

GCSE Business 9-1

## Theme 2 Building a Business



### Study Companion

Name: \_\_\_\_\_

Class: \_\_\_\_\_

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# The 'BIG' picture

## Personal Learning Checklist

### Theme 2 Building a Business

Content			
2.1 Growing the business	2.1.1 Business growth	I can explain internal and external methods of growth and explain the features of plc's. I can also explain the different sources of finance available for growing and established businesses.	
	2.1.2 Changes in business aims and objectives	I can explain why business aims and objectives change as businesses evolve.	
	2.1.3 Business and globalisation	I can explain the impact of globalisation on businesses, trade barriers used to restrict trade and can explain the importance of the internet and the marketing mix for competing effectively.	
	2.1.4 Ethics, the environment and business	I can explain the ethical and environment considerations on businesses	
2.2 Making marketing decisions	2.2.1 Product	I can explain the design mix, the product life cycle and extension and the importance to a business of differentiating a product/ service.	
	2.2.2 Price	I can explain different pricing strategies and what can influence the strategy used	
	2.2.3 Promotion	I can explain appropriate promotion strategies for different market segments, and the use of technology in promotion	
	2.2.4 Place	I can explain different methods of distribution	
	2.2.5 Using the mix to make decisions	I can explain how elements of the marketing mix can influence other elements, use the mix to build competitive advantage.	
2.3 Making operational decisions	2.3.1 Business operations	I can explain the purpose of business, and the different production techniques used. I can also explain the impact of technology on production.	
	2.3.2 Working with suppliers	I can interpret bar gate stock graphs and compare this method of stock control with just-in-time stock control. I can also explain the importance of the role of procurement within businesses.	
	2.3.3 Managing quality	I can explain the concept of quality and its importance in the production of goods and services, and how quality can control costs	
	2.3.4 The sales process	I can explain the need for good product knowledge, speed, efficiency and after-sales service within businesses to provide good customer service and satisfaction.	
2.4 Making financial decisions	2.4.1 Business Calculations	I can understand and calculate gross profit and net profit. I can calculate and interpret gross profit margin, net profit margin, and the average rate of return	
	2.4.2 Understanding business performance	I can use and interpret quantitative business data in the forms of; information from graphs and charts, financial data, marketing data and market data. I can use this information to support business decision making	
2.5 Making human resource decisions	2.5.1 Organisational structures	I can explain the different organisations, the importance of effective communication, and different ways of working	
	2.5.2 Effective recruitment	I understand different employment roles, and the processes used to recruitment new staff	
	2.5.3 Effective training and development	I can explain different methods used to train staff and the importance in staff development for motivation and retention	
	2.5.4 Motivation	I can explain the need for a motivated workforce and can explain different financial and non-financial methods used for motivation	

# 2.1 Growing the business

		Personalised Learning Checklist		
		Red	Amber	Green
<b>Theme 2 Building a business</b>  2.1 Growing the Business	<b>2.1</b>			
	<b>2.1.1 Business Growth</b>			
	Explain 'internal' methods of growth			
	Explain 'external' methods of growth			
	<b>Public limited company</b> - formation, advantages and disadvantages			
	<b>Sources of finance for established businesses</b>			
	<b>2.1.2 Changes in business aims and objectives</b>			
	Reasons why aims and objectives change			
	<b>Survival moving to growth</b>			
	<b>Entering or exiting new markets</b>			
	<b>Growing or reducing the workforce</b>			
	<b>Increasing or decreasing product range</b>			
	<b>2.1.3 Business and globalisation</b>			
	The impact of globalisation on businesses; imports / exports			
	International business locations			
	Multinational companies (advantages and disadvantages)			
	Tariffs and trade blocs			
	The use of the internet in international trade			
	Changing the marketing mix to help businesses compete internationally			
	<b>2.1.4 Ethics, the environment and business</b>			
	Trade offs between ethics and profit			
	Trade offs between the environment and ethics			
	Pressure group activity and the marketing mix			

## 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 one you do you will also have a customer base ready to purchase your new product!



## 2.1.2 Changes in business aims and objectives

### 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



### 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**

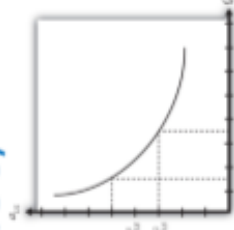
## 2.1.3 Business and Globalisation

### Multinationals (MNC's)

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



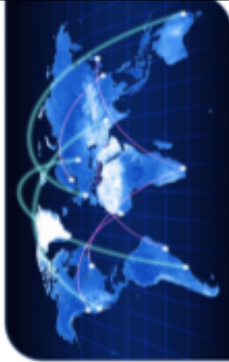
"This is known as '**economies of scale**'; when business get bigger they save money on raw materials, administration and advertising"



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 about being good and doing good



