endorsed for edexcel

2015 specification
first exams in 2017 (2016 for AS)

Theme 1: Marketing and People

Course Companion for AS and A Level Edexcel Business

Second Edition, 12th January 2016

zigzageducation.co.uk **POD 5853**

Contents

Teacher's Introduction

This resource has been written to support the learning and teaching of Edexcel AS Level and A Level in Business (Theme 1: Marketing and People). It gives an in-depth view of the new qualification, expanding on every specification point, plus extras along the way for extended learning.

At the beginning of each chapter, you will find a list of contents showing every specification point that is covered. There are also questions and answers at the end of each chapter plus mini case studies, complete with answers, to help students transfer their knowledge into real-life business contexts. Any key terms are explained chapter by chapter and are also revisited as a glossary at the end of the resource.

Students get plenty of chances to practise their quantitative skills in this resource, including:

- **QS 2:** calculate, use and understand percentages and percentage changes (Chapters 1.2.4. and 1.2.5.)
- **QS 3:** construct and interpret a range of standard graphical forms (Chapters 1.2.1. – 1.2.3.)
- **QS 7:** interpret values of price and income elasticity of demand (Chapters 1.2.4. and 1.2.5.)
- **QS 8:** use and interpret quantitative and non-quantitative information in order to make decisions (all chapters)
- **QS 9:** interpret, apply and analyse information in written, graphical and numerical forms (all chapters)

While extremely valuable to a student's revision, this resource should be treated as a companion to the many other textbooks and activity guides available. As with any subject, it is good to read as widely as possible!

The subjects covered in this resource include everything from market research and price elasticity of demand to motivational theory, entrepreneurship and the marketing mix. The notes included in this resource can be given to students before a lesson as preparation for a topic, afterwards in order to help solidify their knowledge, or can be used by teachers as a supplement to in-class exercises and activities.

It is hoped that this resource, as well as offering support for teaching the essential elements of the Edexcel examination, will help students build on their research and dissemination skills. The business world is a constantly changing one full of fascinating stories. This resource attempts to share some of these stories as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of business analysts!

Happy teaching!

July 2015

2nd Edition (Endorsed), 6th November 2015

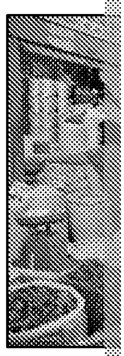
- Development of keywords within the text to include further useful explanation per section
- Each section of this course companion now takes its name directly from the specification, making it easier for teachers and students to quickly find the information they need
- Refined questions on price and income elasticity of demand (chapters 1.2.4–1.2.5) and on cost-pricing (chapter 1.3.3) so that they reflect more closely the requirements of a four-mark 'calculate' question
- Developed the number of possible answers available to students. Examples include supply and demand shift, which now considers the effects of inferior goods.
- Further information for students on creating, developing, running and expanding a business (chapter 1.5.1)

1.1 Meeting Customer Need

1.1.1. The Market

! Key Points Covered

- Mass Markets and Niche Markets
- Market Size and Market Share
- Brands
- Dynamic Marke
- How Competitio
- The Difference b



A market is any place that brings together anyone who wishes to sell a product/service (supplier) with anyone looking to buy it (consumer). The buying and selling of goods can take place anywhere, from a local level (e.g. the corner shop or a car boot sale) to a national level (e.g. the purchase of stocks and shares on the national or regional *stock exchange*). Goods and services can be purchased physically, with the buyer and seller meeting face-to-face, or electronically over the Internet.

Mass Markets and Niche Markets

A mass market involves a wide range of potential consumers, who have varied bac
Businesses that target mass markets generally sell goods/services that have large-
range from grocery stores and supermarkets to general clothes shops.

Niche markets have much smaller target audiences and generally focus on produc
ignored by big business. These involve particular markets whose customers have v
of businesses in niche markets include boutique jewellery shops and handmade c

Market Size and Market Share

Every business needs some *market share* in order to survive. Market share shows t
business makes within a market compared to its competitors.

Let's use examples for market size and market share:

If the total number of smartphones sold around the world in 2014 was 900 million
price of one smartphone was £80.00, the market size of the smartphone industry w

$$\text{Market size in 2014} = \text{Number of units sold x Average sell}$$

$$\text{Market size in 2014} = 900 \text{ million units x £80.00}$$

$$\text{Market size in 2014} = £72{,}000{,}000{,}000$$

If one smartphone producer sold 180 million units during 2014, we can then use t
its market share:

$$\text{Market share in 2014} = \frac{\text{Revenue generated by firm}}{\text{Total revenue within the market}}$$

$$\text{Market share in 2014} = \frac{(180 \text{ million x £80.00})}{£72{,}000{,}000{,}000} \text{ x 10}$$

$$\text{Market share in 2014} = \frac{£14{,}400{,}000{,}000}{£72{,}000{,}000{,}000} \text{ x 100}$$

$$\text{Market share in 2014} = 20 \text{ per cent}$$

Niche markets are considerably smaller than mass markets. Consider the difference between a major chain supermarket (mass) and an organic health food shop (niche): one caters for all consumers while the other has a very specific audience. Businesses in niche markets, therefore, can potentially claim a large market share. However, there are fewer customers overall and so fewer opportunities to make sales.

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Brands

A business operating within a mass market has a large target audience but often a low market share. Niche businesses, on the other hand, work in smaller markets and so can gain large market share quickly – though it does not normally take long for competitors to notice this and try to join the market, too.

Businesses combat both of these issues with branding techniques. Whether or no quality, a strong brand will make a product stand out. Many businesses focus on brandi awareness of their products and services and to generate consumer loyalty. When other or mass), a strong brand will help existing companies survive.

Dynamic Markets

How Markets Change

No market is static for very long as there are always changes arising from:

1. *Seasonal* factors
2. Consumer *tastes*
3. Consumer *attitudes*
4. Government *regulations*
5. The availability of *new technologies*
6. *New competitors* entering the market
7. Changes in business *structure and outsourcing*

For these reasons it is very important that businesses *recognise market trends*. A tr which things *tend to move*. For example, one current trend in marketing is for bus Firms around the world recognise how important a role the Internet plays in peop heavily in their social media presences and online advertising.

It is important for a business to *review and analyse* such trends so that it can:

1. Make *better* decisions
2. Modify forecasts and set *realistic* targets in response to a trend
3. Anticipate and deliver the *right* resources to the *right* places at the *right*
4. Recognise opportunities for *innovation and improvement* on its product
5. Develop a *strategic vision* and formulate *alternative futures* for its produ

Online Retail, Innovation, Market Growth and Adapting to Change

The availability of new technology – in particular the Internet – has changed the w world. Consumers can now sit at a desk or on the sofa (or even lie in bed!) and do mouse or using their tablet/phone.

This change has seen a complete overhaul in retail. Businesses no longer need bri their products and services. Online stores are open 24 hours a day – consumers can ev Businesses do not need to employ a team of sales assistants to help customers fir required to take physical money. All of this has allowed businesses to cut down co to the consumer as lower prices, helping businesses retain future sales.

Changes in technology have led to a change in the market, too. The 'high street' t is much more varied than the physical high street of the past. This is because the lower – plus firms do not need actual shop fronts – and so more businesses can a

Buyer power has changed, too: price comparison sites are available to us in secon customer reviews, and so consumers are more informed than ever. In previous yea

able to pitch a product/service to consumers walking into their store. Now, howev
competitors struggling for the same market. Technology has made it more afford
goods, but the potential for competition is much greater.

The rise of online retail outlets, such as Amazon, has created a more 'cut-throat' b
consistently try to outdo one another on price. Due to this, trends do not last long
if a business does not stay ahead of the curve, it will miss out. This is something th
Lewis and HMV, have had to adapt to.

Can you think of any ways in which businesses such as HMV had to adapt due to on

How Competition Affects the Market

An *integrated marketing process*, which is *a combination of marketing methods an* *target* potential customers and gain a better understanding of their needs and wa delivering appropriate goods and services to their customers. An integrated mark business *a strong competitive advantage* over its rivals.

