	How each element of the marketing mix can influence other elements Using the marketing mix to build competitive advantage How an integrated marketing mix can influence competitive advantage

### How each Element of the Marketing Mix can Influence other Elements

The key to the marketing mix is that it should all fit together in a way that works for the target market. E.g. all aspects must be improving the brand image and ensuring the customer is getting the right message.

### How The Marketing Mix Informs Business Decisions

A successful business understands its customers and therefore knows what products or services they want and how best to communicate with them. Using all 4 Ps can help the business understand its demand and how predict trends of demand for the future, this can help the business make decisions on expansion especially after a successful launch phase.

Other ways the marketing mix can inform a business decision:

- Having a firm understanding on how price changes will affect demand
- Understanding how strong a brand image which can inform decisions about marketing new products
- Understanding how customers receive their products and using this to focus marketing on distribution channels that are most successful.



### How The Marketing Mix can be used to Implement Business Decisions

Once a decision has been made, it is time to put it into practice. That's where decisions on the marketing mix come into play.

What is needed is a 3 step process:

1. Identify the decision objectives
2. Agree how the 4Ps are to be used to achieve those objectives. Often this will require more money; in other words, the business may have to provide a bigger budget for marketing.
3. Carry out the plan; in other words, make the required changes to the product, price promotion and place.

Once the plan is in action, well-run companies analyse their sales figures to check whether it is working well and then adjust accordingly.

### Drawing the Right Conclusions

Good business decisions can take several years to show their merits. That is fine as long as the business has long term objectives. But whether the decision making is long term or short term, it is only likely to come good if the business truly understands its customers. That is where the marketing mix comes in—especially market research and the marketing mix.

Key Term	Definition
Budget	A ceiling on the amount of money that can be spent; a marketing budget of £1 million means the marketing manager can spend up to that figure, but no more
'Inform' Decisions	Evidence that can be used to make a better decision; a company can gain a better understanding of its customers through the 4Ps, which helps in decision making.

**Excellence for all**



# **GCSE: Business Theme 2**

## Using your knowledge organiser for homework

Use the knowledge organisers and test yourself after learning.

1. **Check** the homework you have every day on the timetable.
2. **Read** a section of your knowledge organiser for the homework given.
3. **Cover** it up.
4. **Write out** what you remember.
5. **Check** the knowledge organiser to see if you are right.
6. **Mark** and **correct** your work using a green pen.
7. Remember your teachers will **test** you to see how much you remember

Do this **every day** to help commit the information to your long-term memory

## How to present homework

1. Write the **date**, **title** and **subject** from the knowledge organiser.
2. **Underline** using a ruler. Use a black pen to write.
3. If your homework is on learning keywords, write the **first five words** in your exercise book. Leave two lines between each word.
4. **Cover** the definitions apart from the first; **read it, cover it, say it** in your head and check it.
5. If you got it right, move on and **quiz** yourself on the rest in your head, one by one.
6. **Cover up all** definitions and **write** them out from memory
7. **Correct** your answers using a **green pen**
8. **Repeat** the process for other tasks

## 2.1.1 Business growth



### Internal (organic) growth

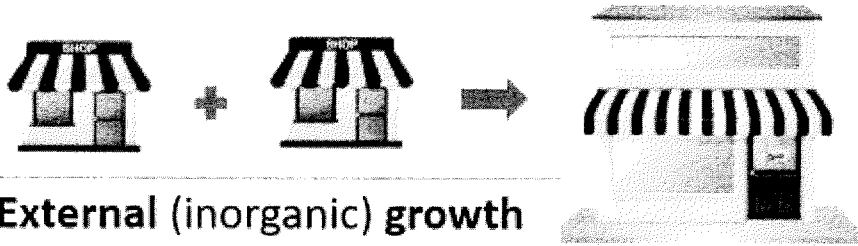
"involves expansion from within a business"

- Opening new outlets
- Expand overseas
- Change the marketing mix to attract new markets
- Introduce new products
- Use new technology

- Sustainable growth, usually paid for with retained profits means the company can adjust to its bigger size as it develops over time
- Slower method of growth, which can result in rivals gaining a competitive advantage while you wait for the capital needed for growth
- If too many branches are opened at once, it can cause serious CASH FLOW issues as new stores come with high start up costs.

#### Growth in general

Growth will lead to the potential for increased sales, more branches will likely increase recognition in the marketplace. Having a large market share should result in the ability to make additional profits... At least in the longer term (A03b)



### External (inorganic) growth

"Occurs when one business joins with another business"

- Takeover – where one company takes over another
- Merger – where two companies combine to become one organisation

- Growth can be almost immediate
- By purchasing rivals, you can reduce competition within a market
- Increased market share

- Capital intensive (need a lot of cash to purchase another business)
- Conflict between new and old business, especially if managed differently
- Diseconomies of scale - duplication of roles can lead to higher costs. The new business should consider if they need to make some positions redundant.

## 2.1.1 Business growth 2

### Internal sources of finance for growth

#### **Retained profit**

Gathering the amount of retained profit needed for significant growth could take a long time. Equally, as shareholders want to maximise their dividends, spending profits on growth can upset shareholders in the short term. It will be a management task to convince shareholders that losses now, could lead to bigger profits in the near future.



#### **Selling Assets**

Assets could be sold to finance growth, but the business needs to be sure that they won't be needing them in the future.

Typical assets to sell to generate additional capital could be:

- Vehicles
- Machinery
- Buildings
- Land

### External sources of finance for growth

#### **Loan capital**

Borrowing money from the bank is often a simple way of accessing large amounts of capital, quickly.

Loans will be fixed with clear monthly repayments (helpful for cash flow), however they will have interest added on top making them more expensive.

#### **Share capital (plc's/ltd.'s)**

Selling shares of the company to friends and family will raise capital, but you will now share the ownership of the business with others, who may disagree with the way you want to run your business!

#### **Stock market floatation (plc's ONLY)**

Selling shares on the stock market to the general public will raise capital, however shareholders will expect dividend payments out of your profits and will want a say in the running of the business.

#### **Crowd funding**

Crowdfunding on websites like Kickstarter, can find people willing to invest in your business idea. You might need to give them an incentive (discounts, dividends, rewards) but you will not pay interest.

You will need to raise at least the amount needed to secure the funding, but once you do you will also have a customer base ready to purchase your new product!



## Why change aims and objectives?

1. **Market conditions** - the state of the economy may cause businesses to change their priorities. McDonalds responded to the last recession with its 'Pound-Saver' menu
2. **Technology** - changes in technology are likely to bring around changes in aims. New scanning equipment in hospitals might mean they set themselves aims to improve diagnosis of certain conditions
3. **Performance** - if a business is exceeding its objectives it will need new ones, likewise if it continuously fails to meet objectives they may not be realistic
4. **Legislation** - changes in the law mean that aims and objectives might need to change. For example, Diesel cars are bad for the environment and the government wants to ban them from the roads, so car manufacturers are having to think about hybrid or electric vehicles
5. **Internal reasons** - Innocent Smoothies used to be very ethically focused at their heart and cared about their fruit growers and doing good things for kids . . These sentiments were used within their promotion material. However, since being purchased by Coca-Cola there has been a reduced ethical focus at Innocent



## 2.1.2 Changes in business aims and objectives



### Aims change over time

1. **Survival -> growth**
2. **Entering or exiting markets (retrenchment)**
3. **Growing or reducing the workforce**
4. **Increasing or decreasing product range**

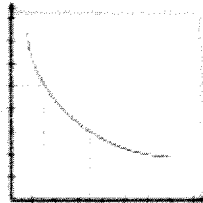
## 2.1.3 Business and Globalisation

### Multinationals (MNC's)

Multinationals take advantage of their large size as they are able to reduce the costs of their products/services



"This is known as 'economies of scale'; when business get bigger they save money on raw materials, administration and advertising"



#### MNC's

- ✓ Low prices – keeps inflation down
- ✓ Creates jobs
- ✗ Small local businesses are unable to compete
- ✗ Profits leave the country, going back to the HQ of the MNC

### Consider . . .

Cheap imports can lead to:

- Job losses
- Money leaving the UK
- Business closures



- China**
- Specialise in making toys . . .
  - Use similar materials, cheap factories, low labour
  - Toys are very cheap (even when exported to the UK)

- UK**
- New toys businesses in the UK can not charge low prices (need to cover costs and make profit)
  - UK consumers purchase cheaper Chinese imports
  - UK businesses fail, due to cheap competition

### Protectionism . . .



#### Trade Barriers:

- Tariffs
- Quotas
- Legislation

#### Tariff

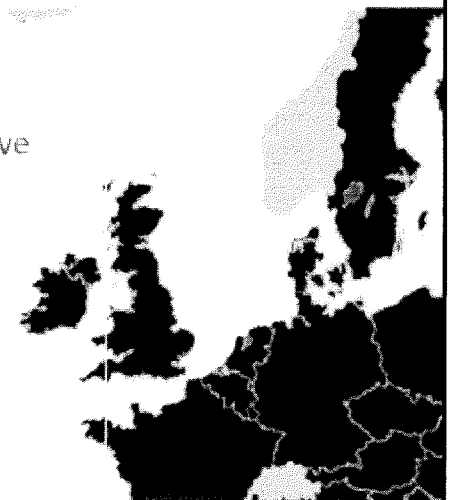
"A duty, or tax, placed on imports into, or exports out of a country"

- ✓ Makes foreign imports comparatively more expensive, so people are more likely to buy domestically produce products – protecting our businesses and economy

### Trade bloc

"An agreement between countries or states to remove tariffs and trade barriers between them"

- Single market
- Free trade area
- Customs Union



## 2.1.4 Ethics, the environment and business

### Ethics

#### Key definitions



#### Ethical

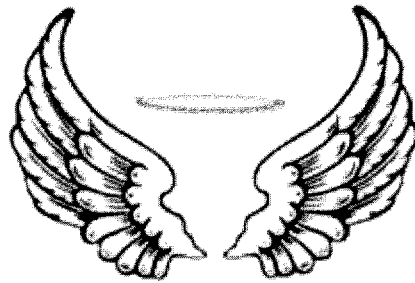
Doing what is morally right, by acting above and beyond legal requirements.

It's about being good and doing good



#### Ethnic

Relating to race



The ethics of a business will influence their attitude and behaviour towards its:

- Customers
- Suppliers
- Employees

(Stakeholders)

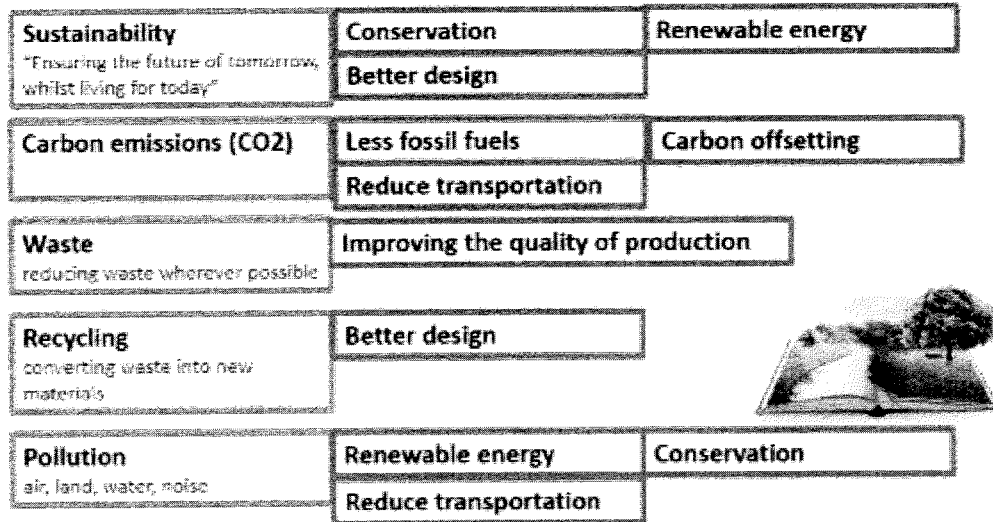


However, being ethical usually costs more money . . . . . This can upset shareholders and cause conflict

Ethical behaviour =

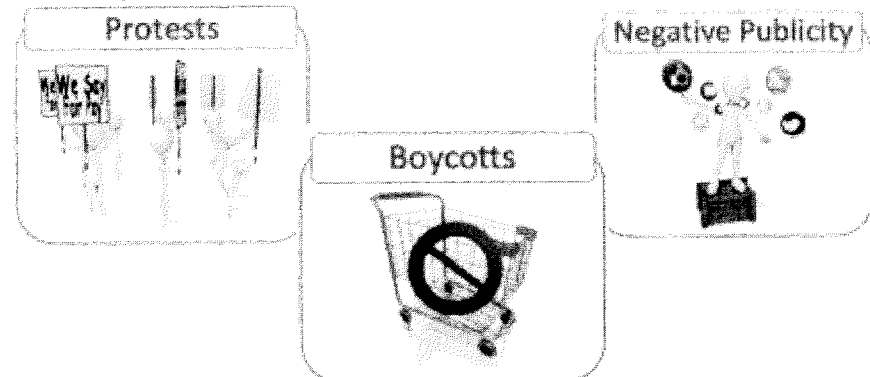
Increased costs -> less competitive prices -> lower profits

### The Environment



### Pressure Groups

Can influence business behaviour. They can cause a lot of bad publicity, causing customers to avoid businesses thought to be acting unethically or damaging the environment.