**Ethnic**

Relating to race



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

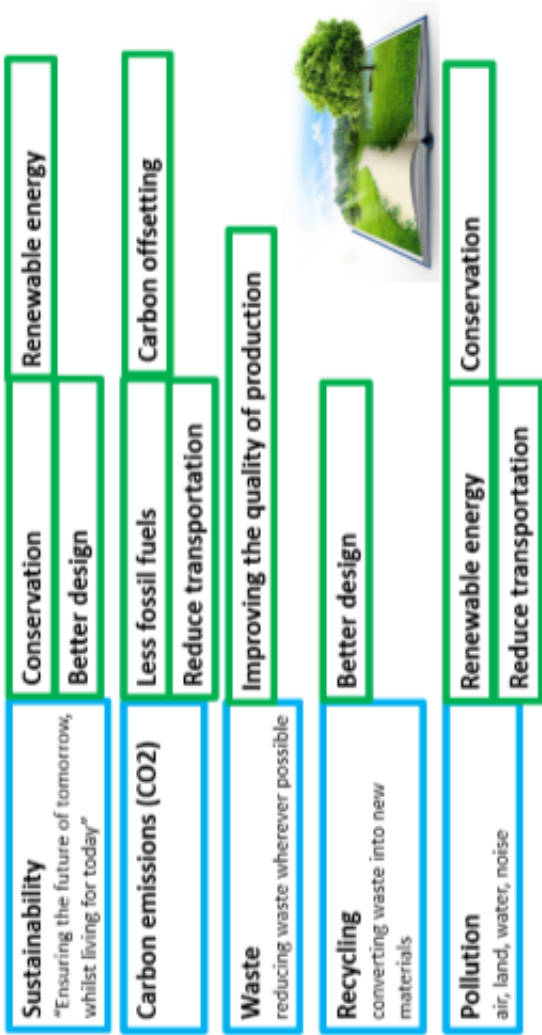
- Customers
- Suppliers
- Employees

(Stakeholders)

**X** 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.



## 2.1 Key word glossary

### Asset

Something a business owns which is of value; van, car, tools. Assets can also be the personal possessions of an entrepreneur and can be taken for sale at auction should a sole trader fail to make debt repayments.

### Environmental considerations

When businesses consider their impact on the environment, in terms of destruction, depletion of natural resources and/or pollution.



### Ethics

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

### Export

To send something out of the country it was produced in, for example the UK exports lots of heavy plant (JCB)

### External growth (*see inorganic growth*)

To grow a business by joining with another different external business (could be a competitor) through merger or takeover

### External source of finance

Sources of finance from outside the business; share capital, loan capital, venture capital, trade credit

### Globalisation

Reducing the 'distance' between countries by improvements in world trade, communications and finances.



### Import

To bring in something from another country, possibly because it is not made or produced domestically, or because it is cheaper. For example; rice, bananas

### Innovation

To bring something new to the market

**Inorganic growth (see external growth)**

When a company grows in by purchasing another company

**Internal growth (see organic growth)**

When a company grows through increasing its sales and gradually expanding its operations

**Internal source of finance**

Sources of capital that can be raised from within the business; by selling assets or retaining profits

**Loan capital**

Money raised from a bank at an agreed rate of interest. The business will pay back the capital sum plus any interest owed. Payments will be made monthly for the period of the loan

**Merger**

When two businesses join together to form a new bigger business



**Multinational business**

A business operating in several countries, but managed from one (home) country

**New markets**

Entering a different marketplace to sell your product/service, often overseas (China), but could also be to a different market segment (DIGALL)

**Organic growth (see internal growth)**

When a company grows through increasing its sales and gradually expanding its operations

**Product portfolio (product range)**

A product portfolio describes number of different products that a business sells. For example Ford has a product portfolio which includes; the focus, KA, Fiesta, Ranger, Cougar etc.

## Pressure group

A group of individuals that try to influence or change the behaviour of businesses or the government. For example; Greenpeace, NO to HS2

## Public limited company (plc.)

A company that sells shares on the stock exchange (stock market floatation) and therefore has many owners who are members of the public. PLC's have limited liability, meaning only money invested in the business can be lost if the business fails, as it is a separate legal entity from its owners.

## Research and development

Often a department within a large business, research and



development is there to come up with and test new products. This is an important department if your business competes on innovations and new technology

## Retained profit

Profits kept by the business to reinvest – usually to grow the business, rebrand, or open new stores

## Selling assets

An internal source of finance whereby a business sells assets that it no longer needs to raise additional finance

## Share capital

An external source of finance gained by selling shares in the company to friends and family (ltd.) or the public (plc.). This money is then invested into the business

## Stock market

The place where shares in public limited businesses are bought and sold



## Stock market floatation

The act of making shares available for sale on the stock market

## Sustainability

Continued development or growth without significant deterioration of the environment and natural resources

## Takeover

Where one businesses grows by buying another business, sometimes by purchasing its shares. The old business now belongs to the purchaser

## Tariff

A tax placed on imports, to make them more expensive and to protect domestic industries

## Trade bloc

When countries come together to remove trade barriers between them, allowing free trade within the 'bloc'. Includes free movement of labour, money and goods




## Trade-off

What is given up by choosing an alternative option. For example, if I decide to use this hour to play on the Xbox, then I will lose out on an hour of business revision. This is a trade-off.