An integrated marketing approach encourages a business to be *more proactive an* product development, product quality guarantee, product pricing, product promo competitor threats. Integrated marketing affords a business the *opportunity to be* tools to help analyse, understand and satisfy a dynamic market environment, at h

In addition, *competitiveness* can be improved when a business reduces it costs, im improves the quality of its customer care, improves its after-sales service, and intr retraining programmes.

Competitiveness reflects the *energy and effectiveness* of all of the business' functio to the product or service to make it *more desirable* to buyers. Although an effectiv integrated marketing policy plays an important role in this, a business must also d

1. *Assess* its organisational *strengths and weaknesses*, including the skills and *all* employees. This allows a business to analyse its present and future nee competitive ability.
2. *Develop* strategies for *external change* in the local, national and global ec competition, the environment, technology and the political climate. A bus *control* over external change.
3. *Ensure* that adequate *finance is available* to implement strategies and pla
4. *Use* new *and appropriate technologies* to reduce costs, increase business f market growth and gain a competitive advantage over business rivals.
5. *Devise and monitor an integrated human resources policy* to ensure that e knowledge, skills and experience to contribute to the business's current a
6. *Know who its customers are*, what they want and need and when they wan marketing mix, coupled with an integrated approach to marketing, will he objective is achieved.
7. *Outsource work to other businesses when and if appropriate*. This is an exte theory, for example, a manufacturing business specialises in the manufact *not* have the expertise to undertake extensive market research and so may *specialist market research agency* to undertake such research on its behalf
8. *Ensure that they provide a top quality product or service.* Best practice in qu competitiveness of a business on local, national and global bases. This is b *guarantees of continuous quality* for a product or service. For example, bu *9000 certification*, which is the *generic name* given to a family of *quality st* framework around which a *quality management system* can effectively be

Market conditions and actions of competitors do have an *impact on the competiti* *strategic plan is prepared* that takes these factors into account a *negative impact* n

The Difference between Risk and Uncertainty

Firms run into *risk* and *uncertainty* whenever they make business decisions. These decisions can involve anything from expanding a production line or hiring more staff to moving locations, buying equipment or making capital investment.

All business decisions carry with them a degree of *risk* or *uncertainty* and potential for *reward* (i.e. what a firm expects to get out of its business decision if it is successful). The words 'risk' and 'uncertainty' are often used to mean the same thing; however, a subtle distinction can be made between them.

Uncertainty: this is a negative effect that comes from the general course of busin costs and rewards for businesses in ways they cannot ... ly predict. As such, bu uncertainty – however, they can be prepared ... any firms build themselves portfo way, should one product start to f... unforeseen circumstances, the busine sales in order to survive (... other products).

Risk: like g..., firms take risks with every decision they make in the hopes th reward. A new investment, for example, can either succeed or fail. Firms use risk m assess the potential impact of their business decisions, weighing the potential rew main objective here is to achieve the greatest reward with the least amount of risk uncertainty, therefore, is the amount of control a firm has over it.

Let's use capital investment as an example:
Businesses undertake *capital investment* for many reasons, such as to *replace* brok modern equipment or to help expand their operations. Whatever the reason, capi business's finance for a considerable number of years and so it is important that t made.

If a new piece of machinery costs £25,000, but could potentially double current sa weigh up the risk against the reward. Is doubling sales enough to pay for the new it take to pay off the £25,000? How long will the machinery last before the firm ne Will the company need to hire more staff as well?

There is uncertainty, too: the investment could fail, or the business's products cou consumer market. Does the business have enough other products in its portfolio t uncertainty?

1.1.1. Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. a. *Explain the difference between mass markets and niche markets.*
   b. *Give three types of change ... have impact on a dynamic market.*

2. *Copy out and fill ... ps with either 'risk' or 'uncertainty':*

   Businesses ... er to ________________ *as things that cannot be predic*

   ________________ *has a certain probability and, therefore, can be cal*

1.1.2. Market Research

! Key Points Covered

- Product and Market Orientation
- Primary and Secondary Market Research Data
- Limitations of Market Research, Sample Size and Bias
- Use of ICT t
- Market Segm

Product and Market Orientation

Consumer markets provide goods and services to the final consumer for their own groceries, household appliances, clothing or hairdressing.

Industrial markets tend to provide goods and services to commercial business con resold, raw materials to be transformed and services such as transport facilities.

In order to sell their goods or services, businesses can adopt different approaches

Some take a *product-orientated* approach. This is the old, traditional approach wh consumer goods tend to concentrate on the product itself (quality and performan without taking potential consumer needs, wants and attitudes into account. In tod marketing environment, not focusing on the customer is a very risky strategy.

The Business

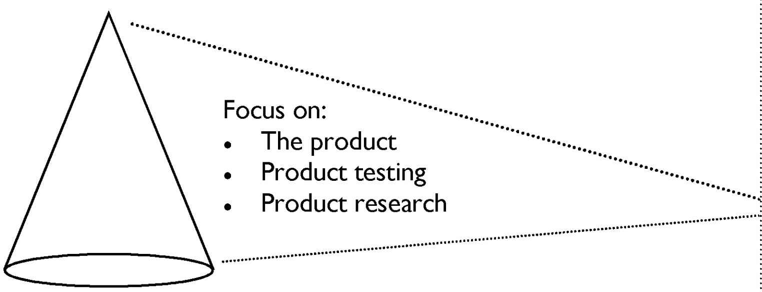


Diagram: Product-orientated business

Businesses that adopt this strategy are *taking the customer for granted*, believing t 'good enough' for the customer and will sell no matter what. The technology gian product-orientated business. The company focus on the quality and performance consumers want or need. Apple's brand is strong enough that every product they worldwide news, generating buzz, interest and high-volume sales.

Product orientation does not work for everyone, though. IBM (International Busin Blue', fell into a self-made trap with the launch of their first personal computer in came late to the personal computer market long after other companies had estab IBM, however, believed that their well-established name and excellent reputation would carry through to the personal computer market. The firm then concentrated the *strength of IBM's name and reputation*, not fully focusing on the customer.

This was *not a success* and sales of the IBM PC were much lower than expected.

Taking a *customer- or market-orientated* approach is now much more common an puts the customer *at the centre* of the business's decision-making process. It focus from a product and then attempts to satisfy that demand. It involves *continuously* of the market and adjusting the product and processes appropriately to meet the this approach. The market-orientated approach needs businesses to adopt a *Kaize* approach to product manufacture and development. Another example of market- chain supermarket, which continuously aims to stock the right products to encour

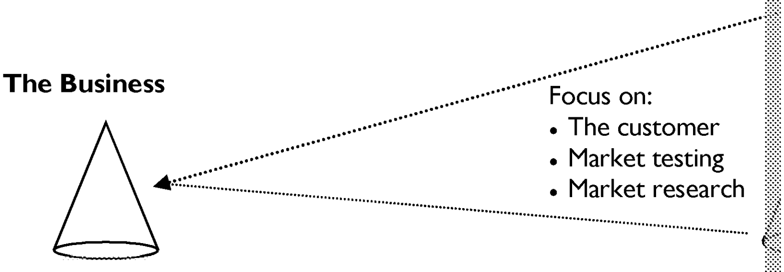


Diagram: Market-orientated business

A market-orientated business will make decisions in a continuous cycle:

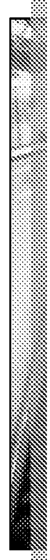
1. *Gathering information* about all existing and potential stakeholders, the ma trends so they can provide the customer with what they want at a price th gathering information on existing customers, potential customers, compe trends.
2. *Undertaking SWOT analysis* to evaluate the Strengths and Weaknesses of competitors and identify Opportunities and Threats that exist in their mar
3. Ensuring that the business *always focuses* on providing customers with *ex* an *affordable* price.

Primary and Secondary Market Research Data

Have you ever been stopped in the street to answer a few questions or received a survey? If you answered 'yes', then you have taken part in market research.

Firms conduct market research by *collecting and analysing data* gathered from the collect this data themselves (through email surveys or competitions, for example) of *specialist market-research agencies*.

Primary Research



Primary research is *original research*, which involves gathering information *directly from the target audience* of potential consumers. This can be carried out using face-to-face interviews, telephone interviews, postal surveys, web forms, email, observations, focus groups, consumer panels and test marketing.