## 2.2.1 Product (marketing mix)

### Design mix

"The product is often described in terms of the design mix, which includes three elements; aesthetics, cost and function"

Aesthetics - look and feel

Ideally, looking for something that is a balance of all three components

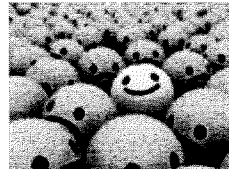


Function - doing what it should do well

Economic manufacture - cost effective production

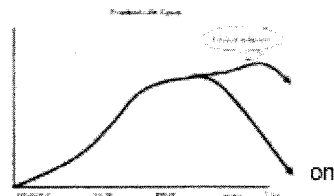
### Why differentiate?

- Buyers think you have something different and makes you unique and worth buying
- Easier to communicate your message when promoting your product
- Stand out in crowded market places.



### Extending the product life cycle

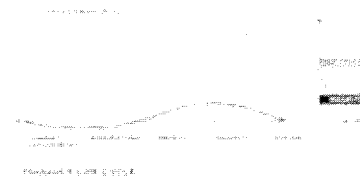
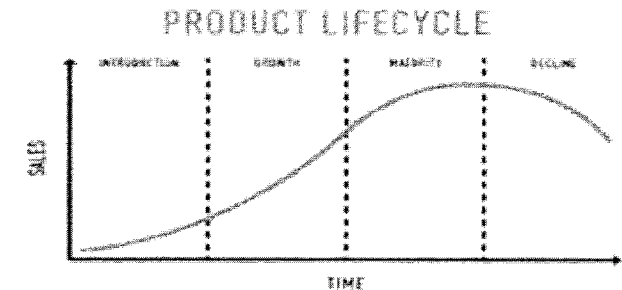
- Modify the product
- Reduce the price
- New product launch
- Encourage the use of the product more occasions



### Product life cycle

"The stages that a product will go through during its life, depicted by a graph it will show sales over time"

At different stages of the life cycle, there will be different requirements on the business and its marketing strategy. Over the life cycle of a product different amounts of spending 'cash outflows' will be needed to support the product, at the same time different sales revenue will be made; all impacting on the profitability of the product over time.



#### Introduction

High levels of spending on advertising and promotion to launch the product - sales revenue is low, and profits may be non-existent at this stage.

#### Growth

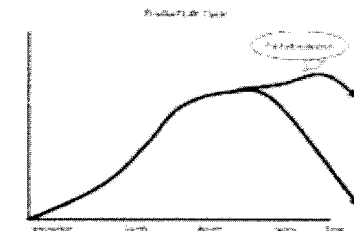
Considerable spending still happening for promotion, but sales revenues will be increasing with popularity and increased sales. Profits are likely to be seen although still low

#### Maturity

Maximum sales revenues, and a reduction in the need for advertising means that profits are going to be at their highest here.

#### Decline

Unless an EXTENSION STRATEGY is used, the sales will reduce over time as other products are more attractive and profits will reduce.



## 2.2.2 Price (marketing mix)

Price affects and is influenced by 3 groups:

- **Customers,**
- **The Business,**
- **Competitors**

**Customers;** how much are they willing to pay, how much income does the target segment have, how often will they make the purchase

**The Business;** costs need to be covered, how much profit do they want to make, where is the product in the life cycle, is it high or low quality?

**Competitors;** how many competitors are there, how much do they charge, is our product similar or unique?



### Short-term pricing strategies

#### Loss-leader pricing

Selling goods below the cost of products, often used by retailers.

- ✓ Attracts customers if advertised
- ✓ Increases revenue as customers are tempted to buy additional products
- ✗ Will lead to losses if other products are not purchased

#### Price skimming

Involves charging a high price initially, when a product is in high demand (tech products)

- ✓ Good for new high end products.
- ✓ Maximises revenue from early purchasers
- ✗ Can only be used short-term
- ✗ Some customer will wait until price falls

#### Price penetration

Low price for a limited period of time

- ✓ Establishes new products in highly competitive markets
- ✓ Encourages product trial
- ✗ Customers will expect low price if used for too long
- ✗ Competitors may also reduce prices (price war)

### Long term pricing strategies

#### Competitive pricing

Based on what other businesses charge, so in markets with lots of similar products

- ✓ Know what consumers will pay, easy to apply
- ✗ Competition is not based on price, so need to use other methods to attract customers
- ✗ No guarantee costs will be covered, generally lower profits

#### Cost-based pricing

Cost based on how much it costs to produce

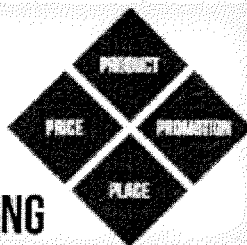
- ✓ Ensures costs are covered, helps achieve desired profit
- ✗ No consideration of what competitors charge
- ✗ Does not consider demand for the product

#### Psychological pricing

Involves setting prices in way that is designed to influence customer perception. Charm pricing (£0.99) or prestige (high)

- ✓ Influence customer views of product (high price = high quality)
  - ✓ Can attract customers to your brand
- Quality must match cost level

**THE 4 P<sub>s</sub>**  
**OF MARKETING**



## 2.2.3 Promotion (marketing mix)

### Product trial

*"Methods to encourage consumers to sample/try a product for the first time"*

Can be effective, but expensive to hand out 'free stuff'

Free samples (food)

Free trial (magazines, Netflix, music streaming)

Trial offer—reduced prices (products)



### Sponsorship

*"Supporting an event, person or organisation by providing financial support or products and services"*



**Things to consider:**

*Can effectively build a businesses profile, and improve relationships and reputation with community/customers. Can be risky, as negative publicity at events or with sponsored individuals can tarnish the brand.*

*Think drugs in sport . . . And the impact on the sponsoring company*

### Special offers



*"The use of incentives to persuade a consumer to make a purchase"*

Includes: discounts, competitions, BOGOF, point of sale material, free gifts, loyalty schemes

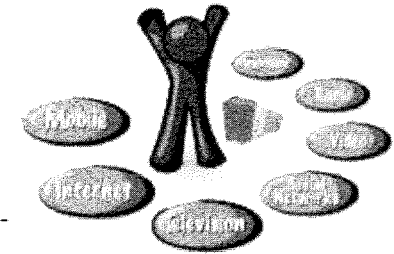
Short term strategy only

## PROMOTIONAL STRATEGIES

### Advertising

*"The use of media to communicate with existing and potential customers about a product or service"*

- Communicate the right message
- Message needs to be seen at the right time, by the right people (segment)
- Use most appropriate media



**Media - expensive, so needs to be right method and effective ( Think target market!! DIGALL)**

### Branding

*Giving a business or product an identify or personality, making it stand out in the marketplace*

1	Google	Revenue	1302,063
2	Apple	Revenue	1300,505
3	amazon	Revenue	1207,504
4	Microsoft	Revenue	705,007
5	Facebook	Revenue	478,000
6	Facebook	Revenue	162,106
7	VISA	Revenue	145,511

**Technology in promotion . . . QUICKER, CHEAPER, LARGER AUDIENCE**



- Targeted online advertising (cookies), target market
- Viral marketing—using social media to reach huge audience
- E-newsletters—offers and links to click on to make purchases

## 2.2.4 Place (marketing mix)

### Retailers (physical stores)

*"Physical stores and shops where purchases can be made. Retailers can be retail shops on the high street, wholesalers, agents or directly from the producer"*

#### Advantages

- ✓ Allows you to access 'passing trade' market, with attractive store fronts in busy locations
- ✓ Customers can ask questions and build a relationship with the seller, likely to lead to repeat purchase and understanding your customer better.
- ✓ Some people will only purchase in store

#### Disadvantages

- ✗ Cash heavy, as retail outlets need to be stocked with products, can cause cash flow issues
- ✗ Rents and mortgages can be expensive overhead costs, eating into profits



### Think DIGALL!!

Based on the target segment, what is the best way to target your customers?

Are certain products best placed where they can be touched, seen, smelt, sat on (sofas, food, beds, furniture, pets and animals)

### E-tailing

*"A business that only uses e-commerce to gain sales for example, Amazon"*



#### Advantages

- ✓ Lower operating costs, without a physical store
- ✓ Access to a world-wide audience from a single location, which opens up many markets across the globe, which should increase sales
- ✓ Rapid expansion, with relatively low costs

#### Disadvantages

- ✗ Lots of competition, and more difficult to stand out as 'different' online
- ✗ Some products/services can not be best delivered online which means this is not suitable
- ✗ 24/7 operations, so need a plan to cope with this demand
- ✗ Hard to build customer relationships when not face-to-face, this also results in customers being less loyal too.

By 2021, mobile ecommerce sales are expected to account for 54% of total ecommerce sales.

However, "Only 12% of consumers find shopping on the mobile web convenient". Meaning there is a lot of room for business owners to make their m-commerce experience something that helps them stand out

## 2.3.1 Business Operations

### Technology and production



There is lots of new technology available to businesses, some will improve the service delivered to customers and others will have a huge impact on the production of products.

Technology to be aware of includes:

- 3D printing—for modelling and prototypes
- CAD—Computer aided design
- CAM—Computer aided manufacture
- Robotics
- Scanning and imaging—medicine, detection
- Drones - war, deliveries

### Purpose of business

“Businesses exist to either make products or provide a service”

## Methods of production



### Job production

Used to produce one-off products, often customised or handmade by skilled workers who complete one item before starting the next

- ✓ Exact requirements
- ✓ Quality – skilled workers
- ✓ Varied work
- ✗ Slow and time-consuming
- ✗ High costs
- ✗ Doesn't utilise machinery well

### Batch production

Used to produce a range of similar, closely related products, made in groups allowing small changes to be made before production starts again

- ✓ Variations
- ✓ More items produced
- ✓ Lower unit costs (bulk buying)
- ✗ Time between batches
- ✗ Increased stock holding
- ✗ Less skilled, staff bored

### Flow production

Used to produce large numbers of identical products, production is continuous

- ✓ Fixed costs are spread
- ✓ Identical products
- ✓ Consistent quality
- ✓ Usually automated
- ✗ Inflexible
- ✗ High initial investment costs
- ✗ Breakdowns

## 2.3.2 Working with suppliers

A good supplier will provide a business with products, raw materials or components in the right quantity, at the right time at the right quality, if not then

Orders not filled

Limited choice or no products

Loss of customers

Poor reputation



The Colonel is working on it.