## Workforce

The entire staff of a business, all of its employees

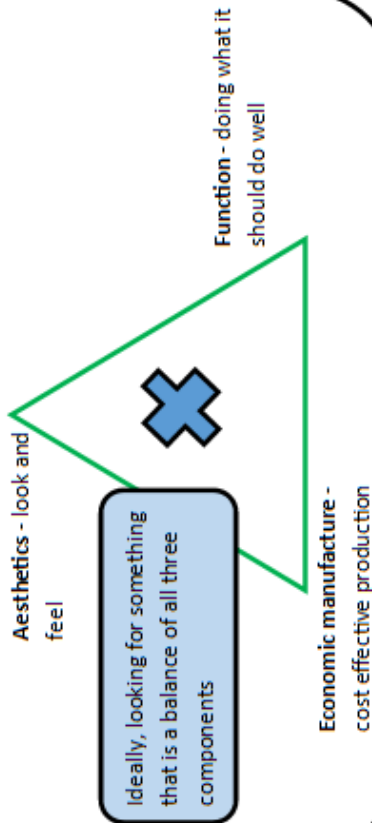
## 2.2 Making marketing decisions

		Personalised Learning Checklist			
		2.2	Red	Amber	Green
<b>Theme 2 Building a business</b>	<b>2.2 Making marketing decisions</b>	<b>2.2.1 Product</b>			
		The design mix			
		The product life cycle (including extension strategies)			
		The importance of differentiation			
		<b>2.2.2 Price</b>			
		Pricing strategies (at least 5 different ones)			
		Technology and pricing strategies			
		Competition and appropriate pricing strategies			
		Market segments and strategy			
		Product life cycle and pricing strategy			
		<b>2.2.3 Promotion</b>			
		Appropriate promotional strategies for different market segments			
		Targeted online advertising			
		Viral advertising			
		e-newsletters			
		<b>2.2.4 Place</b>			
		Retailers - advantages and disadvantages			
		e-tailers (e-commerce) - advantages and disadvantages			
		<b>2.2.5 Using the marketing mix to make business decisions</b>			
		Integrated marketing mix and competitive advantage			
Influences and relationships between the 4P's					

## 2.2.1 Product (marketing mix)

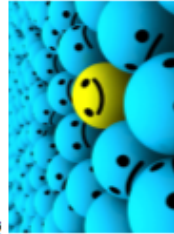
### Design mix

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



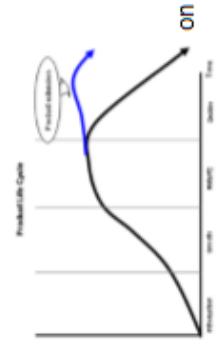
### Why differentiate?

- 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

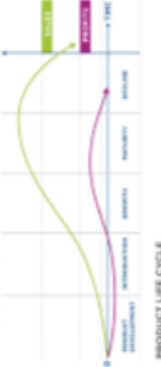
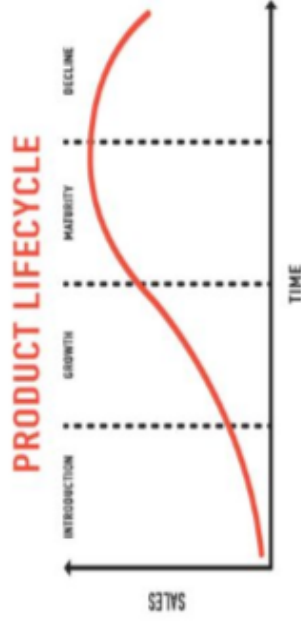
- Modify the product
- Reduce the price
- New product launch
- Encourage the use of the product more occasions



### 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**

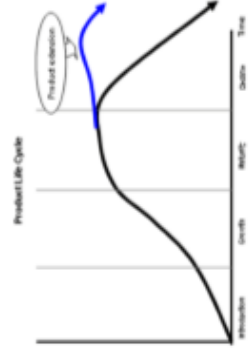
Considerable spending still happening for promotion, but sales revenues will be increasing with popularity and increased sales. Profits are likely to be seen although still low

#### **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





## 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 business 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	Technology	'302,063
2	amazon	Technology	'306,585
3	Microsoft	Retail	'287,594
4	Facebook	Technology	'208,987
5	VISA	Technology	'178,990
6	Apple	Technology	'162,016
7	Walmart	Payments	'145,611

**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



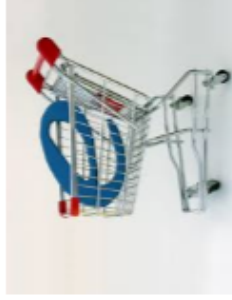
#### Think DIGALL!!