Businesses often create *questionnaires* for use in primary research. They must take care, though – the following points should be considered when producing questionnaires:

1. *How* will the survey be *conducted*? (E.g. by face-to-face interview, by post, by telephone or over the Internet?) This will determine the *structure* of the questionnaire.
2. What is the *objective* of the survey?
3. *How many questions* will be asked?
4. Does the survey have any 'loaded' questions?
5. Are any of the questions *ambiguous*?

✓ *Advantages of using primary research:*

1. It finds *new* information about the target market.
2. It reveals *relevant* and *up-to-date* information on the target market.
3. It allows the business to *concentrate time and money* on its target ma

✗ *Disadvantages of using primary research:*

1. It is *time-consuming* and *expensive*.
2. The *accuracy* and *reliability* of the data collected can depend on the researcher and the *structure* of the questions asked.
3. The validity of the answers obtained depends on the *mood of the inte* not reflect the opinion of the population as a whole.

Secondary Research

Secondary research is the collection of data from information that *already exists*. T business archives, market reports, government departments, the Internet, newspa journals. *Remember: all secondary research was once primary research!*

✓ *Advantages of using secondary research:*

1. It is much *cheaper* and *quicker* to carry out than field research.
2. Data and information about the *whole mass market*, rather than just gathered.
3. It allows the business to examine *trends* in its market.

✗ *Disadvantages of using secondary research:*

1. The *reliability* of historic data must be treated with caution.
2. Secondary data is time-dependent: it may have been collected *with c* the companies in the data may no longer exist), which does not *relat situation*.
3. This historical data may also be *available to competitors*.

Quantitative or Qualitative?

Unlike primary and secondary research data, which differ in the way they are gath research differ in the way they are documented.

Quantitative research asks *closed questions*, such as 'how many hours do you spe or 'what is your favourite food?'. The questions have very little scope for developm sentence answer and are generally presented in numerical form, such as line grap

Qualitative research, on the other hand, asks *open questions*, such as 'why do you 'what food do you associate with your childhood and why?'. These questions are o interviewee can give as long or short an answer as they like. The end result is gene than statistics, allowing the researcher to investigate any themes that stretch acro

Primary and secondary research can be both qualitative (e.g. primary high-street i published journal articles) and quantitative (e.g. primary face-to-face questionnair surveys).

Effective Market Research takes both quantitative and qualitative research into con make *more informed* marketing decisions, *reduce risk* and gain potential *competiti* saw, market research is costly and time-consuming, but it can help businesses gat

- The *size* of the market
- The *state* of the market (i.e. whether there is demand and if it is growing o
- Central *elements* of the market (social, legal, economic, political and techn
- *Competitors* and their business processes
- What the *public think* about all aspects of their product/service
- The *target markets* (i.e. the market *segment* to which they intend to sell)
- The *structure* of the market (i.e. the type, size and number of competitors)
- Consumer behaviour, their *needs*, *wants* and *price* they are willing to pay

Most market research processes go through the following steps:

1. *Identify* the problem
2. *Decide* on an appropriate method of research
3. *Determine* data type (primary or secondary) and sources
4. *Design* the data capture form
5. *Decide* on where to get the sample and on its size
6. *Collect* the data
7. *Analyse and interpret* the data
8. *Produce* a market research report

Limitations of Market Research, Sample Size and Bias

While market research has great value, there are sometimes problems with the da

- *Structure:* Data collected may not be [illegible] enough to make good marke questions asked are too closed to be really useful.

- *Size:* Just because your research says that 65% of the population will buy Kit[illegible] doesn't mean they will – this data has come from a sample and not reflect what happens on a UK-wide scale. How can you be sure that yo representative sample is accurate enough to extrapolate the data to a UK of potential sales?

  In other words, how do you know by asking 50 men aged 25–35 from Bournemouth that all UK men will buy Lynx deodorant?

- *Representation:* Data collected may not take into account regional differen buy Welsh cakes in Sussex, but market researchers get a very positive resp is potentially expensively misleading. Regional differences can be subtle, b disaster.

  Some companies, such as Coca-Cola, take a global approach to their marketing while others, such as Domino's Pizza, allow each country to handle their own marketing for franchisees.

- *Bias:* When companies collect data, they need to be as fair as possible. If a question is too closed, for instance, it would likely generate a one-sided response from most people being surveyed.

  The interviewer needs to be fair, too. If the business is looking for a specif correlation (e.g. the number of people that drink milk in each area), they m what drinks are popular other than milk).

  Time affects bias, too. A sample that is questioned one year may feel very could be due to any number of factors, including average income, technol gentrification, and branding. Companies, therefore, need to sample over di get a fair picture of their target markets.

Questions to ask when deciding on a method of sampling:

1. What will the *cost* be?
2. Will it prevent sample *bias*?
3. How long will the *process* take?
4. How much *finance* is available?
5. Is it the *best method* for the task?
6. Who and where is the *target market*?
7. Can the population be *divided into groups*?
8. What *type* of product or service is being tested?
9. How *closely will it represent* the total population group?

Limitations of the sampling process can be found by asking the following questions

1. Have the people sampled *told the truth*?
2. Has the 'right' *sample size* been chosen?
3. Has the data been collected *without bias*?
4. Have the appropriate questions been asked?
5. Has the appropriate target audience been selected?
6. Has the appropriate sampling technique been used?
7. Have the results of the sample been *correctly analysed*?
8. Has the sampler actually taken the sample, or were the *results fictitious*?

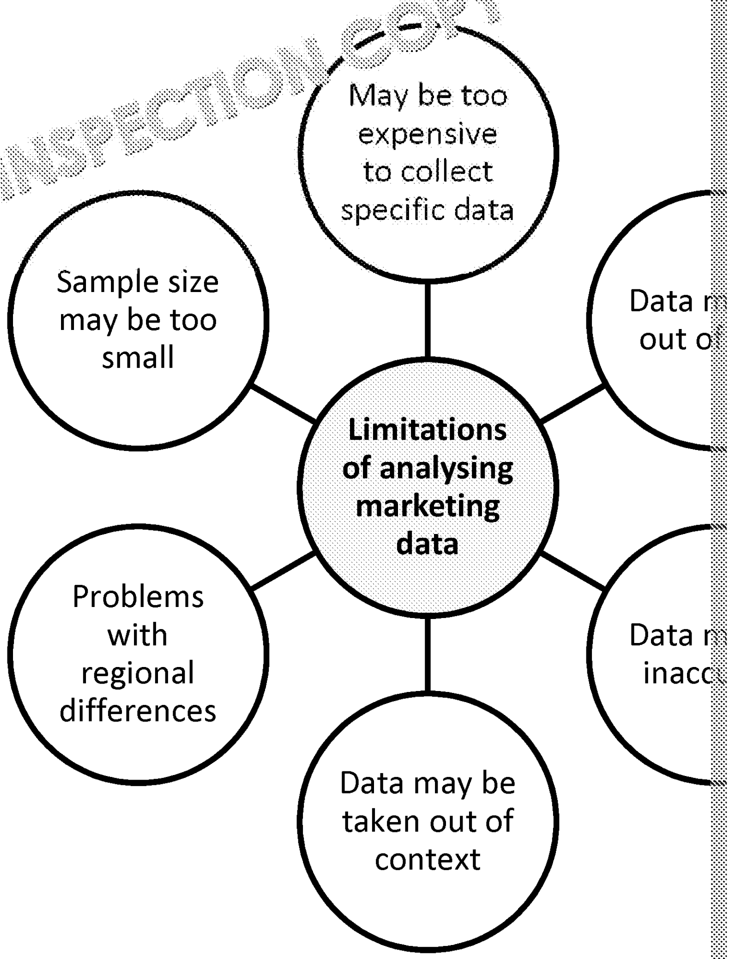


Diagram: The possible problems with data for marketing anal

Use of ICT to Support Market Research

There are many benefits to using ICT to analyse marketing data; here are a selecti
in today's dynamic marketplace.

- Businesses often compare public databases with their own private sales re trends in the market. This analysis is particularly useful in industries where over demand and where products are consumer-driven, such as the small phones, tablets, etc.). A downfall with this form of analysis is the use of pu access to these databases, then businesses need to assume that their com they cannot rely on this analysis alone!