### THE CHICKEN CROSSED THE ROAD, JUST NOT TO OUR RESTAURANTS..

WE'VE BROUGHT A NEW DELIVERY PARTNER ONBOARD, BUT THEY'VE HAD A COUPLE OF TEETHING PROBLEMS - GETTING FRESH CHICKEN OUT TO 900 RESTAURANTS ACROSS THE COUNTRY IS PRETTY COMPLEX!

WE WON'T COMPROMISE ON QUALITY, SO NO DELIVERIES HAS MEANT SOME OF OUR RESTAURANTS ARE CLOSED, AND OTHERS ARE OPERATING A LIMITED MENU, OR SHORTENED HOURS.

SHOUT OUT TO OUR RESTAURANT TEAMS WHO ARE WORKING FLAT OUT TO GET US BACK UP AND RUNNING AGAIN.

### Logistics and Supply

"The organisation and transportation of goods" or "the management of transport of raw materials and goods"

### Just in Time



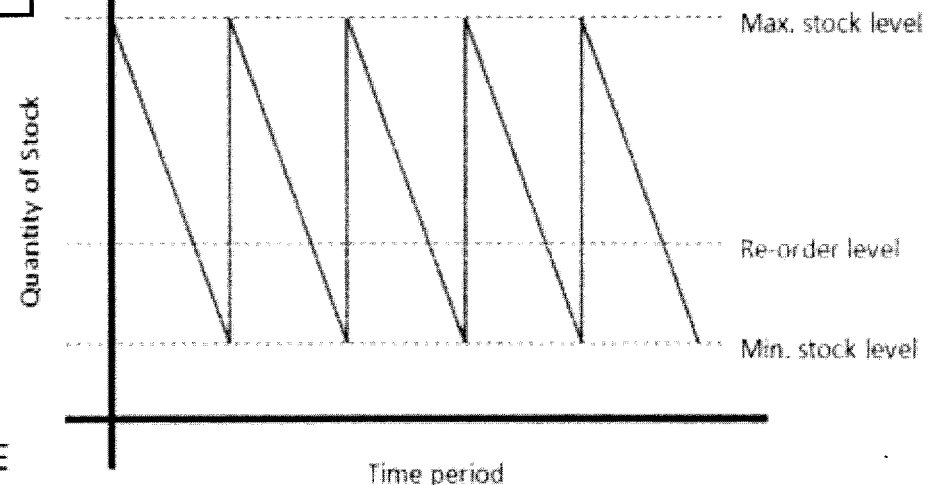
- Holding stock that does not sell is costly, because of this some businesses change to a method called Just in Time or JIT.



- JIT – "The business holds no stock - materials and components they are ordered and delivered when needed"

*Car manufacturers are a good example of JIT - Businesses which supply components to the car manufacturers deliver parts to the production line as and when they are needed*

### Just in Case stock control



### CRITIQUE

- Stock does not reduce steadily all of the time
- In some weeks, sales may be very high
- Also, supplies may not always be delivered on time

## 2.3.3 Managing Quality

### Quality



"Quality is how well a product has been made, the purity of its ingredients or raw materials or how long it will last"



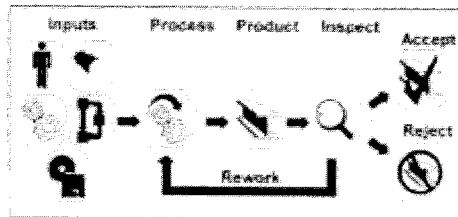
As different customers have different customer needs, they may also have different perceptions of quality.

Quality is therefore about being 'fit for purpose' and is judged by the consumer

### Quality control (QC)

"Where quality is checked at the end of the production process"

• Quality controllers make these checks or tests (depending on the product)



✗ Quality control only serves to remove defect products before getting to customers, and doesn't look at the process or the reasons for the fault. This means that QC does not reduce wastage.

### Quality and costs ..

Improving quality will cost money in terms of training, retraining, machinery and sourcing higher quality components/materials. However, the long-term TRADE OFF is this could actual reduce wastage costs and increase profits

### Quality Assurance (QA)

"Where quality is checked throughout the manufacturing process"

Expensive in the short term, BUT can reduce costs over a longer term in a reduction in defects

- Quality checks at every stage of the production process, to prevent the manufacture of sub-standard goods.
- Suppliers become more important, as they need to have high quality too

✗ Quality assurance, because it is a management system, can be very expensive and therefore this is often reflected in the prices charged for goods. However, the trade off can be a competitive advantage over rivals

Quality control (QC)	Quality assurance (QA)
Focused on identifying defective <b>products</b>	Focused on improving the <b>process</b>
Finds and eliminates problems	Establishes a good quality management systems
Makes quality the <b>responsibility of one person/team</b>	Makes quality the <b>responsibility of all</b>

### Quality for competitive advantage

Some businesses will try to stand out from their rivals (differentiate) their product or service, based on its high quality reputation.

Gaining a quality mark is seen by potential customers and businesses an indicator of this quality and added value

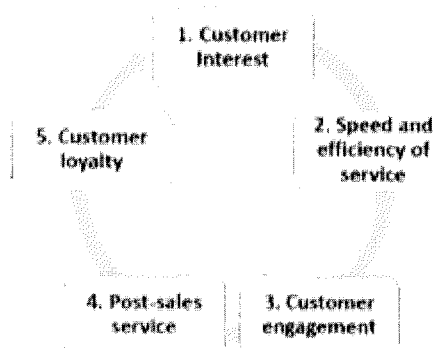


## 2.3.4 The Sales Process

### The Sales Process



*"The sales process is circular. If the sales process is managed well it should lead to customer loyalty and repeat purchase"*



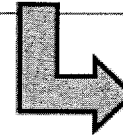
#### 1. Customer Interest

A business must make the customer interested in their offering, this can be achieved through marketing via:

- Sponsorship
- Branding
- Advertising
- Sales promotions and special offers

Another way to attract interest is through product knowledge – often important for face-to-face transactions. Good sales staff **add value**, and promote the **features and benefits** of their product/service

Hard vs soft



#### Customer Interest

A business must make the customer interested in their offering, this can be achieved through marketing via:

- Sponsorship
- Branding
- Advertising
- Sales promotions and special offers

Another way to attract interest is through product knowledge – often important for face-to-face transactions. Good sales staff **add value**, and promote the **features and benefits** of their product/service

#### 2. Speed and efficiency of service

Time is important to customers and therefore business need to be able to deliver on-time and speedily

If two services are similarly priced, customers are likely to base decisions on delivery/appointment times or installation (convenience)

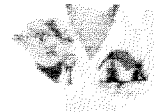
E-tailers – must ensure their websites are easy to use and make purchases quick and simple

Retailers – need to reduce waiting times, queues

#### 3. Customer Engagement

In situations where the 'transaction' takes place over time (house buying, car purchase) there will be more lengthy and multiple interactions between the customer and the sales person

... It is vital this relationship is a good one



#### 4. Post-Sales Service and customer feedback

This relates to support given after the purchase. Like to involve help to use their product or sometimes a complaint. Some products have after sales services as standard: re-waxing jackets, annual services, warranties

After a service business will ask for feedback or reviews. These can be in the form of questionnaires sent, emailed or texted to customers



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## 2.3.4 The Sales Process

### Technology and customer service



It is increasingly easy for a negative customer transaction to become public knowledge with the internet and social media platforms. Complaints are no longer only directed to the company but also to the public. A company's reputation can be seriously damaged by these online reviews and so it is important that businesses try and prevent them from happening in the first place, and solve any issues quickly and to the customers satisfaction

#### Technology:

- Trip Advisor
- Google review
- Facebook pages



24 Dec 2018

#### 15 years of HSBC experience

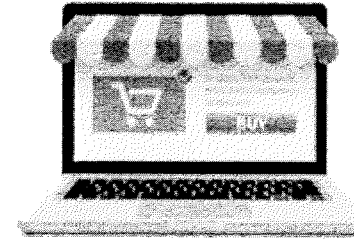
Banking with HSBC for 15 years.

Good things: mostly works, fast transfers, paying in machines in branch loan and credit card process pretty good.

Bad things: overloaded customer service, got stuck in a fraud alert thing which stopped me buying a travel card every damn week for a year, online banking refuses to work on Safari, apple pay wont activate on my debit card, it's virtually impossible making large transactions on debit cards, when my cards were stolen they refunded all transactions that were made then took them back again even though I didn't make them.

### E-tailing

"A business that only uses e-commerce to gain sales for example, Amazon"



#### Advantages

- ✓ Lower operating costs, without a physical store
- ✓ Access to a world-wide audience from a single location, which opens up many markets across the globe, which should increase sales
- ✓ Rapid expansion, with relatively low costs

#### Disadvantages

- ✗ Lots of competition, and more difficult to stand out as 'different' online
- ✗ Some products/services can not be best delivered online which means this is not suitable
- ✗ 24/7 operations, so need a plan to cope with this demand
- ✗ Hard to build customer relationships when not face-to-face, this also results in customers being less loyal too.

By 2021, mobile ecommerce sales are expected to account for 54% of total ecommerce sales.

However, "Only 12% of consumers find shopping on the mobile web convenient". Meaning there is a lot of room for business owners to make their m-commerce experience something that helps them stand out

## 2.4.1 Business Calculations

### Gross profit

German for 'big' this profit is the most basic type, showing what you make from the products sold minus the cost of selling the goods.

It is the contribution that will go towards paying the fixed costs of the business (overheads/expenses — see net profit)

### GROSS PROFIT FORMULA

$$\text{Gross Profit} = \text{Revenue} - \text{COGS}$$

COGS - cost of sales/total variable cost

#### Gross Profit



Gross Profit Margin Formula

#### Margin



Gross Profit  
Revenue



### Net profit

Profit after expenses/overheads have been removed.

This is a more realistic type of profit as most of the businesses costs have all been accounted for. Expenses are all of the FIXED COSTS

### NET PROFIT FORMULA

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses}$$

### Net Profit Margin



Net Profit Margin Formula



$$\frac{\text{Net Profit}}{\text{Sales}} \times 100$$



### Average rate of return

#### Average rate of return

$$\text{Average rate of return (\%)} = \frac{\text{average annual profit (total profit / no. of years)}}{\text{cost of investment}} \times 100$$

ARR measures the return or profit from a proposed capital project the higher the percentage the more profitable the business idea.

### EXAM FOCUS

In the exam you might be asked to recommend Option A or Option B, if you are given the information to calculate ARR then this will support your answer in terms of which would financial have a better investment potential

Examples:

The gross profit margin				
Year	2014	2015	2013	
Revenue	250	325	400	
Cost of Sales	150	180	275	
Gross Profit	100	145	125	
Gross Margin	40.0%	44.6%	31.25%	

Gross profit = revenue less cost of sales  
 Gross margin = gross profit / revenue

Company XYZ Income Statement	
Revenue	100
Cost of Goods Sold	20
<b>Gross Profit</b>	<b>80</b>
Operating Expenses	20
<b>Operating Profit</b>	<b>60</b>
Interest Expense	5
<b>Earnings Before Taxes</b>	<b>55</b>
Tax Expense	25
<b>Net Income</b>	<b>30</b>

## 2.4.2 Understanding business performance

### Using data

You are required to use and interpret a range of quantitative business data as part of business decision making. In the exam you could be given numerical information in the form of, for example: charts or graphs which may include financial data such as sales revenue or marketing data, percentage increase in sales volume or market data such as average incomes and use this information in business decision making

Tom's Teas is a tea shop. Tom, the owner, has blended three new herbal teas to sell in his shop. He decides to carry out some market research to find out which of the teas is likely to be most successful.

Tom offers free samples of each tea in the shop and asks customers to fill in a short questionnaire about them. The questionnaire is shown in Figure 1 on the right.

78% of the people who responded to the questionnaire preferred the yasmine deluxe tea, 10% preferred the camomile and nettle tea, 4% preferred the liquorice and mint tea and 8% didn't like any of them. A common answer to question 2 was that the liquorice and mint tea tasted bitter; however, there were few complaints about the other two teas. 52% of the people who responded to the questionnaire stated "No" for question 3.