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

## 2.2 Key word glossary

### Advertising

Paid for public communication about your business, products or ideas.

### Aesthetics

Part of the design mix, this refers to the way the product looks and feels and is often related to the materials used and their quality

### Channels of distribution

The way that a product gets from the producer to the consumer. Direct channels can occur where the producer sells directly to the consumer, or channels can be longer using more intermediaries, each making a small profit as they re-sell the good



### Competitive advantage

Something that makes your business stand out from competitors; low price advantage, quality, customer service.

### Cost (Economical manufacture)

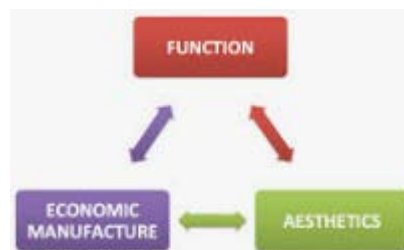
Part of the design mix, cost refers to being able to produce the product in a way that will enable you to achieve a profit

### Decline phase

The final section of the product life cycle, when sales are falling off. Businesses may consider retiring the product at this stage

### Design mix

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



### E-newsletters

Electronic newsletters and information sent out via email to reach large numbers of potential or actual customers and keep them informed. Marketing material

## E-tailer

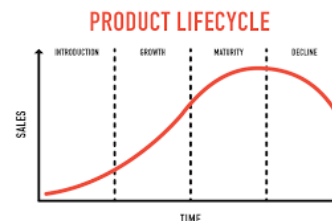
A business that only uses e-commerce to gain sales for example, Amazon

## Extension strategy

Any strategy developed to try and increase the life cycle of a product. In the later stages of a product this could be by reducing the price, or bringing out limited additions during the maturity phase

## Growth phase

The stage of the product life cycle where sales are increasing at the quickest rate. At this point the business should start making profits.



## Introduction phase

The earliest part of the product life cycle when a new product is introduced after launch, this is usually when the fewest sales are made and promotion is at its highest

## Freemium

A business model that allows a consumer to receive a basic service for free, but add-ons and premium services will need to be paid for.

*Example: Apps can be free, but will allow in-game purchases of lives, items etc.*

## Function

Part of the design mix function refers to how well a product performs. For example; how well does a washing perform at washing your clothes, or how well does your smartphone perform across a range of criteria (phone, camera, apps, storage, battery life)?

## Market segment

A group of people with shared characteristics. For example, 19-24 year olds who go to nightclubs, or 50+ wealthy gentlemen with an interest in sailing.

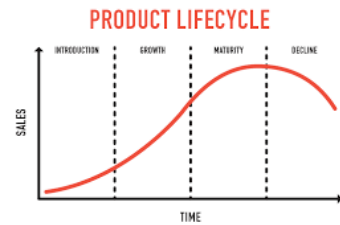


## Maturity phase

The stage of the product life cycle when sales have reached their peak, at this point maximum profits are made, and less promotion is needed. However, it is also likely that now the business will employ extension strategies to prolong the life of the product

## Product life cycle

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



## Product trials

Any promotional tool that will encourage potential customers to try a product. Can include a range of methods including; give-aways, introductory pricing, vouchers and coupons

## Retailers

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



## Sponsorship

When a business backs and supports a team or individual to get their name out in the public domain. Often used within sport (Sky sponsor our cycling team) and shown through the use of branded clothing

## Viral advertising


Using social media and customer contacts (friends) to spread adverts and marketing material online, often used on Facebook and Twitter

## Targeted advertising

Advertising that is only going to specific individuals based on market segmentation, or buying habits.



## 2.3 Making operational decisions

		Personalised Learning Checklist			
		Red	Amber	Green	
<b>Theme 2 Building a business</b>	<b>2.3 Making operational decisions</b>	<b>2.3.1 Business operations</b>			
		The purpose of business (goods/services)			
		Production processes - advantages and disadvantages of each			
		Impact of technology on production			
		<b>2.3.2 Working with suppliers</b>			
		Bar stock gate graphs			
		Just-in-time production			
		Relationships with suppliers			
		Logistics and supply decisions			
		<b>2.3.3 Managing quality</b>			
		Quality control			
		Quality assurance			
		Quality to control costs and gain competitive advantage			
		<b>2.3.4 The sales process</b>			
		The importance of providing good customer service			
		Product knowledge, speed and efficiency			
		Responses to feedback and after-sales service			

## 2.3.1 Business Operations

### Purpose of business

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

### 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



## 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

### Logistics and Supply

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



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.