- Most supermarkets and department stores use loyalty cards. Customers re rewards for spending in-store while the company collects data on their bu patterns. The data also includes personal details, such as home address ar email. This information is then used to better target customers with products/services they will actually buy. Companies also use it to specifically target customers with direct mail.

  One main downfall with loyalty schemes is that buying habits can be misle understand that they get a better deal for buying certain products from c offer at Supermarket A, you probably won't buy it from Supermarket B. Th picture of their customers. Electronic loyalty schemes are also expensive t aren't a large-scale business, you are probably better off using a different

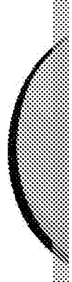
- Social networking allows conversations to run on a global scale – and so p about products/services can potentially be seen by millions. Many busine to see what consumers are saying about them, their products and their co use social networks to find gaps in the market – what consumers want tha following conversations or conducting online surveys.

  Social networks, however, do not always show a fair picture of what peop market. Not all potential consumers are on social networks for a start. If a for instance, the majority of its consumers will be elderly and probably no someone writes a terrible review of your product on social media, you can the entire market. Likewise, if one person loves your service, don't assume

Effective use of ICT to support market research will involve a *mix of all* these exam specifically to the business, such as sales forecasting and running hypothetical 'wh

Market Segmentation

If you peel an orange, you can break it into segments. No two segments are alike – and the same can be said for markets.



Businesses split their markets into segments in order to understand who the average consumer is: what they want and what they are willing to pay. Businesses pick out the segment of people that are most likely to buy their product/service and target them. Each segment that a business wishes to target requires a specific *marketing mix*. This process (called *market segmentation*) is conducted to ensure that any marketing budget is used effectively to produce a high return.

Market segmentation allows firms to conduct *differentiated* marketing, which focu customers. *Undifferentiated* (or mass) marketing treats customers as a *homogeneo*

There are four common methods of market segmentation:

1. *Demographic segmentation* is by age, family size, occupation, ethnicity, ed computer game, for example, may be aimed at male children between the teaching textbook for Business would be primarily aimed at Business teac
2. *Geographic segmentation* is by town, county, country, climate and popula sightseeing tour business, for instance, may segment the market by town, developer of a new type of child pram, meanwhile, may use population bi market.
3. *Behavioural segmentation* is based on how customers react to, and behav involves analysing customers' brand loyalty, usage, attitudes, responses a services on offer.
4. *Psychographic segmentation* involves analysing customers according to th and attitudes.

✔ ***Advantages of market segmentation include:***

- It helps the business to know its customers.
- It focuses business strategy on a specific target audience.
- It encourages the business to specialise to meet the needs of a particular s
- It helps provide focus for the allocation of business resources.

✘ ***Disadvantages of market segmentation include:***

- It is a costly and time-consuming process.
- It could lead to the manufacture of too many different products.
- It could over-narrow the focus of the business.

It is very important that a business targets the right group of customers – those w vital to identify these segments correctly. Market segmentation helps businesses t customers, recognise competitors, measure performance and anticipate future ma impossible for a business to develop an effective marketing strategy (or 'fine tune correctly identified the market segments.

1.1.2. Questions

Please write your answers on a separate piece of paper or in an exercise book.

3. *Is reading through market reports considered primary or secondary research?*

4. ***a.*** *Identify two advantages of primary research.*
b. *Identify three limitations of market research.*

1.1.3. Market Positioning

! Key Points Covered

- Market Mapping
- Competitive Advantage of a Product or Service
- The Purpose of
- Adding Value to

Market Mapping

Once a business has collected enough data to give a fair picture of its target mark it needs to be able to make sense of it (drawing conclusions). One effective way of doing this is to collate the information into a *market map*. A market map takes two features (e.g. price and size, speed and quality) and compares them on two axes. This method is particularly useful for start-up companies or firms looking to introduce a new product, as a way to identify any gaps in the market.

Take a look at the example market map below, which shows newspapers in the UK and how they differ by price and content.

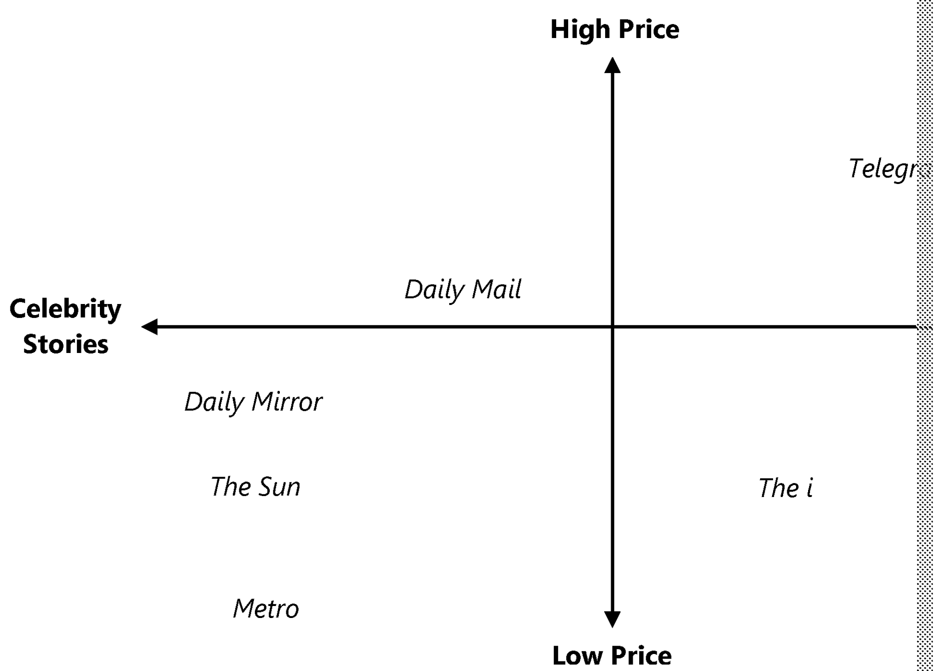
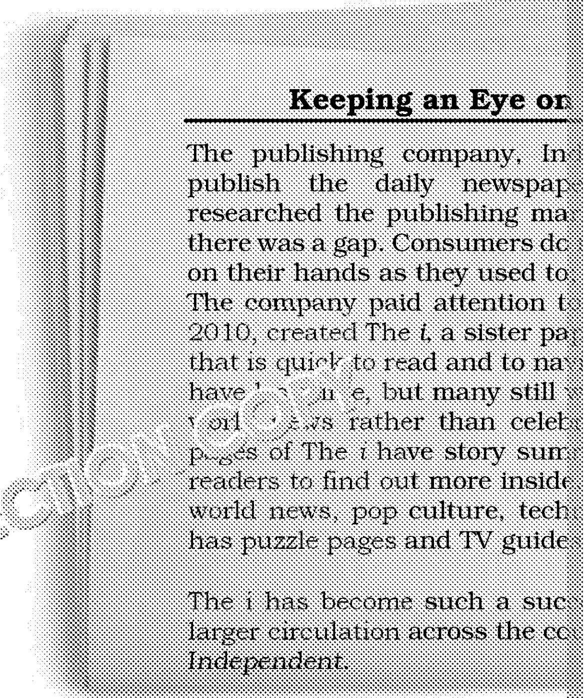


Diagram: Market map of newspapers in the UK

The market map above shows how British newspapers differ by price and content. focus more on celebrity stories (left of the map) than *The Guardian*, *Telegraph*, *Ind* *Daily Mirror* and *Metro* are similar in content but differ by price – *Daily Mirror* is th is free.

Focus: *The i* Paper

Question:
Discuss the disadvantages that come with market mapping.



Keeping an Eye or

The publishing company, In publish the daily newspap researched the publishing ma there was a gap. Consumers dc on their hands as they used to The company paid attention t 2010, created The *i*, a sister pa that is quick to read and to na have ... e, but many still world news rather than celeb pages of The *i* have story sum readers to find out more inside world news, pop culture, tech has puzzle pages and TV guide

The i has become such a suc larger circulation across the co *Independent*.