Figure 1

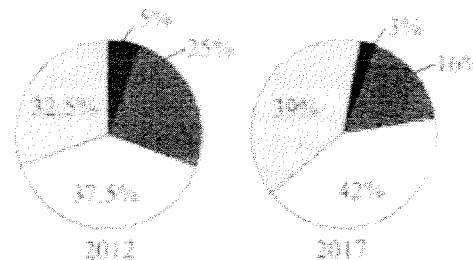
Q1	Which of the three herbal teas did you prefer?	
	Yasmine deluxe	<input type="checkbox"/>
	Camomile and nettle	<input type="checkbox"/>
	Liquorice and mint	<input type="checkbox"/>
	Didn't like any of them	<input type="checkbox"/>
Q2	Was there any tea that you really disliked? Please explain your answer.	
Q3	Would you buy one of these teas instead of another drink in the shop?	

Georgia owns a restaurant called The Riverhouse Restaurant. The restaurant is in an old building, with oak beams and a large log fire. It is located on a country lane next to a river. She recently carried out a survey of some of her customers. She carried out the same survey five years previously. The results for one of the questions are shown in Figure 2 below.

Figure 2

Q1 What is the most important aspect of a restaurant for you?

- the choice of food
- the atmosphere
- the location
- the price



Before the survey, Georgia had flyers for her restaurant that showed a picture of the outside of the restaurant and displayed the price of her set menu. Afterwards, she changed her flyers to show an image of the inside, and a list of live music events that she is hosting.

### Financial information

### Assessing its usefulness . . .

#### Uses (advantages)

- ✓ Visual information in charts and graphs make identifying trends easy
- ✓ Data can be compared year on year to identify issues or changes quickly
- ✓ Lots of information available on consumer incomes, the economy, exchange rates, interest rates

#### Limitations

- ✗ Statistical data, including market research, can become **OUTDATED**, and therefore no longer reliable
- ✗ **WHEN** the data was collected can also be an issue, especially for seasonal businesses—if it was collected during the **BUSY** period, it might not be a realistic picture of the situation
- ✗ Hard to know who collected the data, its original purpose or whether it was collected accurately

## 2.5.1 Organisational structures

### Hierarchy

"Pyramid-like ranking of individuals, showing the chain of command and responsibilities of staff. The higher up the greater the level of authority"

#### Tall hierarchy

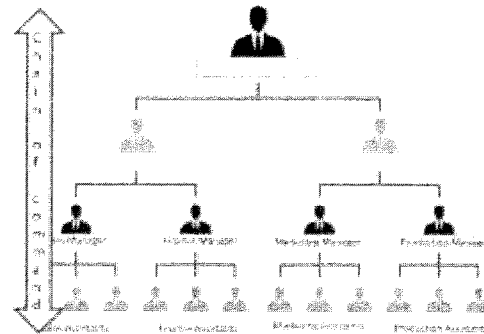
Tall structures have many levels of hierarchy, and long chains of command

##### Advantages

- ✓ Close supervision
- ✓ Clear progression (promotion)
- ✓ Clear management

##### Disadvantages

- ✗ Freedom of employees is restricted
- ✗ High management costs
- ✗ Decisions are slow



#### Flat hierarchy

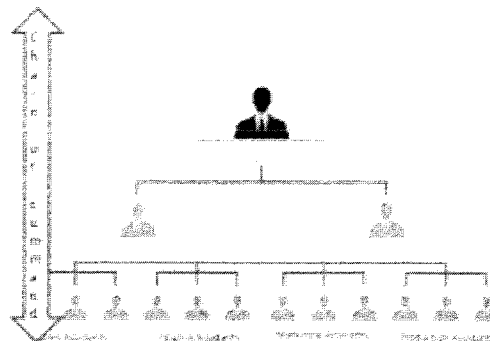
Flat structures are often complicated and used in smaller businesses

##### Advantages

- ✓ More communication
- ✓ Quick decisions
- ✓ Lower staff costs

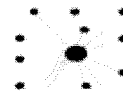
##### Disadvantages

- ✗✗ Less progression for staff
- ✗✗ Can prevent growth
- ✗✗ Job roles are unclear



### Centralised vs. De-centralised

**Centralised**—Businesses that have a centralised structure keep decision-making firmly at the top of the hierarchy



##### Advantages

- ✓ Common policies and practices - consistency
- ✓ Easy to control
- ✓ Economies of scale

##### Disadvantages

- ✗ Decisions can take a long time to reach individual branches
- ✗ Slow to respond to local changes
- ✗ Reduced motivation of managers – as they have a lack of control

**Decentralised** - "decision-making is spread out to include more junior managers in the hierarchy, as well as individual business units or trading locations"



##### Advantages

- ✓ Able to respond to local circumstances (customer needs)
- ✓ Improved customer service
- ✓ Improved motivation of staff

##### Disadvantages

- ✗ Difficult to ensure consistency
- ✗ Harder to manage financial control
- ✗ Decision-making not always aims-based

### Chain of command

"The path or chain down which orders are passed down the organisation"

### Subordinate

Any individual you are directly responsible for in the hierarchy. They are below you (sub) in the chain of command

#### Large companies with longer chains

- Messages can get lost (Chinese whispers)
- Managing change – further down resist change
- Demotivate workers – feel outsiders – reduce efficiency and productivity
- Lots of layers 'tribal mentality' – focus on own affairs not businesses aims = lead to inefficiencies

### DELAYERING

Removing layers of management and workers in a hierarchy so that there are fewer levels in the chain of command

## Different ways of working

Method	Advantages	Disadvantages
<b>Full time</b> Working around 40 hours per week	<ul style="list-style-type: none"> <li>Consistent staff know routines and information as they are there everyday</li> <li>Customers can develop relationships with full-timers</li> </ul>	<ul style="list-style-type: none"> <li>Can be expensive, especially if on more than minimum wage</li> </ul>
<b>Part-time</b> Usually anything up to 30 hour per week, but can be less	<ul style="list-style-type: none"> <li>Can use to fill busy periods by offering small shifts (4 hours)</li> <li>Can save on costs, if a full time person is not necessary</li> </ul>	<ul style="list-style-type: none"> <li>Less regular work can mean staff aren't fully updated about what they need to know</li> <li>Can be less reliable</li> </ul>
<b>Flexible hours</b> Staff have a number of hours they are required to work, but can start and finish to suit them	<ul style="list-style-type: none"> <li>Great work parents with children or other commitment outside of work—build loyalty and retention</li> </ul>	<ul style="list-style-type: none"> <li>Can mean less staff at undesirable times (Friday afternoons) which can impact on customer service</li> </ul>
<b>Permanent</b> Have a full contract of employment that is indefinite (no time restrictions)	<ul style="list-style-type: none"> <li>Consistency</li> <li>Commitment to the organisation</li> </ul>	<ul style="list-style-type: none"> <li>If you no longer need the staff you need to go through the redundancy process which is time consuming and expensive</li> </ul>
<b>Temporary</b> Staff only employed to work for a certain time period (Christmas, maternity cover)	<ul style="list-style-type: none"> <li>Allows a business to be more flexible for busy periods or prolonged absence</li> <li>Staff are easily removed when not needed, reducing costs</li> </ul>	<ul style="list-style-type: none"> <li>Temporary staff may not feel part of the workforce</li> <li>Lack of commitment to the organisation</li> </ul>
<b>Freelance</b> Worker not part of the firm but brought in to solve a particular issue	<ul style="list-style-type: none"> <li>Easy way to get specialist help and assistance for short periods, which can be cost effective</li> </ul>	<ul style="list-style-type: none"> <li>Freelance staff have little commitment to your organisation and might use your ideas with other companies</li> </ul>

### Technology and working (*efficiency, remote working*)

Technology in the form of email, laptops, conference calling, face time have meant that some staff are able to effectively work from home (*remote working*), or anywhere in the world! This can improve efficiency, but being contactable 24/7 can be overwhelming for staff

Technology has also improved efficiency—dealing with customers, deliveries etc.

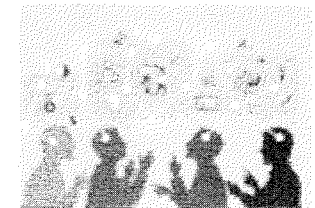
## 2.5.1 Organisational structures 2

### Communication in the workplace

Communication is essential to ensure that all staff know important information, they know what the business is trying to achieve and what is going on at work

There are many methods of communication used at work to inform staff of what they need to know, including:

- Telephone calls
- Email
- Staff newsletters
- Meetings
- Briefings
- Intranets (internal internet)
- Twitter
- 



### Excessive Communication

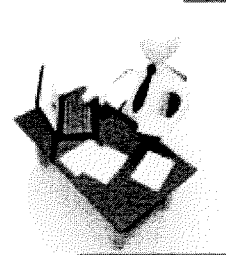
Too much information can lead to 'information overload' and can make employees feel stressed and overwhelmed. It is also likely that they will forget important information because they have been told so much by email, meetings, in the corridor conversations

**Insufficient information** can mean the workforce has little clarity, lacks understanding of what they are trying to achieve or in the worse cases they do not have the right information to give to customers!

## 2.5.2 Effective Recruitment

### Key business functions

- ⇒ **Human resources (HR)** Responsible for the employees within the workplace from recruitment to retirement. Staff grievances and complaints.
- ⇒ **Finance** Finance will ensure the correct account management of the firm, the payment of bills (invoices) and the collection of debts. They will set department budget and produce financial statements at the end of every year.
- ⇒ **Sales and marketing** Promotional campaigns and advertising, this department specialises in increasing sales
- ⇒ **Logistics** Ensuring that the product is in the right place at the right time and in the right quantities
- ⇒ **Operations** The department responsible for the creation of the product. Often working in factories or warehouses this function ensures the product is available
- ⇒ **Customer Services** This function is responsible for customer interactions and the sales process. They deal with customer enquiries, customer complaints and have the ability to really make the company shine, or make customer decide to use a rival business in future.
- ⇒ **IT** Function responsible for information technology, including POS systems, phone lines, ordering systems, websites and databases held for staff and customers.
- ⇒ **Administration**  
Administration keeps the business up to date and ensures clear communication within the business and with external stakeholders. Typical jobs include; secretarial work, letters, phone calls, emails and diary management

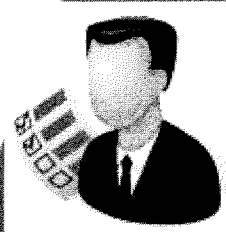


#### Director

A **director** is a person who leads a particular area of a company. Companies that use this term often have many directors spread throughout different business functions or roles (e.g. director of human resources). The director usually reports directly to the CEO.

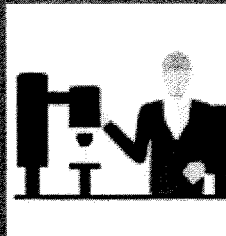
#### Senior managers

**Senior Managers** are responsible for the overall operations and profitability of a company or institution. They oversee the activities of a single division or department they manage.



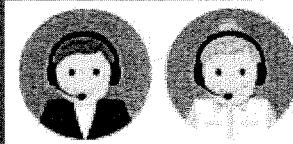
#### Supervisors/Team leaders

A **supervisor** is responsible for the day-to-day performance of a small group. Typically the **supervisor** has experience in what the group **does** and has earned the position based on management's belief that he/she is capable of guiding the team.



#### Operational staff

**Operational staff** carry out the day-to-day work of the company. They may work on the front line with the customers, or be in finance, operations. These are the workers, and will make up the biggest part of the workforce.



#### Support staff

**Support staff** carry out key functions to ensure the business operates smoothly. They are usually IT, administration based roles and support the work being done by everyone above them in the hierarchy.