## Just in Time

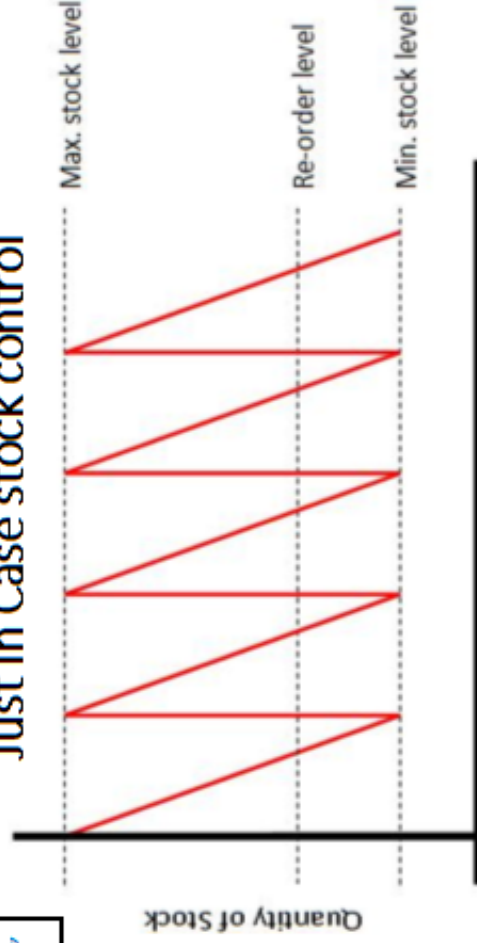


• Holding stock that does not sell is costly, because of this some businesses change to a method called **Just In Time** or **JIT**.

- 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”*

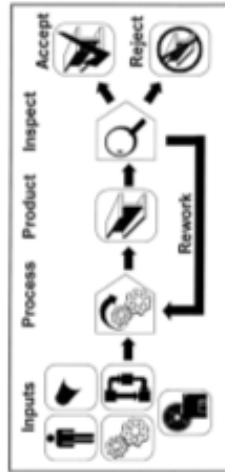
As different customers have different customer needs, they may also have different perceptions of quality.

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)

Focused on identifying defective products

Finds and eliminates problems

Makes quality the responsibility of one person/team

### Quality assurance (QA)

Focused on improving the process

Establishes a good quality management systems

Makes quality the responsibility of all

### 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 as 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"*



#### 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

#### 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:

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- Branding
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- 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

#### 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



## 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



#### 15 years of HSBC experience

Banking with HSBC for 15 years.

24 Dec 2018

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

## 2.3 Key word glossary

### Bar stock gate graph

A graph showing the ordering habits of a business. It will show maximum and minimum (buffer) stock levels, re-order quantity and lead time

### Batch production

A method of production where many items/portions of the same item are made in one go, followed by another 'batch' of different items and so on. Often used in catering and bakeries



### Buffer stock (minimum stock level)

The minimum amount of stock that a business wants to hold on site

### Customer feedback

Information coming directly from customers about the satisfaction or dissatisfaction they feel with a product or a service



### Customer service

The assistance and advice provided by a company to those people who buy or use its products or services

### Efficiency

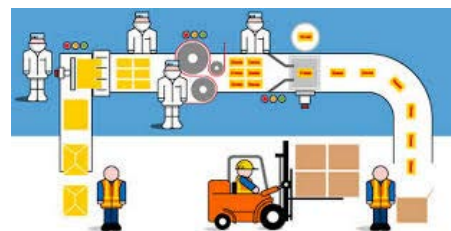
Efficiency is the quality of being able to do a task successfully, without wasting time or energy. It also describes the relationship between inputs and outputs; if a business can produce more with the same inputs it would be more efficient

### Flexibility

The ability to be able to change to meet different demands or needs

### Flow production

Continuous flow production usually involves assembly lines which moves a product through different stations. Frequently used with the manufacture of mass produced products like cars



## Goods

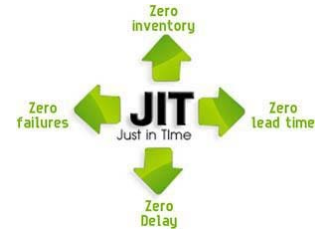
Tangible physical items that can be owned by an individual

## Job production

Single production of one product at a time from beginning to end. This can allow for high levels of customisation and therefore differentiation. Used to create bespoke products like tailored suits, yachts and occasion cakes

## Just in time production

A method of production where the supplies and components are delivered to site when they are needed. This reduced the need to hold stocks (cash flow) and can reduce waste



## Lead time

The difference in time between the order being placed, and when it would arrive onsite (delivery)

## Lean production

A method of production focused on the elimination of waste

## Logistics

The business activity of transporting goods to customers, in the right quantities at the right time.