Competitive Advantage of a Product or Service

When a company spots a gap in the market, it can use this information to better d wants. This helps the company gain *competitive advantage* (or 'an edge') over its r themselves in many ways, such as:

- Reliability of products/services
- Quality
- Price
- Key product features
- Customer service
- Convenience
- Infrastructures able to cope with demand
- Branding and promotion
- Innovation
- Marketing and advertising

Good examples of companies that manage to gain competitive advantage in their markets include Virgin (using their strong branding to enter new markets), IKEA (providing quality products at low cost) and Microsoft (able to innovate as trends change).

The Purpose of Product Differentiation

Companies use *product differentiation* as a way to gain advantage over their comp product with differing features (*unique selling points or USPs*) and then mark the product out from the competition. Sir James Dyson saw a gap in the va with his invention of the 'bagless' vacuum. Dyson spent years researching and dev the perfect product. Since then, the name Dyson has become synonymous around high quality.

One main benefit of product differentiation for firms is that the producer does no order to compete. If your product is the best quality option on the market and cu to you! Once consumers are choosing your product over others, they may start to others, too!

Adding Value to Products/Services

Added Value is the difference between the price at which a business sells its produ producing that product/service. Businesses add value to their products/services in attractive and desirable to the customer. Firms achieve this by changing the produ changing the way that customers perceive the product (through advertising and b

You can calculate the added value of a product/service using the following formu

$$\text{Added value} = \text{Selling price of product/service} - \text{Total cost of producin}$$

Making a product/service more desirable helps to keep customers happy, attract n purchases – some customers might even refer their friends, repeat purchases and reduce the business's advertising and marketing costs and improve and consolida market share and market growth.

Value can be added functionally or aesthetically. Some ways to *functionally add va*

1. Offer customers several *alternative methods* of payment, e.g. credit card, cheque or cash.
2. Offer customers the facility of purchasing a *gift voucher* for the product/ family and friends on special occasions.
3. Issue customers with a *loyalty card* so that they can *get something back* product or use a service.
4. Offer customers *cash discounts* on purchases or introduce *special promo* (e.g. buy one and get the second for half price).
5. Offer customers *warranties* and extended warranties on the product pur
6. Provide customers with a reliable *after-sales service* for the product.
7. Give customers the option of purchasing *'add-ons' or 'upgrades'* for the service.
8. Price the product or service appropriately. *Higher-priced* products create and have a certain *'snob'* value.

Some ways to *aesthetically add value* to a product or service are:

1. Associate the product or service with *well-known* personalities or busine
2. Package and present the product in a way that creates the *perception of*
3. Present the product as a *uniquely designed 'must-have'* item.

1.1.3. Questions

Please write your answers on a separate piece of paper or in an exercise book.

5. *Choose a product type (such as sweets or magazines) and draw a market map u axes include price, age group and location. Are there any gaps? What could the*

6. ***a.*** *What equation is used to calculate added value?*

b. *Identify two ways in which a firm can add value to products/services*

i. Functionally

ii. Aesthetically

1.1. Keywords

Stock exchange:	A place where public limited companies (plc) trade sha Individuals and other companies are able to buy share in a firm.
Dynamic markets:	These are markets that change with a variety of factors government regulations and the emergence of new co
Stable markets:	These markets stay the same regardless of changing fa and standard bread markets.
Trend:	The direction in which most things appear to be movin new technology firms to attract young consumers.
Competition:	When two or more firms offer their products/services t competition with one another.
External fa	Influences from outside the company which affect the changes in consumer tastes.
Risk vs uncertainty:	Risk is generally something that can be planned for. U involves the factors, normally external, that are beyond take calculated *risks*, but they are generally unable to p
Product orientation:	When a business focuses more on its product and pro what consumers are looking for.
Market orientation:	When a business creates a product/service by first find consumers want.
Primary research:	Research data that has been gathered first-hand. Busin data through questionnaires and surveys.
Secondary research:	Research data that has been gathered second-hand, su statistics of a survey published by another company.
Market segmentation:	When a market is split into groups, such as location, a segmentation in order to understand on which section concentrate.
Market mapping:	Visual representation of a consumer market, which usu price vs quality).
Competitive advantage:	Firms that positively distinguish themselves from the c competitive advantage, or *the edge*, over their rivals.
Differentiation:	This covers the ways in which a company gains compe product branding, price, marketing and customer serv
Add value:	When a business turns the sum of raw materials into a more valuable... Value added is calculated as: Selling price of pro product/service.

1.1. Answers

1. **a.** *Students should explain that mass markets are directed at large-scale markets focus on specific areas. An example of a mass market could b with handcrafted pottery, which caters to a specific (niche) market.*
   b. *Changes include government legislation, consumer attitudes, new tec entering the market.*

2. *Businesses refer to* ***uncertainty*** *as things that cannot be predicted while r therefore, can be calculated.*

3. *Reading through market reports is considered secondary market research information. Primary research is conducted by gathering first-hand inform as questionnaires or interviews).*

4. **a.** *Advantages of primary research include: reveals new information; kee the target market, and allows the business time to concentrate on its*
   b. *Limitations could include: size (i.e. too small a sample); bias (i.e. inter and ignores other correlations); representation (e.g. regions can differ consumption; and structure (e.g. closed questions).*

5. *Students should create a market map with two opposing axes, such as pric group (young to old), and add in any products to compare. Gaps in the ma need. Alternatively, there might be a reason for not filling some gaps, such extremely low quality!*

6. **a.** *The calculation used to define value added is:*
   Selling price of product/service – Total cost of producing the product/
   b. *Students should identify two ways for each form:*
      i. *Functional ways of adding value include: cash discounts; increasi alternative methods of payment.*
      ii. *Aesthetic ways of adding value include: celebrity endorsement; i*

1.2 Market

1.2.1. Demand

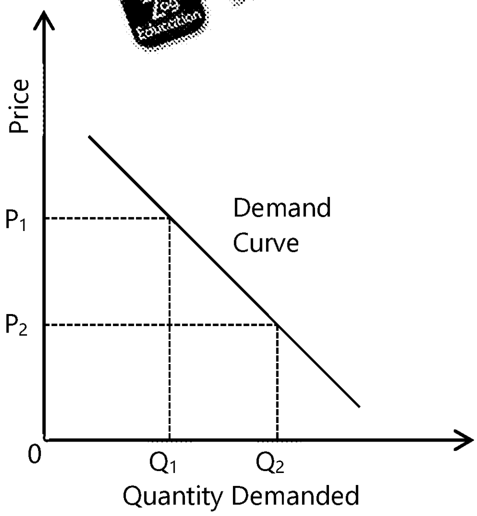
! Key Points Covered

- Demand
- Factors Leading

Where there is demand, there is supply.

Demand for a product/service creates a way for supp[illegible] make a profit. If there profit to gain, there is not much reason to st[illegible] (o[illegible]tinue) a business venture.

Effective demand is the poi[illegible] quantity of goods/services is desired at a cer *curve* to show [illegible] [illegible]creases or decreases with price.



The graph shows the *basic law of dem* demand for goods is low (Q_1). When p (Q_2). Each rise in price leads to a redu basic law of demand shows the relatio from the perspective of *ceteris paribu*

Change in price can only create a mov It does not cause an *actual shift* in de entire curve to the left or right – more

Ceteris What?
Ceteris Paribus is a Latin phrase meaning 'all other things being equal'. This phrase make the assumption that nothing else is going to change.

For example, if it is snowing and someone is outside, you can assume they are fee not accounting for the possibility that the person has a coat on or is inside a heate flask of tea.

Factors Leading to a Change in Demand

When using the basic law of demand, *ceteris paribus*, any change in price causes m curve – so a higher price equals a lower quantity demanded. There are other facto cause an actual shift to the demand curve.