## 2.5.2 Effective Recruitment 2

### Internal recruitment

*"Recruiting from within the business"*

#### Advantages

- Knowledge of the business, so less training and induction needed
- Already know the applicants strengths and weaknesses
- Opportunities for internal promotion increase motivation and retention of staff

#### Disadvantages

- Missed opportunity to bring in new ideas and skills from outside
- Some staff may become demotivated if they did not get the promotion

### Person Specification

Content includes:

- Skills
- Qualities
- Qualifications
- Experience



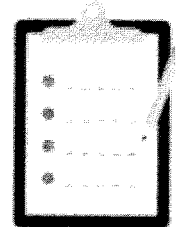
Patient  
Legal  
Strong  
Tolerant  
Flexible  
Thoughtful



### Job Description

Content includes:

- Hours:
- Location:
- Wage/  
Salary:
- Responsible to:
- Accountable for:
- Main duties



### External recruitment

*"Recruiting from outside of the business"*

#### Advantages

- Fresh ideas from new staff
- New skills and expertise from other people/businesses

#### Disadvantages

- Expensive and time consuming
- Lots of training needed for new staff to familiarise themselves with the company
- Conflict with existing staff

## Recruitment documentation

### Employer (vacancy)

- Job description – outlines the job role, pay, location
- Person specification – skills, qualities of the individual
- Job advert

### Potential employee (candidate)

- CV + covering letter
- Application form

## 2.5.3 Effective Training and development

### Formal training

*“Explicit training with clear goals and aims, likely to be scheduled and planned for”*

Paid for specialist courses, college courses, training programmes. Can be expensive and time is lost as employees are not working whilst this training takes place.

### Informal training

*“More relaxed, natural learning. May happen through experience or be self-directed”*

Observations, discussions, self-learning, trial and error (learning from mistakes). Customer services could be impacted by trial and error, however very cost effective as it is on-the-job.

### Self-learning

*“Learning done by oneself, without a teacher or instructor”*  
could be useful; if you are looking to gain a promotion or apply for a job within a different setting.



### Ongoing training

*“Regular training”* - essential in dynamic businesses, or those with lots of policies and procedures that keep changing. Education, healthcare and technology will be fields where ongoing training is necessary to ensure a successful sale process and customer loyalty/satisfaction.

**NEW**

### New technology—retraining

As many businesses upgrade their computer systems, or introduce new machinery existing staff will need retraining.

This is usually a good opportunity for staff to get new skills, but some will find change and new technology intimidating - so it should be conducted carefully and in a sup-

### Performance Appraisal and target setting

**Most employees will be set targets by their managers.** These targets will help the manager meet their targets and the managers will help the business meet its overall aims and objectives.

Targets will be set yearly, and at an appraisal meeting with a line manager they will be reviewed. Staff will have either fail / met/ or exceeded they targets. **They can be used to identify training needs.**

Many businesses then offer **INCENTIVES** based on performance. This is often in the form of performance related pay (PRP). If an employees meets all of their objectives it is likely that they could receive a performance based salary increase, or a bonus (*see financial incentives*)

*Performance appraisals can also be used to manage and motivate employees.*

### Retention and motivation

Training shows an investment in staff, and employees are like to value this training as a way of improving themselves, their skills or their ability to apply for promotions. Training is also fundamental in ensure that staff are able to be successful in their job roles.

If staff feel that their employer values them and has invested money in their training and development, they may become loyal to the business and therefore less likely to leave. **This will reduce labour turnover, increase retention and keep skills within the business.**



**INVESTORS  
IN PEOPLE**

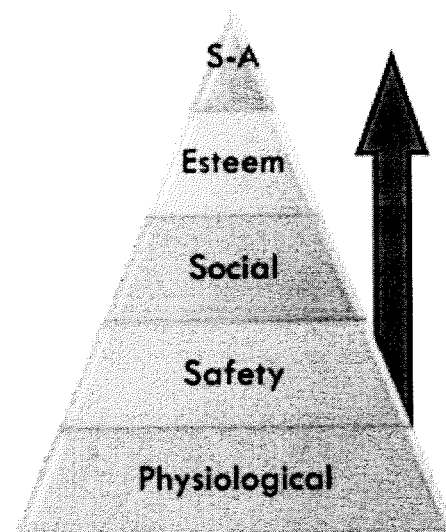
## 2.5.4 Motivation

### Motivation

“Internal and external factors that make individuals committed to a job, or make them put in the effort to attain a goal.”

Motivation is important to gain from staff as it will lead to benefits to the business in terms of:

1. **Attracting staff;** if staff morale is good employees will talk about their work. This word of mouth can help a business attract good staff
2. **Retention;** if staff are committed to their jobs and work then they are less likely to leave and find employment elsewhere. This can save the business money on advertising and new staff training
3. **Productivity;** happy staff work harder—full stop. This can reduce business costs in the form of labour costs per unit



Businesses will need to use a **range of financial and non-financial incentives**. Some business are not able to afford financial incentives, as they need to reduce costs as much as possible, Even some bigger business may not use financial incentive much, as they can upset shareholders who will receive less in dividends, if employees receive more (stakeholder conflict)

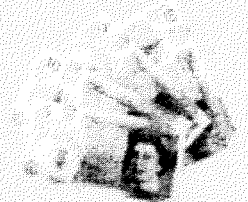
### Non-financial methods

1. **Job rotation** - moving around doing different job roles, helps alleviate boredom but also builds skills of staff
2. **Job enrichment** - giving employees more responsibility, and tasks usually reserved for management
3. **Autonomy** - allowing employees to make their own decisions
4. **Recognition** - high fives, praise, employee of the week



### Financial methods

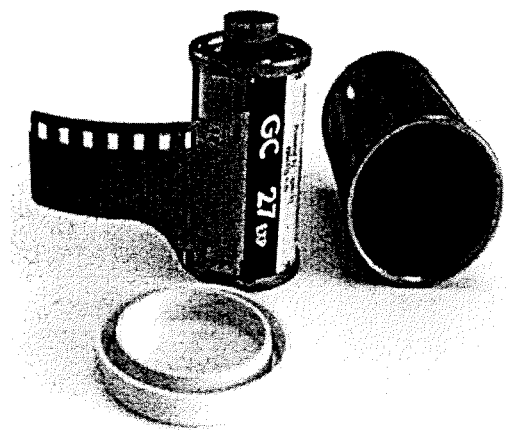
1. **Remuneration** - payment for work in the form of salaries or wages (Minimum Wage/ Living Wage legislation)
2. **Bonus** - paid for meeting targets, lump cash sum
3. **Commission** - % earned on each sale made
4. **Promotion** - Esteem needs and additional pay from promotion at work, given more responsibility too
5. **Fringe benefits**  
Senior staff - mobiles, laptops, cars  
Operational staff - childcare vouchers, lunches, gym access



## Theme 1: 1 Enterprise & Entrepreneurship

KEY TERMS & DEFINITIONS	
Week 1 - 1.1A. THE DYNAMIC NATURE OF BUSINESS	
1. ENTERPRISE	Entrepreneurial activity (can also mean a business or company).
2. ENTREPRENEUR	Someone who creates a business, taking on financial risks with the aim of making a profit from the business.
3. CONSUMER	Someone who buys & uses goods & services.
4. OBSOLETE	Out of date or not used anymore.
5. E-COMMERCE	Using the internet to carry out business transactions.
6. M-COMMERCE	Using mobile technologies such as smartphones & tablets, to carry out business transactions.
7. SOCIAL MEDIA	Websites that allow users to interact with other users, by sharing text-based messages, pictures or links to online content.
8. PAYMENT PLATFORMS	Enable businesses to take online payments from customers.
9. MARKETPLACE	The activities involved in buying & selling particular types of goods or services, in competition with other companies.
10. DATA	Information, particularly statistics that can be analysed.
11. DEMOGRAPHIC	Relating to the population, such as average age, average income & so on.
Week 3 - 1.1B. RISK & REWARD	
12. RISK	The possibility that an enterprise will have lower than anticipated profits or experience a loss.
13. FINANCIAL REWARD	The money that an entrepreneur or investor receives when a business succeeds.
14. MARKET RESEARCH	The process of gathering information about the market & customers' needs & wants in order to help inform business decisions, including product design & marketing.
15. REVENUE FORECAST	A prediction of future revenue based on expected sales; this is either a judgement or based on previous sales patterns.
16. CASH FLOW	The amount of money coming in & going out of the business & the timing of this movement.
17. SALES REVENUE	The amount of money that comes in from a business's sales.
18. INVESTMENT	Putting money into a business with the intention of making a profit.
19. START-UP	A new business, usually with only a number of employees – perhaps only one.
20. INTUITION	Knowing something instinctively or understanding something easily without conscious thought.

Week 5 1.1C. THE ROLE OF BUSINESS ENTERPRISE	
21. STAKEHOLDER	Anyone who has an interest in the activities of a business, such as its workers, its suppliers, its directors, the local community & the government.
22. ETHICS	Moral principles or standards that guide the behaviour of a person or business.
23. ADDING VALUE	The increase in a product's value as a result of a business producing that product.
24. UNIQUE SELLING POINT	Something that makes a product stand out from its competitors
25. BRANDING	A way of defining the business, its aims & its values in a way that can be communicated to consumers.
26. LOYALTY	Wanting to always support something or someone.
27. MARKET SHARE	The proportion of sales in a market that are taken by one business.
28. ECONOMY	The system by which a country's money & goods are produced & used.



## 1.2. Spotting a Business Opportunity

KEY TERMS & DEFINITIONS		19. ETHICS	Moral principles or standards that guide the behaviour of a person or business.
<b>1.2A. CUSTOMER NEEDS</b>		20. ANALYSIS	The process of looking at data to identify patterns or trends.
1. CUSTOMER NEEDS	There are four main customer needs: 1. Price. 2. Quality. 3. Choice. 4. Convenience.	21. QUALITATIVE DATA	Descriptive data that cannot be measured in numbers.
2. CONVENIENCE	A product or service's ability to fit in well with a customer's lifestyle or routine, the ease with which it can be used &/or its easy-to-reach location.	22. QUANTITATIVE DATA	Numerical data.
3. TYPES OF CUSTOMER NEEDS	Family needs, Financial needs, emotional needs, brand loyalty.	23. INCENTIVE	Something such as a payment or gift that encourages someone to do something.
<b>1.2B. MARKET RESEARCH</b>		24. VALID	Having a solid or accurate basis of facts.
4. VIABLE	Able to work properly or successfully.	<b>1.2C. MARKET SEGMENTATION</b>	
5. MARKET RESEARCH	The process of gathering information about the market & customers' needs & wants in order to help inform business decisions, including product design & marketing.	25. MARKET SEGMENTATION	The process of dividing a target market into smaller categories by grouping together consumers with a particular need or interest.
6. PRIMARY RESEARCH	New research that is carried out to answer specific issues & questions.	26. LOCATION	Locating in different areas allows for <b>GEOGRAPHICAL SEGMENTATION</b>
7. FOCUS GROUP	A group of people who discuss their views on a product, service, advertisement or idea, either face-to-face or online.	27. DEMOGRAPHICS	Divides the market by factors such as sex or family type or stage of the family life cycle.
8. QUESTIONNAIRES	A set of questions with a choice of answers.	28. BEHAVIOUR	Divides the population based on people's behaviour
9. INTERVIEW	Can be carried out online, on the phone or face-to-face & allow detailed opened questions to be asked.	29. LIFESTYLES	Customers can be sorted into different groups defined by the type of things they like to do in their spare time.
10. OBSERVATIONS	Means watching how customers behave naturally, when they do not think they are being watched.	30. INCOME	A business can also segment customers by their income, the amount of money that they earn.
11. SECONDARY RESEARCH	Research using existing sources of information that has previously been researched, often by other people or for other purposes.	31. AGE	A business may want to segment its customers depending on their age & offer different products for different age groups.
12. SOURCE	A place, person or thing, such as a book or report, that can provide information to be used in research.	32. MARKET MAPPING	Identifies all products in a market & maps them against two of their features e.g. price & quality.
13. CHAMBER OF COMMERCE	A local association that promotes the interests of businesses in a county or region.	<b>1.2D. THE COMPETITIVE ENVIRONMENT</b>	
14. TRADE ASSOCIATION	Organisation founded & funded by businesses that operate in a specific industry.	33. COMPETITIVE ENVIRONMENT	The dynamic external system in which a business competes and functions.
15. TARGET MARKET	A particular group of consumers at which a business aims its products & services.	34. DIRECT COMPETITION	Businesses that sell the same type of product or service.
16. SAMPLE	A portion of the population asked for their opinions in order to draw conclusions about the behaviour of the whole population.	35. INDIRECT COMPETITION	Businesses that do not sell the same product or service but still find themselves in competition with one another.
17. GENERATION Y	Also known as millennials, the people born shortly before the 21 <sup>st</sup> century.	36. SWOT ANALYSIS	A study undertaken by a business to identify the strengths & weaknesses, opportunities & threats.
18. BIASED	Unbalanced or inclined to agree with a particular judgement or idea rather than presenting the evidence fairly.		