## Post-sales service

The after-sales support that a business provides, often through helplines or 'chat' functions on their website. After-sales can include dealing with complaints, questions or providing additional services after the purchase of a product like servicing

## Procurement

Buying the goods and services that enable an organisation to operate in a profitable and sometimes ethical manner

## Productivity

A measure of the efficiency of a person, machine, or factory. Usually measured in output per person, or per hours/day

## Quality

A measure of excellence or a state of being free from defects

## Quality assurance

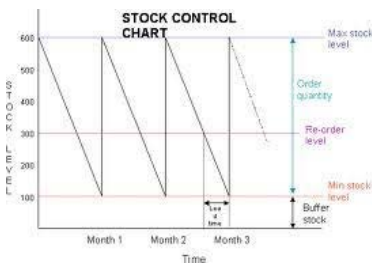
A system to ensure that quality is achieved throughout the production process, as all members of staff are involved.

## Quality control

A method of checking quality at the end of a manufacturing process, by a designated quality controller.



## Re-order quantity



The level at which new stock would be ordered, allowing for lead time and consideration of the minimum stock level (buffer stock)

## Reputation


The opinion that people in general have about someone or something

## Wastage

An output that is undesirable and represents a loss of money. Waste can be in many forms; mistakes, time, faulty products



## 2.4 Making financial decisions

		Personalised Learning Checklist			
		Red	Amber	Green	
Theme 2 Building a business	2.4 Making Financial decisions	<b>2.4</b>			
		<b>2.4.1 Business Calculations</b>			
		Calculate and interpret <b>gross profit</b>			
		Calculate and interpret <b>Net profit</b>			
		Calculate and interpret <b>Gross profit margin</b>			
		Calculate and interpret <b>Net profit margin</b>			
		Calculate and interpret <b>Average rate of return</b>			
		<b>2.4.2 Understanding business performance</b>			
		<i>Use and interpret business quantitative business information from:</i>			
		Graphs and charts			
		Financial information			
		Marketing information			
		Market information			
		Explain the use and limitations of this kind of data in making decisions			
		Use the data to support business decisions			

## 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*)

### NET PROFIT FORMULA

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

*COGS - cost of sales/total variable cost*

### Gross Profit

### Margin



### Net profit

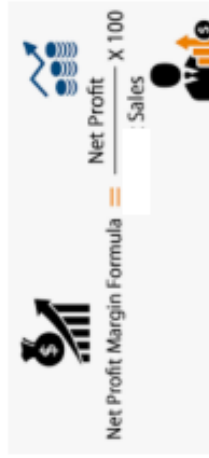
Profit after expenses/overheads have been removed.

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



### 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:

£'000	2010	2011	2012
Revenue	250	325	400
Cost of Sales	150	186	225
Gross Profit	100	139	175
Gross margin	40.0%	42.8%	43.8%

Gross profit = revenue less cost of sales

Gross margin (%) =  $\frac{\text{gross profit}}{\text{revenue}}$

tutor2u

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

Net Profit Margin 30.00%



## 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 jasmine 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?

Jasmine deluxe

Camomile and nettle

Liquorice and mint

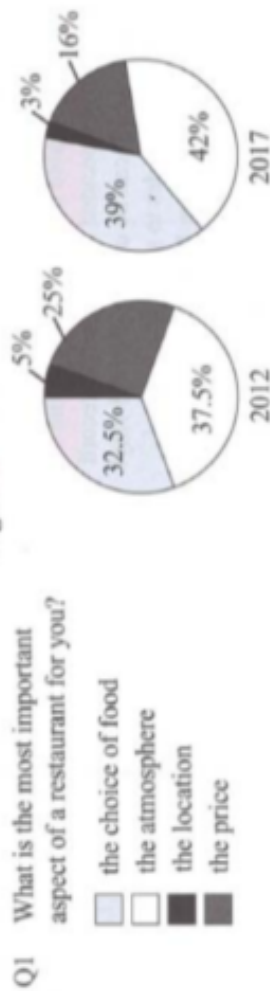
Didn't like any of them

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?

Georgina 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**



Before the survey, Georgina 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

## 2.4 Key word glossary

### Average rate of return (%)

Average annual profit divided by the cost of investment x 100

### Costs

Payments that the business will need to make. Costs represent money leaving the business

### Expenses

Usually fixed costs, expenses are needed for the day to day running of the company and include items such as; wages, rent, machinery, equipment purchase



### Financial data

Any information relating to the financial accounts of the business

### Gross profit

'Big' profit, calculated by taking total direct costs (variable costs/cost of goods/COGS) away from total sales revenue.