Factor	Description
Disposable income	If the average disposable income of a consumer increase people will have more money available to buy goods anc services. This is not a movement along the demand curve but a shift, because the overall level of demand has increased. The supply curve stays the same, with supplier moving along their curve in order to meet the new level o demand. Prices then rise accordingly. It is worth noting, however, that the opposite can occur with inferior goods; as average disposable income increases, consumers change their buying habits, moving away from inferior goods, and so demand for these products will decline.
Changes in price of substitute goods	Goods can lose demand to substitute products. Take fres ground coffee and instant coffee for example: if the price fresh-ground coffee decreases so much that consumers eventually change their buying habits, demand for instan coffee will decline.
Changes in price of complementary goods	This is when demand for a product increases because of another related product. If lamb decreases in price, for example, its demand should rise. This, in turn, could increa demand for mint sauce, which *complements* the lamb.
Fashions, tastes and preferences	Fashions come and go, creating sudden demand for particular products/services. Flares were popular in the 1960s, for example – and they will have their time again! Today's consumers are more concerned with health and wellness than in previous years and so the demand for healthy products/services has increased.
Successful advertising and branding	Companies use advertising as a way to generate awarene of their products/services and use branding to encourag loyalty from their customers.
Demographics (e.g. when areas become wealthier)	The structure of a population can affect demand. If a community changes over time, so can the average consum For example, gentrification occurs when there is an increas of wealthier people/businesses moving in to an area.
Adverse e[illegible] shocks	These can be anything from war and terrorism to diseases and natural disasters. In the mid-1990s, *bovine spongiform encephalopathy* (BSE, commonly know as mad cow disease) was found in cattle all around the U The disease eventually spread to humans, too, causing deaths and worldwide panic. Countries stopped importin British beef and farmers were forced to kill their cattle.
Seasonality (i.e. when things are in season)	Consumers buy some things only at certain times of the y Cadbury's Crème Eggs, for instance, are popular most of t year, but sales increase around Easter. Other products/services don't make any sales until they are in season. Santa's grotto wouldn't get many visitors in summ

1.2.1. Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. *Copy out and fill in the gaps with either 'low' or 'high':*

The basic law of demand says that when price is high, demand for goods is ____

when price is low, demand for goods is ________________________.

2. *Complete the following table, stating whether each factor shifts the demand cu*

Factor	Shift Curve Left o
Goods are in season	
Increase in price of comple... goods	
Goo... on... unfashionable	
Incre... disposable income	
Increase in price of substitute goods	
Goods become fashionable	
Successful advertising and branding	
Adverse external shocks	
Goods are out of season	

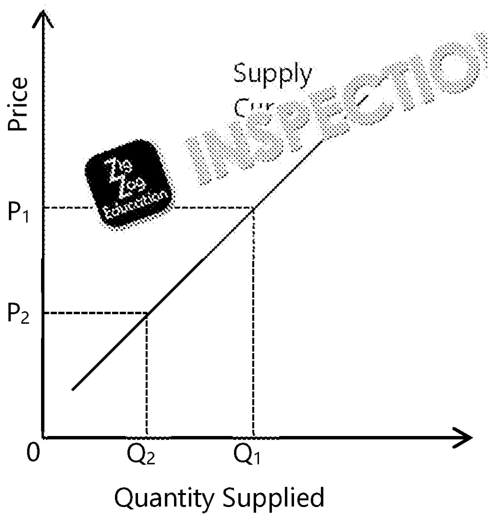
1.2.2. Supply

! Key Points Covered

- Supply
- Factors Leading t

Businesses (producers that supply goods/services) see things differently to consu

Supply shows the quantity of products/services that a business is prepared to pro demand, which decreases with price, the basic law of supply states that quantity s *ceteris paribus*.



e graph shows how the quantity changes according to price. A high suppliers more incentive to sell the supplied is high (Q_1). Once market does quantity supplied (Q_2). Every quantity businesses will supply, *cet*

Change in price can only create a It does not cause an *actual shift* in entire curve to the left or right.

Factors Leading to a Change in Supply

The basic law of supply shows how price creates movement up and down the sup are other factors at play, however, which can shift the supply curve entirely.

Factor	Description
Increasing cost of production	If the cost of producing a particular good increases, busines in general will be less inclined to supply the product.
New technological improvements	The introduction of new technologies often helps bring dow the cost of production. Businesses can then produce the sa (or more) goods/services with fewer (or similar) resources – they are able and willing to supply more at a given price.
Indirect tax	The rate of value-added tax (V...) ...stance, increased o January 2011 from 17.5% ... This affected the price of products, alth... ...pliers did not necessarily change qua... ...ed.
Government subsidies	...e agriculture businesses are given funding from the government if they grow foods that are of national importa Cereal and dairy farmers, for instance, can apply for subsidie to help their growing businesses, which would allow them t supply more goods.
Adverse external shocks	These include adverse weather conditions, disease, war and health scares. Some countries have refused to trade with on another (imposed a trade embargo) over the years, which restricts the quantity of goods producers can supply. One o the most famous trade embargoes is that between the USA and Cuba, which began in the 1960s.

1.2.2. Questions

Please write your answers on a separate piece of paper or in an exercise book.

3. *Identify and explain two factors that can lead to a shift in the supply curve.*

4. *Complete the following table, stating whether each factor shifts the demand cu*

Factor	Shift Curve Left
Increased indirect tax	
Increasing cost of production	
Increase in government subsidies	
Adverse external [illegible]	
New technological improvements	

1.2.3. Markets

! Key Points Covered

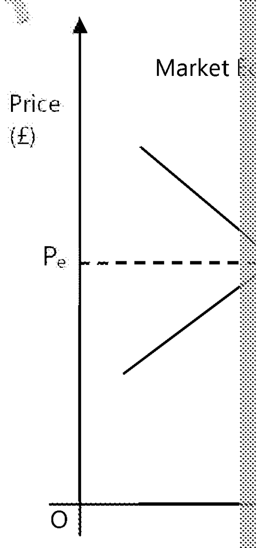
- The Interaction of Supply and Demand
- Interpretation o

The price consumers are looking to pay does not normally match the price suppli
Consumer demand for goods is generally higher when prices are low, while suppl
the price is too low.

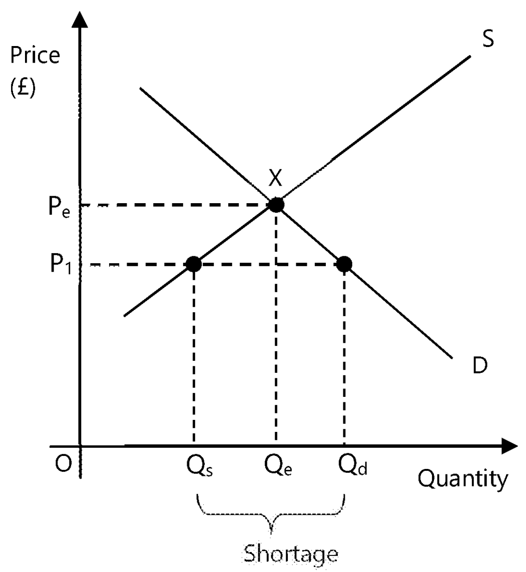
The Interaction of Supply and Demand

In a free market, producers and consumers can reach a point where price and quantity meet at consensus. Suppliers are willing to sell their goods at the right price for the consumer (P_e) and provide enough quantity to satisfy demand (Q_e). This is known as *market equilibrium* (X), or the market clearing price.

Market E

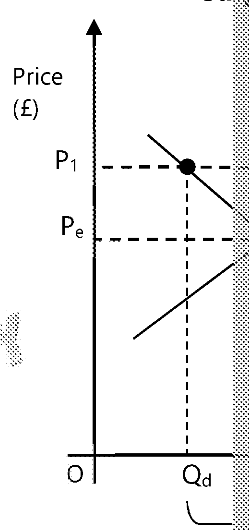


Shortage



A lower price than the market equilibrium (P_1) may turn suppliers away, who then supply a lower quantity of goods (Q_s). Suppliers will then find they have a *shortage* of goods – demand is high (Q_d), but they cannot fulfil it.