## 1.3. Putting a Business Idea into Practice

1.3.A BUSINESS AIMS & OBJECTIVES			1.3D. SOURCES OF BUSINESS FINANCE		
1.	MARKET SHARE	The proportion of sales in a market that are taken by one business.	<b>SHORT TERM SOURCES</b>		
2.	PROFIT	The amount of revenue left over once costs have been deducted	30.	OVERDRAFT	A facility offered by a bank that allows an account holder to borrow money at short notice.
3.	SOCIAL OBJECTIVE	Likely to be non-financial, such as to reduce the carbon emissions of a business or improve the quality of life for a local community.	31.	TRADE CREDIT	A credit arrangement that is offered only to businesses by suppliers.
4.	FINANCIAL OBJECTIVES	Targets expressed in money terms such as making a profit, earning income or building wealth. E.g. survival, profit & income, Wealth.	<b>LONG TERM SOURCES</b>		
5.	NON-FINANCIAL OBJECTIVES	These are more personal objectives regarding why an entrepreneur sets up a business. E.g. Personal satisfaction, Challenge, independence & control.	32.	PERSONAL SAVINGS	Refer to any money that the entrepreneur has saved up.
<b>1.3B BUSINESS REVENUES, COSTS &amp; PROFITS</b>			33.	VENTURE CAPITAL	Money lent by a large business to small start-up businesses or entrepreneurs.
6.	REVENUE	The income that a business receives from sales.	34.	SHARE CAPITAL	The amount of money invested in a business by shareholders.
7.	INCOME STREAM	The source of regular income that a business receives.	35.	LOANS	An amount of money lent to an individual or a business that will be paid off with interest.
8.	VIABLE	Capable of succeeding.	36.	RETAINED PROFIT	Money that a business keeps, rather than paying out to its shareholders.
9.	FIXED COSTS	Do not change, no matter how many products or services a business sells.	37.	CROWDFUNDING	Obtaining funds from a large number of people who each pay a small amount.
10.	VARIABLE COSTS	Change depending on how many products or services a business sells.	<b>SOURCES OF FINANCE KEY TERMS</b>		
11.	TOTAL COSTS	Adding <b>FIXED COSTS</b> & <b>TOTAL VARIABLE COSTS</b> together.	38.	RETURN ON INVESTMENT	The amount of money that an investor gets back in return for investing in a business.
12.	INCOME STATEMENT	A financial statement showing the amount of money earned & spent in a particular period & the resulting profit & loss.	39.	SHAREHOLDER	Investors who are part owners in a company.
13.	STAKEHOLDER	Anyone who has an interest in the activities of a business.	40.	CREDIT CHECK	A check on the financial status to ensure
14.	COST OF SALES	Costs <b>directly</b> involved in production eg. stock	41.	SECURITY	When the lender asks the borrower to put up an asset against a loan.
15.	EXPENSES	Costs <b>indirectly</b> involved in production eg. Electricity bills, salaries	42.	ASSET	Any item of value that a business owns, such as its machinery or premises.
16.	BREAK EVEN POINT	The point where a business's <b>REVENUE</b> matches its <b>TOTAL COSTS</b>	43.	GUARANTOR	A named person who guarantees to pay the repayments on a loan should the person who has taken out the loan not be able to do so.
17.	MARGIN OF SAFETY	How much sales can fall before the business's <b>BREAK EVEN POINT</b> is reached again.	<b>1.3E. FINANCE - KEY CALCULATIONS</b>		
<b>1.3C. CASH &amp; CASH FLOW</b>			1.	REVENUE	PRICE X QUANTITY SOLD
18.	CASH FLOW	The way in which money flows into & out of a business.	2.	TOTAL VARIABLE COSTS	VC X QUANTITY SOLD
19.	POSITIVE CASH FLOW	More money coming in than going out.	3.	TOTAL COSTS	FIXED COSTS + TOTAL VARIABLE COSTS
20.	NEGATIVE CASH FLOW	Less money coming in than going out.	4.	GROSS PROFIT	SALES REVENUE – COST OF SALES
21.	CREDIT	The amount of money that a financial institution or supplier will allow a business to use, which it must pay back in the future at an agreed time.	5.	NET PROFIT	GROSS PROFIT – OTHER OPERATING EXPENSES AND INTEREST
22.	OVERHEADS	<b>FIXED COSTS</b> that come from running an office, shop or factory, which are not affected by the number of specific products or services that are sold.	6.	INTEREST IN %	(TOTAL REPAYMENT – BORROWED AMOUNT)/ BORROWED AMOUNT) x100
23.	INSOLVENT	A business that is unable to pay its debts &/ or owes more money than it is owed.	7.	CONTRIBUTION	PRICE – VARIABLE COSTS
24.	CONSUMABLES	Items that get used up such as pens, paper staples & other items that a business has to replace regularly.	8.	BREAK EVEN POINT	FIXED COSTS / (PRICE – VARIABLE COST)
25.	CASH INFLOWS	All of the money that comes into the business.	9.	MARGIN OF SAFETY	ACTUAL OR BUDGETED SALES – BREAK EVEN SALES
26.	CASH OUTFLOWS	All of the money that leaves the business in order to pay <b>FIXED &amp; VARIABLE COSTS</b> .	10.	NET CASH FLOW	CASH INFLOWS – CASH OUTFLOWS
27.	NET CASH FLOW	The difference between the <b>CASH INFLOWS</b> & the <b>CASH OUTFLOWS</b> .	11.	CLOSING BALANCE	OPENING BALANCE + NET CASH FLOW
28.	OPENING BALANCE	The amount of money in the business's bank account at the start of any period.			
29.	CLOSING BALANCE	The amount of money in the bank at the end of each month.			

## 1.4. Making the Business Effective

### 1.4A. THE OPTIONS FOR START-UP & SMALL BUSINESSES

1.	LIMITED LIABILITY	The level of risk is limited to the amount of money that has been invested in the business or promised as an investment.
2.	ASSETS	Property such as a house or a car.
3.	INCORPORATED	A business that has LIMITED LIABILITY.
4.	UNLIMITED LIABILITY	The level of risk goes beyond the amount invested, so the personal assets of the business owner can be used to pay off the business's debts.
5.	UNINCORPORATED	A business that is not registered as a company, so the owner & the business are seen as the same body.
6.	SOLE TRADER	A type of UNINCORPORATED business that is owned by just one person.
7.	PARTNERSHIP	A business that is owned by a group of two or more people who share the financial risk, the decision-making & the profits.
8.	DEED OF PARTNERSHIP	A legal document that defines the terms of a PARTNERSHIP.
9.	PRIVATE LIMITED COMPANY (Ltd)	An INCORPORATED business that is owned by SHAREHOLDERS.
10.	SHAREHOLDERS	Investors who are part-owners of a company. They invest in return for a share of the profits & voting rights at the AGM.
11.	FRANCHISE	When one business gives another business permission to trade using its name & products in return for a fee & share of its profits.
12.	FRANCHISOR	An established business that gives permission to an entrepreneur to trade using its name & products.
13.	FRANCHISEE	An entrepreneur who pays a fee to trade using the name & products of an established business.
PROXIMITY FACTORS		1.4B. BUSINESS LOCATION
14.	LABOUR	Includes the number of workers in an area & the availability of workers with the right skills in that area.
15.	MARKET	This means how close a business is to its customers.
16.	MATERIALS	Locating close to the raw materials that it uses to produce its finished products.
17.	COMPETITORS	Some businesses want to be close to competitors & others want to be away from competitors.
18.	FOOTFALL	The number of people passing a particular location within a given time period.
19.	DEMOGRAPHICS	The characteristics of the population, such as gender, age, religion & wealth.
20.	NATIONAL LIVING WAGE	The minimum amount that a business is legally allowed to pay its employees.
21.	BULK-GAINING PRODUCT	An end product that is bigger than the raw materials used to make it eg. A bike

22.	BULK-REDUCING PRODUCT	A product that is smaller than the raw materials it uses, such as paper.
23.	CONVENIENCE GOOD	A product that a customer buys frequently or routinely.
24.	SHOPPING GOOD	A product that a customer takes time to consider before purchasing, by looking at & weighing up a number of options before choosing one.
25.	TOPOGRAPHY	The physical characteristics of a landscape, such as being flat or hilly.
26.	INERTIA	A tendency to keep things as they are rather than change.
27.	E-COMMERCE	Using the internet to carry out business transactions.
28.	M-COMMERCE	Using mobile technologies such as smartphones & tablets to carry out business transactions.
29.	MULTI CHANNEL	Using a number of methods to reach the customer, including physical stores & e-commerce.
1.4C THE MARKETING MIX		
30.	MARKETING MIX	The combination of the 4Ps of marketing:
31.	PRICE	The amount of money a customer will need to pay to receive the product.
32.	PRODUCT	The actual good or service that the business is offering for sale.
33.	PROMOTION	The range of activities used by a business to improve customer awareness.
34.	PLACE	Where the customer can purchase the product.
35.	UNDERCUT	Sell the same product for a lower price than competitors.
36.	PRICE WAR	When businesses try to undercut each other.
37.	DIFFERENTIATION	Designing a product with unique features
38.	BRAND LOYALTY	A customer's willingness to buy products repeatedly from one business
39.	PROMOTIONAL MIX	The combination of promotional activities that a business uses.
1.4D. BUSINESS PLANS		
40.	BUSINESS PLAN	A document that outlines how an entrepreneur is going to set up a business
41.	SMART OBJECTIVES	Objectives that are SPECIFIC, MEASURABLE, ACHIEVABLE, REALISTIC, TIMED
42.	BUDGETS	Financial targets for a business to achieve eg. sales & expenditure budget
43.	NEGATIVE CASH FLOW	Occurs if the business's OPENING BALANCE results in a negative amount.
BUSINESS PLANS consists of: a. the idea b. aims. C. BUDGETS d. CASH FLOW FORECAST e. SOURCES OF FINANCE f. LOCATION g. MARKETING MIX.		

## 1.5. Understanding the Economic Context

### 1.5A. BUSINESS STAKEHOLDERS

1.	STAKEHOLDERS	Anyone who has an interest in the activities of a business.
2.	SHAREHOLDERS	Investors who are part owners of a company.
3.	PRIVATE LIMITED COMPANY	An INCORPORATED business that is owned by SHAREHOLDERS who invest in the business in return for a share of the profits (LTD).
4.	PUBLIC LIMITED COMPANY	An INCORPORATED business that can sell shares to the public (PLC)
5.	STOCK EXCHANGE	A place where shares in PLCs can be bought & sold.
6.	PROFIT	The amount of revenue left over once costs have been deducted.
7.	PAYMENT TERMS	The period of time that a business has to pay its suppliers.
8.	ETHICS	Moral principles or standards that guide the behaviour of a person or business.
9.	CONFLICT	A serious disagreement, usually between people, countries or ideas.
10.	REAL TIME	Live or as it happens.
11.	E-COMMERCE	Using the internet to carry out business transactions.
12.	SOCIAL MEDIA	Websites that allow users to interact with other users, by sharing text-based messages, pictures or links to online content.
13.	DIGITAL COMMUNICATION	The use of email, SMS & websites.
14.	PAYMENT SYSTEMS	Improved by payment systems such as E-COMMERCE & M-COMMERCE.
15.	COOKIES	Small files stored on a customer's computer when the customer visits a website, which record details about the visit & can be assessed.