### Gross profit margin (%)

Gross profit divided by sales revenue x 100

### Market data

Data about the market where the product/service is sold, this can include information about the market segment (income), whether sales in this market are increasing or decreasing, and new trends



### Net profit

Gross profit minus expenses

### Net profit margin (%)

Net profit divided by sales revenue x 100

$$\text{Net profit margin} = \frac{\text{Net profit (before tax)}}{\text{Sales}} \times 100$$

### Profit

Total revenue minus total costs = profit (or a loss)

## Return on investment

The amount earned on any investment made. If you put savings into a bank account you are likely to receive about 2%. If you invest in a business you will want to receive more return than this, and also more than inflation to actually make a 'real return'




## Revenue

The money made from sales (also known as turnover)



## 2.5 Making human resource decisions

		Personalised Learning Checklist			
		Red	Amber	Green	
<b>Theme 2 Building a business</b>	<b>2.5 Making human resource decisions</b>	<b>2.5</b>			
		<b>2.5.1 Organisational structures</b>			
		Heirarchical and flat organsitional structures			
		Centralised and decentralised			
		Effective communication (excessive communication)			
		Part-time, full-time and flexible hours			
		Permanent, temporary and freelance contracts			
		Impact of technology on way of working			
		<b>2.5.2 Effective recruitment</b>			
		Different jobs roles and responsibilities within an organisation			
		Recruitment documentation			
		Legislation and recruitment and training			
		Internal and external recruitment			
		<b>2.5.3 Effective training and development</b>			
		Formal and informal training			
		Self-learning			
		ongoing training			
		Target setting and performance reviews			
		Training, motivation and retention			
		Retaining for new technology			
		<b>2.5.4 Motivation</b>			
		The importance of motivation; attracting staff, retention, productivity			
		Financial methods of motivation			
Non-financial methods of motivation					

## 2.5.1 Organisational structures

### Hierarchy

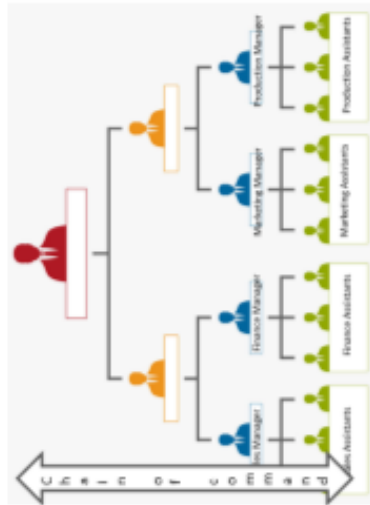
"Pyramid-like ranking of individuals, showing the chain of command and responsibilities of staff. The higher up the greater the level of authority"

#### 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

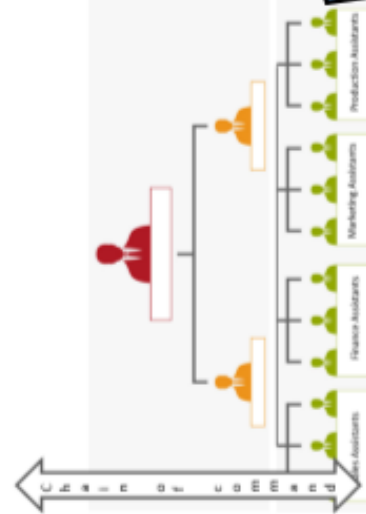


#### Flat hierarchy

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



- 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

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

### 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

### DELAVERING

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, be 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 remove 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).<sup>[2]</sup>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

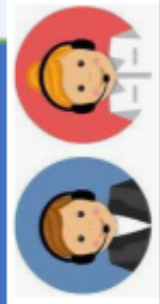
A supervisor is responsible for the day-to-day performance of a small group. Typically the supervisor has experience in what the group does and has earned the position based on management's belief that he/she is capable of guiding the team.

#### 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

### 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

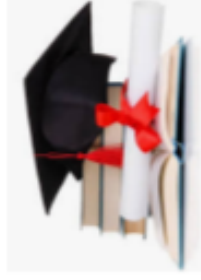
### Person Specification

Content includes:

- Skills
- Qualities
- Qualifications
- Experience



Patient  
 Loyal  
 Strong  
 Tolerant  
 Flexible  
 Thoughtful



### Job Description

Content includes:

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



## 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 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 employee 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**

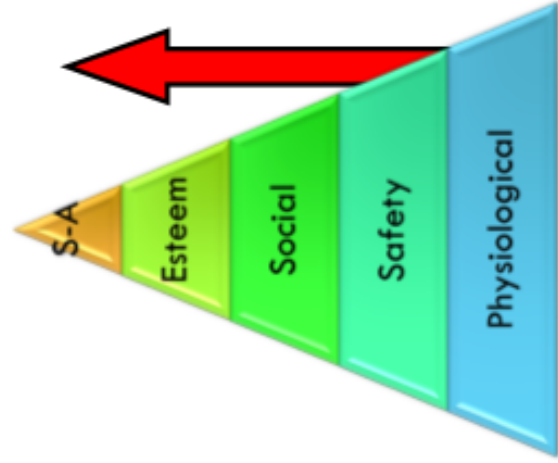
## 2.5.4 Motivation

### 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

## 2.5 Key word glossary

### Application form

Document used to apply for a vacancy, will include personal details, education and qualifications, employment history and reference information. Can be completed on paper or submitted online