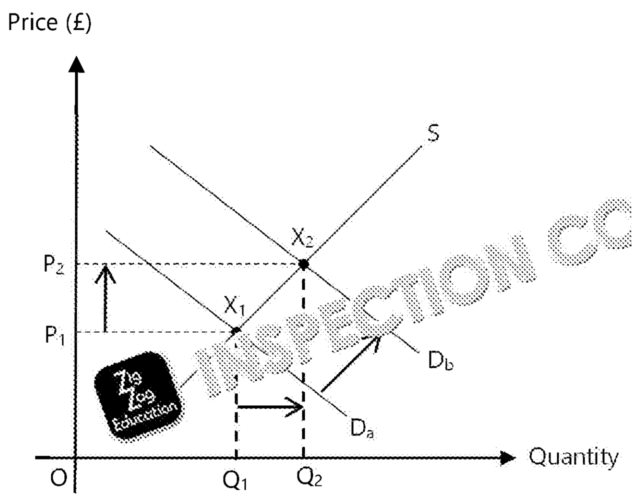
Su



A higher price
allows supplie
products they
producers will
few people are

Interpretation of Supply and Demand Diagrams

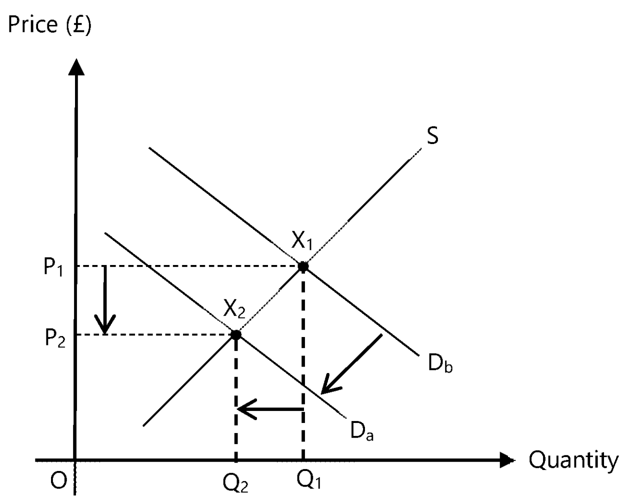
Changes in price cause movement along the demand and supply curves. If a facto
however, such as a technological breakthrough, demand can suddenly increase or
curve. This is represented on the graphs below.



Increase in Dem

When there is a sp
suppliers will often
Following a rise in
more goods.

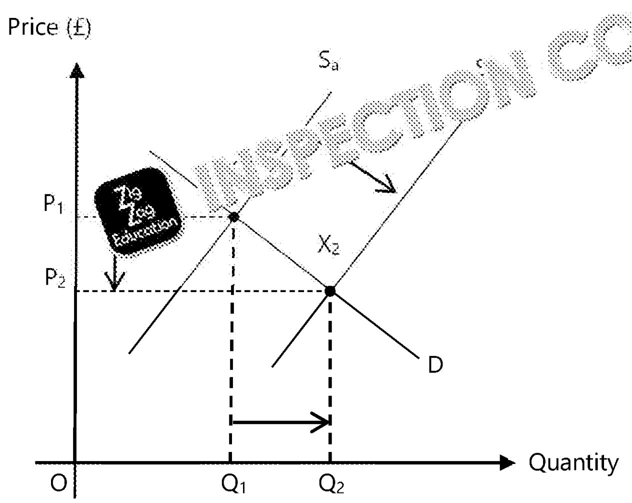
increase in demand
change in fashion
consumers want th
certain television s
the demand curve
market equilibrium



Decrease in Dem

When demand falls
price, suppliers wil
P_1 to P_2) and the q
prepared to produ
goods at P_1 will fin
goods than deman

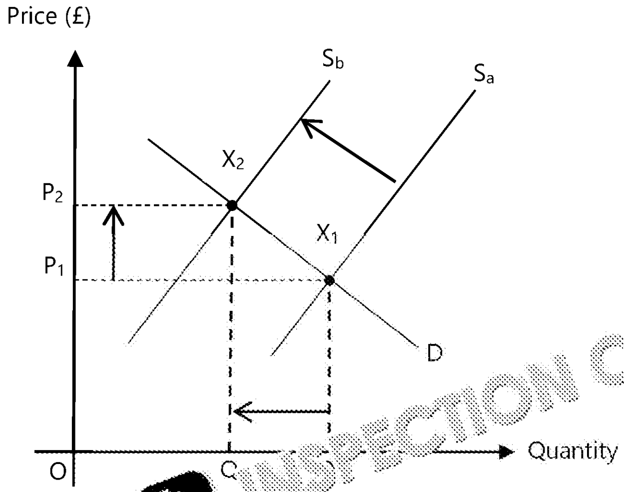
A decrease in dem
seasonality, such a
summer, or from a
outbreak of diseas
demand curve to t
equilibrium from X



Increase in Supp

When supply chan
from P_1 to P_2. This
quantity of goods
This increase shifts

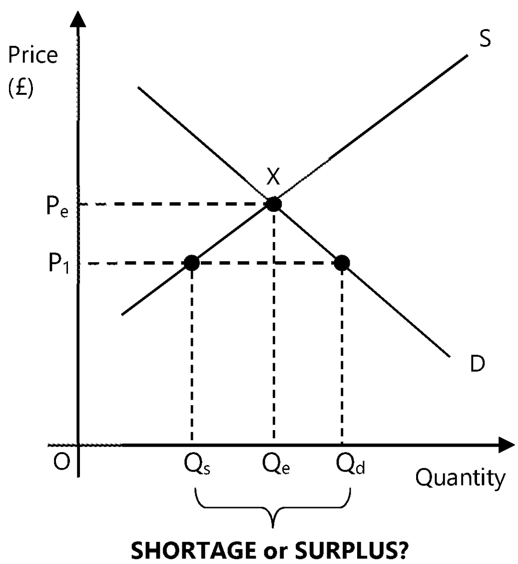
An increase in supp
developments, whi
or from governme
shift the supply cu
market equilibrium



Decrease in Supply

When supply changes f
P1 to P2. This then lead
goods producers are w
the supply curve to the

A decrease in supply m
such as disease, or fro
costs. Decreases in sup
left, which moves the m



1.2.3. Quest

Please write yo
piece of paper

5. *Identify w*
shows su

6. a. *Give*
dem

b. *Iden*
whe

1.2.4. Price Elasticity of Demand (PED)

! Key Points Covered

- Calculation of Price Elasticity of Demand (PED)
- The Factors Influencing PED
- Interpretation o
their Relationsh

This shows how responsive, or sensitive, the demand for a product/service is to pr going to rise or fall depending on the price of the product/service.

The formula below is used to calculate this:

$$\frac{\text{\% change in quantity demanded}}{\text{\% change in price}}$$

If the answer *is equal to 0*, then there *is complete price inelasticity* of demand. This there will be no change in demand for the product.

If the answer is less *than 1*, then demand for the product is *price inelastic*. This me very sensitive to changes in price – so, a business selling a product whose demand product's *price without damaging its total revenue income.*

If the answer *is equal to 1*, then there is *unitary price inelasticity* of demand. This m demand is *exactly the same* as the percentage change in price.

If the answer is *greater than 1*, then demand for the product is *price elastic*. This m quite sensitive to changes in price. If a business sells a product whose demand is p product's selling price and hope to increase its total revenue income.

Example

Consider the following data:

Unit price	Quantity demanded
£18	3,000 units
£14	4,000 units
£10	5,000 units

Calculate the price elasticity of demand if the price rises from £10 to £14.

Answer:

Change in quantity demanded:

= 4,000 units *minus* 5,000 units

= -1,000 units

Percentage change in quantity demanded:

$$= \frac{-1{,}000}{5{,}000} \times 100$$

= -20 % fall in demand

Change in price:

= £14 - £10

= £4

Percentage change in price:

$$= \frac{£4.00}{£10.00} \times 100$$

= 40% rise in price

Price Elasticity of Demand:

$$\frac{\%\text{ change in quantity demanded}}{\%\text{ change in price}}$$

$$= \frac{-20\%}{40\%}$$

= 0.5

The PED in this example is *less than 1*, which shows that demand for the product i customers *change* the quantity of goods they demand proportionally less than an selling price of a product might increase by £1.50, the chan h demand would b think of any products/services that are price inelas

Responsiveness is Key
The reaction of total reve ai depends on *responsiveness*. Let's use two

If the price creases, petrol prices will likely go up. People all around the wo taxis, and so ol is considered an essential commodity. Demand for the good is continue to buy petrol even if the price goes up. Sales revenue, therefore, is not v price inelastic.