### 1.5B. LEGISLATION & BUSINESS

16.	LEGISLATION	The LAWS that a country must comply with.
17.	REASONABLE CARE	This means offering a service that is suitable & safe for customers.
18.	INDUCTION	The period of time after an employee starts a job when they provided with training.
19.	COMPLY	Obey a command or meet a set of standards.
20.	EMPLOYMENT LAW	Relates to the way in which employees are hired & treated by businesses.
21.	MINIMUM WAGE	The lowest legal rate of pay for employees, depending on their age.
22.	DISCRIMINATION	Treating certain people differently to someone else because of a specific characteristic.
23.	PROTECTED CHARACTERISTIC	Characteristics that cannot be used in the recruitment process to reject a candidate, such as age, disability, sex or gender.

### 1.5C. THE ECONOMY & BUSINESS

24.	ECONOMIC CLIMATE	Refers to the performance of an economy.
25.	LEVY	A tax on a particular product or service.
26.	GLOBALISATION	When businesses operate on an international scale & gain international influence.
27.	UNEMPLOYMENT	People unable to find a job. Measured through the claimant count.
28.	BANK OF ENGLAND	The Central Bank of the UK. It manages the country's debts & sets INTEREST RATES.
29.	INFLATION	The increase of prices over time.
30.	INTEREST RATES	The cost of borrowing & the reward for saving.

31.	TAX	A proportion of an individual's income or a business's profits that must be paid to the government.
32.	IMPORTS	The flow of goods & services into a country from another country.
33.	EXPORTS	The flow of goods out of a country to another country.
34.	EXCHANGE RATES	The value of one currency in another currency.

### 1.5D. EXTERNAL INFLUENCES

35.	OBSOLETE	Out of date or not used any more.
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### IMPACT OF CHANGES IN ECONOMIC CLIMATE ON BUSINESS & CONSUMERS

INCOMES	BUSINESS	CONSUMER
CONSUMER INCOMES FALL	Business costs will rise	Consumer may well have to pay higher prices.
CONSUMER INCOMES RISE	Business costs will decrease	The business could reduce prices to the consumer to become more competitive. Or the business may keep the price the same & make more profit per sale.
INTEREST RATES	BUSINESS	CONSUMER
HIGHER INTEREST RATES	Borrowing costs rise. Reward for saving increases – Save more. LESS BUSINESS EXPANSION	Borrowing costs rise. Save more. LESS CONSUMER SPENDING
LOWER INTEREST RATES	Borrowing costs fall. Save less. INCREASED BUSINESS EXPANSION	Borrowing costs FALL. Save LESS INCREASED CONSUMER SPENDING
TAXATION	BUSINESS	CONSUMER
HIGHER TAX	May reduce sales – less staffed needed	Lower disposable income
LOWER TAX	May increase sales – more staff needed	Higher disposable incomes
EXCHANGE RATES	BUSINESS	CONSUMER
EXCHANGE RATE FALLS	WIDEC – Weak £ Imports Dear Exports Cheap • Purchase more home made goods. • Sell more EXPORTS to foreign consumers	WIDEC- Purchase more home made goods
EXCHANGE RATE RISES	SPICED – Strong £ Imports Cheap Exports Dear Purchase more imports, reduce prices?	Purchase more imports

	Advantage	Disadvantage
Franchise	<ol style="list-style-type: none"> <li>1. Access to tried &amp; tested products.</li> <li>2. Possibly, an established customer base.</li> <li>3. Higher chance of survival</li> <li>4. Brand image/ reputation already established.</li> </ol>	<ol style="list-style-type: none"> <li>1. Start-up costs can be expensive.</li> <li>2. Royalty payments (payments to the franchisor).</li> <li>3. Lack of decision making for the franchisee.</li> <li>4. Complex application process.</li> </ol>

The differences between sole traders & Ltds		
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	Sole Traders	Private Limited Companies
Risk	Unlimited liability means more risk.	Limited liability reduces risk for the owners
Control	Owner has 100% control of decisions.	Control will depend on the proportion of the business sold as shares to other shareholders.
Profits	Owners keep 100% of the profits.	Profits are shared proportionately between the shareholders.
Privacy	Accounts are not made public.	Accounts can be viewed by anyone for a small fee.

## Theme 2: 2.1 Growing the Business

### Week 2 & 4: 2.1A: METHODS OF BUSINESS GROWTH & THEIR IMPACT

1.	<b>INTERNAL GROWTH</b>	Occurs when a business expands by itself, by bringing out new products, or by entering new markets. Also known as <b>ORGANIC GROWTH</b> .
2.	<b>METHODS OF INTERNAL GROWTH</b>	1. Introducing new products or 2. Entering new markets.
3.	<b>RESEARCH &amp; DEVELOPMENT</b>	Research into new products or processes & developing the ideas that are generated from research.
4.	<b>INNOVATION</b>	The act of creating new products or processes.
5.	<b>E-COMMERCE</b>	Using the internet to carry out business transactions.
6.	<b>EXTERNAL GROWTH</b>	Occurs when a business expands by joining with another business. Also known as <b>INORGANIC GROWTH</b> .
7.	<b>METHODS OF EXTERNAL GROWTH</b>	1. Mergers or 2. Takeovers.
8.	<b>MERGER</b>	When two or more businesses agree to join together & operate as a combined business.
9.	<b>TAKEOVER</b>	When one business buys another business & incorporates it into their own business.
10.	<b>PUBLIC LIMITED COMPANIES (PLCS)</b>	An incorporated business that can sell shares to the public.
11.	<b>INCORPORATED</b>	A business that is registered as a company, so the owners (shareholders) & the business have a separate legal identity.
12.	<b>MULTINATIONAL</b>	A business with operations in more than one country also known as a multinational corporation ( <b>MNC</b> ).
13.	<b>INTERNAL SOURCES OF FINANCE</b>	Found within the business & include: 1. Retained profit & 2. Selling assets. No interest will be payable on either method.
14.	<b>RETAINED PROFIT</b>	Money that a business keeps, rather than paying out to its shareholders.
15.	<b>SELLING ASSETS</b>	Selling assets is the process by which a business sells items that it owns in order to raise finance.
16.	<b>EXTERNAL SOURCES OF FINANCE</b>	Found outside the business such as <b>LOAN CAPITAL &amp; SHARE CAPITAL</b> .
17.	<b>SECURED</b>	Guaranteed, because if the business fails to repay the loan, the asset will be taken by the bank.
18.	<b>DIVIDENDS</b>	A percentage of the business's profits that is paid to shareholders as a reward for their investment in the business.
19.	<b>STOCK MARKET FLOATATION</b>	The process of changing a business to a to a PUBLIC LIMITED COMPANY (PLC) by issuing shares for sale on a stock exchange.
20.	<b>STOCK EXCHANGE</b>	A place where shares in PLCs can be bought & sold.

### Week 6 2.1B: CHANGES IN BUSINESS AIMS & OBJECTIVES

21.	<b>DEGREE OF COMPETITION</b>	The number & size of businesses competing in a particular market.
22.	<b>MARKET SHARE</b>	The proportion of sales in a market that are taken by one business.

23.	<b>CULTURE</b>	The general attitudes, behaviour & beliefs of a business & its workforce.
24.	<b>RETRENCHMENT</b>	When a business downsizes the scale of its operations by reducing the number of employees or closing less profitable branches.
25.	<b>ORGANISATIONAL STRUCTURE</b>	The way in which the workforce is organised, usually a hierarchy with people reporting to managers all the way up to the Chief Executive Officer (CEO).
26.	<b>PRODUCT PORTFOLIO</b>	The range of goods & services offered by any one business.

### Week 7/2.1C: BUSINESS & GLOBALISATION

27.	<b>GLOBALISATION</b>	When businesses operate on an international scale & gain international influence or power.
28.	<b>IMPORTS</b>	The flow of goods & services into a country from another country.
29.	<b>EXPORTS</b>	The flow of goods & services out of a country to another country.
30.	<b>DOMESTICALLY</b>	At home, or within a business's home country.
31.	<b>TARIFF</b>	A tax imposed on imports or exports
32.	<b>PROTECTIONIST MEASURES</b>	An action taken by a government to reduce the flow of imports into the country.
33.	<b>TRADING BLOC</b>	A group of country's that agree to act together to promote trade between themselves. E.g. The EU, NAFTA, ASEAN.
34.	<b>LOCALISE</b>	Adapt to suit the local area & its needs, particularly in terms of culture, language or geographical location.
35.	<b>MARKETING MIX</b>	The combination of the 4Ps of marketing.

## Theme 2: 2.2. Making Marketing Decisions

1.	<b>MARKETING MIX</b>	<b>4 Ps of marketing, which are product, price, promotion &amp; place.</b>	27.	<b>PROMOTION STRATEGIES</b>	The group of techniques that a business uses to make customers & potential customers aware of & interested in its products & services. Examples include: Advertising, sponsorship, product trials, special offers & branding.
2.	<b>PRODUCT</b>	Refers to the goods or services sold by a business.	28.	<b>ADVERTISING</b>	When a business pays to use adverts to communicate with customers.
3.	<b>DESIGN MIX</b>	A triangle which contains three aspects of design that all products need to address in the research and development stage	29.	<b>EMOTIVE LANGUAGE</b>	Language intended to affect people at an emotional level, usually using adjectives such as crazy, cutting edge or cool.
4.	<b>FUNCTION</b>	How well a product does its job.	30.	<b>MEDIUM</b>	The way in which something can be communicated (media – plural of medium). Examples: TV 24%, Radio 3%, Digital 50%, Print 16%, Roads 6%.
5.	<b>AESTHETICS</b>	The visual attractiveness of something.	31.	<b>SPONSORSHIP</b>	When a business supports an event, activity, person or organisation, either financially or by providing its products or services.
6.	<b>COST</b>	Producing the product for a cost that allows the business to make a profit.	32.	<b>PRODUCT TRIALS</b>	Free access to or the giveaway of a product.
7.	<b>PRODUCT LIFE CYCLE</b>	Plots the sales of a product through the four stages of its life.	33.	<b>SPECIAL OFFERS</b>	AKA <b>sales promotions</b> are a short-term special offer, usually in the form of a discount, used by business to attract customers to buy a product or service.
8.	<b>INTRODUCTION</b>	Covers the research, development & launch of a new product.	34.	<b>PUBLICITY</b>	Any communication about a business that is created by the business, its customers or a third party.
9.	<b>GROWTH</b>	The product becomes increasingly popular & sales may rise rapidly.	35.	<b>PRESSURE GROUP</b>	A group of people who join together to try to influence government or business policy for a particular cause.
10.	<b>MATURITY</b>	The business now receives repeat purchases from its loyal customers. Its costs are low as <b>economies of scale</b> are exploited.	36.	<b>BRANDING</b>	The personality or image of a product, generated through marketing activities.
11.	<b>DECLINE</b>	Sales begin to fall as the product loses popularity.	37.	<b>BRAND PERSONALITY</b>	Helps consumers identify with a product and a certain set of characteristics with that brand, such as quality, fun, sophistication.
12.	<b>DISCONTINUED</b>	No longer produced or sold.	38.	<b>VIRAL ADVERTISING</b>	Advertising using social networking to increase sales or boost brand awareness.
13.	<b>EXTENSION STRATEGIES</b>	Any action that a business can take in order to lengthen the product life cycle & encourage growth in sales, during the decline phase. Most common approach involves: 1. using different promotions. 2. Rebranding as e.g. new improved recipe.	39.	<b>PLACE</b>	<b>How a business gets its products to its customers</b>
14.	<b>ECONOMIES OF SCALE</b>	A situation where average costs (of production, distribution and sales) fall as a business increases the amount of product that it produces, distributes & sells.	40.	<b>E-COMMERCE</b>	Using the internet to carry out business transactions.
15.	<b>DIFFERENTIATION</b>	The process of developing a distinctive or unique product.	41.	<b>M-COMMERCE</b>	Using mobile technologies, such as smartphones & tablets to carry out business transactions.
16.	<b>USP</b>	Something that makes a product stand out from its competitors.	42.	<b>RETAILING</b>	Selling products or services to customers in a physical shop.
17.	<b>PRICE</b>	<b>The amount charged by a business for its products &amp; services.</b>	43.	<b>E-TAILING</b>	Retailing to customers through the internet, such as through an e-commerce website.
18.	<b>PRICING STRATEGIES</b>	The way in which a business decides on the price of a product or service.	44.	<b>MARKUP</b>	The amount of money added to the cost price of a product or service to make the final retail price.
19.	<b>HIGH VOLUME PRICING STRATEGY</b>	This involves producing a lot of a product at a low cost, using economies of scale.	45.	<b>THIRD-PARTY PLATFORM</b>	An e-commerce website or service that is run by an unrelated business.
20.	<b>HIGH MARGIN PRICING STRATEGY</b>	Involves maximising the difference between the production cost of each product & the price for which it can sell the product.	46.	<b>INTEGRATED MARKETING MIX</b>	<b>A marketing mix that has a theme, with the elements all supporting each other. E.g. Product &amp; price – high quality equals high price. Promotion &amp; place – That a high st location enables a business to gain promotion through footfall.</b>
21.	<b>INFLUENCES ON PRICING STRATEGIES</b>	<b>Technology</b> which allows UBER to use dynamic pricing according to demand. <b>Competition</b> which provides consumers with more choice. <b>Added Value</b> which reflects how much additional value the given product has e.g. through differentiation, branding, being hand made & so on.	47.	<b>PATENT</b>	Legal protection meaning that a design or invention cannot be copied by others.
22.	<b>MASS MARKET</b>	A large market where customers have similar needs & characteristics.			
23.	<b>GENERIC</b>	A characteristic relating to an entire group, not specific.			
24.	<b>NICHE MARKET</b>	A small market where customers have very specific needs & characteristics.			
25.	<b>MARKET SEGMENT</b>	The process of dividing a target market into smaller categories by grouping together consumers with a particular need or interest.			
26.	<b>PROMOTION</b>	<b>The ways in which a business communicates its products &amp; services to its customers.</b>			