### Autonomy

The ability to make your own decisions at work. Can be highly motivational for employees but should only be used when you trust the subordinate



### Bonus

Financial reward paid as a lump sum, usually linked to performance or meeting objectives



### Commission

A percentage (%) kept by a sales person of the sales they make on behalf of the business. An estate agent will earn a commission of each house that they sell, which will encourage them to sell more and get higher selling prices



### Centralised business

A business structure where decision making is kept firmly at the top of the hierarchy or at Head Office



### Curriculum vitae (CV)

A CV is a document that can be used to apply for a vacancy. If using a CV then a covering letter should also be included



### Decentralised business

A business structure where decision-making is spread out across the hierarchy (or left to individual branches)



## Excessive communication

When there is too much communication being received by employees via; emails, meetings, corridor conversations. Too much information can lead to stress, confused messages and forgetting what is important



## External recruitment

The process of attracting, selecting and recruiting someone from outside of the business

## Informal training

Informal training can happen between colleagues, through trial and error or self-learning, it is not arranged specifically by the workplace

## Internal recruitment

The process of attracting, selecting and recruiting someone from inside the business



## Flat structure

An organisational structure with fewer layers within the hierarchy. Each individual is likely to have more responsibility

## Formal training

Specific and scheduled training with clear learning aims and outcomes

## Freelance

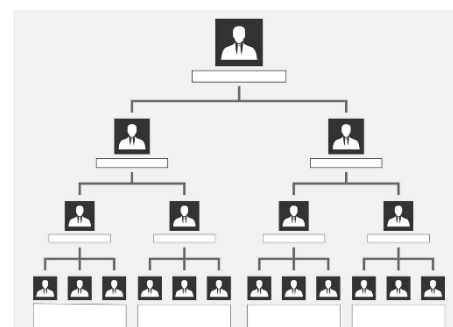
Someone who works for themselves, but can be requested to work on a specific project/issue by a business

## Fringe benefits

Financial incentives on top of a salary or a wage in return for work. Common examples include; discounts, pensions, company cars or laptops

## Hierarchical structure

A pyramid-shaped diagram in which people or things are arranged according to their importance, where the most important will be placed at the top



## Job description

A document used in the recruitment process that outlines the key duties of the role, the salary, location, hours



## Job enrichment

Adding more responsibility to someone's role to prepare them for promotion or to give them more responsibility, which can satisfy self-esteem needs (Maslow)

## Job rotation

A technique where staff are moved around different job roles within the company. Not only does this create flexibility within the workforce it can also alleviate boredom

## Motivation

The willingness or desire to do something. A motivated worker is likely to work harder, be more committed and therefore a more effective member of staff

## Permanent

A contract that means you will be working at the company indefinitely

## Performance related pay

Additional pay reward that could be received from a high level of performance at work. This would be reviewed during a performance review

## Performance review

A meeting between a subordinate and manager to review the employee's performance, usually against targets that would have been set earlier in the year

## Person specification



Attainments



Soft skills



Job-specific capabilities

A recruitment document produced by the business that outlines the skills, qualities, experience and education required by someone applying for a specific job role



Personality traits



Physical attributes

**Productivity**

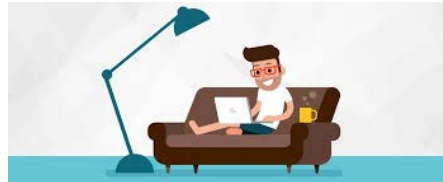
Productivity is a measure of how much is produced either within a specified period of time, or by a particular employee

**Promotion**

A job move up a level within the hierarchy, taking on more responsibility in return for more pay

**Remote working**

Working outside of the office, often at home supported by technology such as the internet and phones. Most businesses now have technology to allow staff to access work material through remote desktops



**Remuneration**

Money paid in return for work

**Retention**

Keeping staff. High levels of staff retention have a bad impact on business operations and the quality of work produced, or customer service

**Retraining**

Staff may require retraining due to the introduction of new machinery or systems

**Self-learning**

Learning conducted by the individual under their own initiative, possibly with a view to develop skills and gain promotions

**Short listing**

The process of reducing the number of potential applicants for a job role. The person specification will be used to short list applications



**Support staff**

Staff that provide assistance to other key functions within the organisation. Support staff often include IT and administration workers

## Target setting

Setting objectives for individual staff to focus on throughout the year, these will be in line with what the company want to achieve



## Temporary staff

Staff on time-restricted contracts, for example Christmas workers, cover staff for one term or maternity cover

## Zero-hours

Contract with no specified hours; zero-hours