## Theme 2: 2.3 Making Financial Decisions

2.3A: BUSINESS OPERATIONS		
1.	OPERATIONS	The activities that allow a business to produce & deliver products & services to its customers. Operations transform <b>inputs</b> into <b>outputs</b> .
2.	INPUTS	Labour (the employees), Capital (money) & Materials (raw materials & stock)
3.	OUTPUTS	Finished products & services.
4.	PRODUCTIVITY	A measure of the effectiveness with which a business produces its <b>outputs</b> .
5.	EFFICIENCY	How well a business limits the amount of waste that it produces.
6.	FLEXIBILITY	A business's ability to change what it does to meet the needs of its customers, often in order to provide <b>individual</b> or <b>bespoke</b> products.
7.	QUALITY	How well a product or service does its job.
8.	BESPOKE	Designed and made for an individual customer.
9.	PRODUCTION PROCESS	Refers to the different production methods used by a business. This can be through Job, Batch or Flow methods.
10.	JOB PRODUCTION	Involves the production of one <b>bespoke</b> product at a time.
11.	BATCH PRODUCTION	Allows a business to produce products in relatively large production runs, which may use some <b>automation</b> .
12.	FLOW PRODUCTION	Takes place when a <b>standardised</b> product is produced on a large scale.
13.	AUTOMATION	Using machinery or robotics instead of employees to produce final products.
14.	PROFIT MARGIN	The proportion of revenue left over after costs have been deducted.
15.	ECONOMIES OF SCALE	A situation where average costs (of production, distribution and sales) fall as a business increases the amount of product that it produces, distributes & sells.
16.	DOWNTIME	Time when a person or machine is not producing something.
17.	COMBINING METHODS	Many firms will combine different production methods. E.g. Nike, Ford.
18.	IMPACT OF TECHNOLOGY ON PRODUCTION	Technology such as manufacturing machinery & robotics is now widely used in many businesses' production processes. It can help to: <ul style="list-style-type: none"> <li>• Reduce costs</li> <li>• Improve quality</li> <li>• Improve flexibility of manufacturing</li> <li>• Balance cost, productivity, quality &amp; flexibility.</li> </ul>
19.	SUPPLY CHAIN MANAGEMENT (SCM)	The management of the flow of goods & resources through production.
2.3B: WORKING WITH SUPPLIERS		
20.	PROCUREMENT	The process of managing a business's major purchases, from raw materials to delivery vans.
21.	RELATIONSHIPS WITH SUPPLIERS	There are several factors that contribute to a business's relationship with its suppliers: These include: <ul style="list-style-type: none"> <li>• The cost of the materials or products</li> <li>• The delivery speed, reliability &amp; cost.</li> <li>• Quality &amp; availability of the materials</li> <li>• The level of trust in the supplier.</li> </ul>
22.	LOGISTICS	The organisation & transportation of goods.

23.	FLUCTUATE	A rise or fall in the number or amount.
24.	SERVICE LEVEL AGREEMENTS	This contract clearly states the level of service that the business expects its suppliers to provide. This may include: <ul style="list-style-type: none"> <li>• A guaranteed timetable of regular deliveries</li> <li>• The business's payment terms</li> <li>• The level of quality required</li> <li>• An agreement on quantities being ordered on a regular basis.</li> </ul>
25.	SUPPLY DECISION IMPACTS	<ol style="list-style-type: none"> <li>1. <b>Cost</b> – Good logistics will limit wastage of stock &amp; transportation costs.</li> <li>2. <b>Reputation</b> – Efficient logistics will ensure goods are stocked.</li> <li>3. <b>Customer Satisfaction</b> – Fast &amp; efficient logistics will satisfy customers.</li> </ol>
26.	STOCK	Represents either raw materials or ingredients that a business uses to make its products that it has <b>procured</b> from a supplier.
27.	PERISHABLE	Likely to go out of date or go off quickly.
28.	BAR GATE STOCK GRAPH	Indicates the level of stock that a business is holding at any one time.
29.	LEAD TIME	The length of time between new stock being ordered & its delivery at the factory or shop.
30.	JUST IN TIME	Involves the procurement of stock only when it is needed rather than holding large quantities in a warehouse.
2.3C: MANAGING QUALITY		
31.	QUALITY	How well a product has been made, the purity of its ingredients or raw materials or how long it will last.
32.	QUALITY CONTROL	The process of checking the standard of a product's quality
33.	QUALITY ASSURANCE	Emphasizes quality checking at every stage of production to reduce sub-standard products.
34.	QUALITY MARK	A standard of quality given to a business that is accredited by a professional body. This may include the British kitemark, the Investors in People quality mark or the CE mark for products that comply with European standards.
35.	COMPETITIVE ADVANTAGE	An advantage a business has over its rivals that is unique & sustainable. This could occur through a USP, high quality, location, low cost & price & so on.
2.3D: THE SALES PROCESS		
36.	THE SALES PROCESS	Involves: 1. <b>Customer interest</b> . 2. <b>Efficient service</b> . 3. <b>Customer engagement</b> . 4. <b>Post-sales service</b> . 5. <b>Customer loyalty</b> .
37.	SALES APPROACHES	<ol style="list-style-type: none"> <li>1. <b>The Hard approach</b> – sales employees actively approach &amp; engage customers.</li> <li>2. <b>The Soft approach</b> – Sales employees make customers aware that they are available if the customer needs any information or support</li> </ol>
38.	TRANSACTION	The act of buying or selling something.
39.	QUANTITATIVE	Concerning the quantity or amount of something that can be measured in numbers.
40.	QUALITATIVE	Concerning the quality of something that cannot be measured.
41.	METRIC	A standard of measurement.
42.	DIFFERENTIATE	Show that a product or service is different from similar things.

## Theme 2: 2.4 Making Financial Decisions

While this unit is shorter in content it is worthwhile going back over the key calculations from 1.3, together with key sources of finance.

2.4. BUSINESS CALCULATIONS		
1.	PROFIT	Total Revenue – Total Costs
2.	GROSS PROFIT	Sales Revenue – Cost of Sales
3.	COST OF SALES	Direct costs of purchasing raw materials & manufactured finished products.
4.	NET PROFIT	Gross profit – other operating expenses & interest
5.	PROFIT MARGIN	A measure of profitability calculated as a percentage of income.
6.	GROSS PROFIT MARGIN (GPM)	The difference between sales revenue & the cost of sales. GPM = Gross profit / sales revenue X 100
7.	NET PROFIT MARGIN (NPM)	The difference between sales revenue & total costs. NPM = Net Profit / sales revenue X 100
8.	AVERAGE RATE OF RETURN	Is the average annual amount of income generated over the life of an investment. ARR % = avg annual profit (total profit / no. of years) / cost of investment X 100
9.	INFLATION	The general increase in prices.
10.	MARKET SHARE	The proportion of sales in a market that are taken by one business.
11.	VARIABLE	A quantity used in a calculation or some measurable piece of information.
12.	INFOGRAPHIC	A graphic representation of information to make it interesting & easy to understand.
13.	DEMOGRAPHIC	Relating to the structure of the population.
14.	QUALITATIVE DATA	Descriptive data that cannot be measured in numbers.
15.	QUANTITATIVE DATA	Numerical data.

### Gross and Net Profit



1.3D. SOURCES OF BUSINESS FINANCE		
DEBT		This refers to borrowing from external sources which incurs interest costs. Typical examples include Overdrafts, Loans & Mortgages.
SHORT TERM SOURCES		
30.	OVERDRAFT	A facility offered by a bank that allows an account holder to borrow money at short notice.
31.	TRADE CREDIT	A credit arrangement that is offered only to businesses by suppliers.
LONG TERM SOURCES		
32.	PERSONAL SAVINGS	Refer to any money that the entrepreneur has saved up.
33.	VENTURE CAPITAL	Money lent by a large business to small start-up businesses or entrepreneurs.
34.	SHARE CAPITAL	The amount of money invested in a business by shareholders.
35.	LOANS	An amount of money lent to an individual or a business that will be paid off with interest.
36.	RETAINED PROFIT	Money that a business keeps, rather than paying out to its shareholders.
37.	CROWDFUNDING	Obtaining funds from a large number of people who each pay a small amount.
SOURCES OF FINANCE KEY TERMS		
38.	RETURN ON INVESTMENT	The amount of money that an investor gets back in return for investing in a business.
39.	SHAREHOLDER	Investors who are part owners in a company.
40.	CREDIT CHECK	A check on the financial status to ensure
41.	SECURITY	When the lender asks the borrower to put up an asset against a loan.
42.	ASSET	Any item of value that a business owns, such as its machinery or premises.
43.	GUARANTOR	A named person who guarantees to pay the repayments on a loan should the person who has taken out the loan not be able to do so.

1.3. FINANCE - KEY CALCULATIONS		
1.	REVENUE	PRICE X QUANTITY SOLD
2.	TOTAL VARIABLE COSTS	VC X QUANTITY SOLD
3.	TOTAL COSTS	FIXED COSTS + TOTAL VARIABLE COSTS
4.	GROSS PROFIT	SALES REVENUE – COST OF SALES
5.	NET PROFIT	GROSS PROFIT – OTHER OPERATING EXPENSES AND INTEREST
6.	INTEREST IN %	(TOTAL REPAYMENT – BORROWED AMOUNT) / BORROWED AMOUNT x100
7.	CONTRIBUTION	PRICE – VARIABLE COSTS
8.	BREAK EVEN POINT	FIXED COSTS / (PRICE – VARIABLE COST)
9.	MARGIN OF SAFETY	ACTUAL OR BUDGETED SALES – BREAK EVEN SALES
10.	NET CASH FLOW	CASH INFLOWS – CASH OUTFLOWS
11.	CLOSING BALANCE	OPENING BALANCE + NET CASH FLOW