Parsley is different. If there was a nationwide blight on the crop, meaning most of fewer suppliers would be selling parsley. As such, the price of parsley might increa the demand for parsley is price elastic; it is not considered an essential item (i.e. if consumers may just buy something else). Sales revenue, therefore, is very respons

The Factors Influencing Price Elasticity of Demand

Businesses calculate PED using data from contrasting levels of demand and how t Some of the factors that can influence PED include:

- The *brand loyalty* of the consumer
- The percentage of *disposable income* spent on the products
- The availability of *substitute* products
- The *frequency of purchase* for the product
- The *degree of necessity* (how much consumers really need the product)
- *Time*: Goods are normally more elastic over a *long period*, because consum buying habits

1.2.4. Questions

Please write your answers on a separate piece of paper or in xercise book.

7. **a.** *What calculation do businesses u d determine price elasticity of*

b. *Imagine that yo azine publisher. You sell your flagship (main) m rec in e price to £3. You notice that demand for the magazin c price from 3,000 units to 1,200 units. Calculate the price elasticit m e.*

c. *Using the answer from 7b, identify and explain whether your magazine is p unitarily elastic.*

8. *If a product is particularly price inelastic, would you advise the supplier to reduc market share? Explain your answer.*

1.2.5. Income Elasticity of Demand (YED)

! Key Points Covered

- Calculation of Income Elasticity of Demand (YED)
- The Factors Influencing YED
- Interpretation o
- The Significance

Income Elasticity of Demand (YED) shows how sensitive demand is to an increase
The formula below is used to calculate this:

$$\frac{\%\text{ change in quantity demanded}}{\%\text{ change in income}}$$

If the answer is *greater than 1*, this shows that demand is income *elastic*. That is, a *greater than 1% change* in the quantity demanded. This usually applies to *luxury g* televisions and holidays abroad.

Income *inelastic* demand occurs when income elasticity is *between 0 and 1*. That is *less than 1% change* in the quantity demanded. This usually applies to *necessary o* every day.

If the answer is *less than 1*, this shows *negative income elasticity* – if income goes u vice versa. This usually applies to *inferior goods*, such as cheap bread, potatoes, re hand clothing. When consumer *income increases*, people tend to buy *better quality* Richard Branson to eat Pot Noodles for lunch unless he really liked them!

Example
Consider the following data:

Income	Quantity demanded
£10,000	5,000 units
£12,000	7,500 units
£15,000	10,000 units

What is the income elasticity of demand if income rises from £10,000 to £12,000?

Answer:
Change in quantity demanded:
= 7,500 - 5,000
= 2,500 units

Percentage change:
$$= \frac{2{,}500}{5{,}000} \times 100$$
= 50%

Change in income:
= £12,000 - £10,000 = £2,000

Percentage change:
$$= \frac{2{,}000}{10{,}000} \times 100$$
= 20%

Income Elasticity of Demand:

$$\frac{\%\ \text{change in quantity demanded}}{\%\ \text{change in income}}$$

$$= \frac{50\%}{20\%}$$

= 2.5

The YED is *greater than one*, which shows demand is *income elastic*. A 20% rise in i
quantity demanded. Can you think of any products/services that are income elasti

The Factors Influencing Income Elasticity of Demand

There are other factors at play that can influence YED, the main ones being:

- Luxury, necessity or inferior goods
- Expectations of income such as promotion, job loss and recession

Simply put, consumers buy more inferior goods when times are tough and more l
the rise.

The Significance of PED and YED to Businesses

Businesses take both price and income elasticity of demand very seriously. The ca
effects on a firm's marketing strategies and on the overall decision-making proces

- Businesses use *price elasticity of demand* to determine the *effect* that *chang* their revenue income. Lower pricing policies work when demand is price ela when demand is price inelastic. This helps a business decide whether any su costs could be funded by the consumer through raising prices.
- PED can also help a business if it decides to operate a policy of *price discrim* 1.3). So, if demand for a product is particularly *price elastic*, it would not be of that product!
- A business that is trying to increase its market share might look to PED for a very *price inelastic*, for example, reducing the price of that product in order not be a realistic option!
- *Income elasticity of demand* helps a business decide how to organise its *pro* *changes in consumers' disposable income*. Businesses can adjust their produ everyday necessary goods and inferior goods depending on changes to the of the economy.

Focus: Poundland

Question:
Analyse the possible strategic changes Poundland may need to make once the economy is in a more positive position.

Recession Means

When the UK fell into a reces
of inferior goods began to
Poundland have since becom
high streets with more than 5

The company are reaping
However, if consumer incom
likely buy fewer inferior
Poundland will need a strateg
consumers have enough mon

1.2.5. Questions

Please write your answers on a separate piece of paper or in an exercise book.

9. *Identify one example of a product/service that:*
   - ***a.*** *has income elastic demand*
   - ***b.*** *has income inelastic demand*
   - ***c.*** *has negative income elasticity of demand*

10. *Explain one way in which businesses are affected by a product's/service's incom*

1.2. Keywords

Demand/Supp[illegible] sh[illegible]	[illegible]ore than movement along a demand/supply curve, t[illegible] A shift can occur from many factors, including change[illegible] consumer tastes, fashions and external shocks. A shift [illegible] predominantly from a change in the costs of productio[illegible]
Market equilibrium:	The point at which consumer demand and producer su[illegible] two curves intersect.
Shortage:	If the market price of a product is low, firms may not w[illegible] their while. However, consumers will be more intereste[illegible] will rise. This leaves suppliers with more demand than [illegible] market shortage.
Surplus:	If the market price of a product is high, suppliers are m[illegible] more goods. However, consumers may not want to pa[illegible] products. This leaves suppliers with a surplus.

1.2. Answers

1. The basic law of demand says that when price is high, demand for goods i
demand is **high**.

2.

Factor	Shift Curve Left or Right?
Goods are in season	*Right*
Increase in the price of complementary goods	*Right*
Goods become unfashionable	*Left*
Increase in disposable income	*Right (or left if it is an inferior good)*
Increase in the price of substitute goods	*Left*
Goods become fashionable	*Right*
Successful advertising and branding	*Right*
Adverse external shocks	*Left*
Goods are out of season	*Left*

3. Factors that can lead to a shift in the supply curve include: new technolog
more easily and more efficiently); cost of production (if this increases, p
fewer goods); external shocks; and government subsidies (if these increa
businesses may start producing the crop).

4.

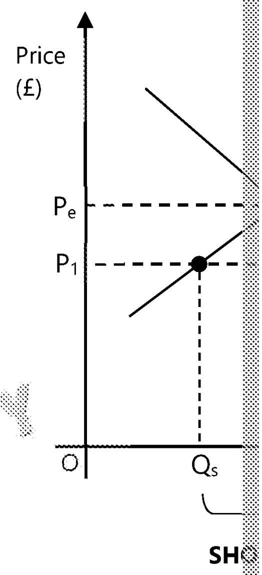
Factor	Shift Curve Left or Right?
Increased indirect tax	*Left*
Increasing cost of production	*Left*
Increase in government subsidies	*Right*
Adverse external shocks	*Left*
New technological improvements	*Right*

5. Answer shown as 'Shortage' on graph to the right. Demand grows for a p
pay less. Suppliers, therefore, not wanting to make a loss on sales, are un
a low price.

6. **a.** Students should show that demand can come from many factors, inc
- Fashion trends, which can cause spikes in certain individual produ
- Celebrity endorsements, which increase brand awareness
- Introduction of a new product/service, which shoots up in popu
- Successful marketing on the part of one business, or the part of
- Changes in price and demand of complementary goods
- Changes in price and demand of substitute goods

b. Students should identify that a decrease in demand shifts the demar

7. **a.** $\dfrac{\text{\% change in quantity demanded}}{\text{\% change in price}}$



b. **Change in quantity demanded:**
1,200 – 3,000 = –1,800 units
(–1,800 / 3,000) x 100 = –60% fall in demand

Change in price:
3 – 2
= 1
(1 / 2) x 100 = 50% change in price

PED:
60% / 50%
= 1.2

c. Demand for the magazine is price elastic, which means that consumer demand is quite sensitive to any price c

8. Students should show understanding of terms, explaining that if a produ the seller is able to increase the price without fear of losing demand. Thi demand is price inelastic are normally leaders in their markets.

Consumers are often swayed by price (higher is better) and so a lower-p lower value/quality. A reduction in price on an inelastic good, therefore, consumers, but the producer runs the risk of losing what made it desirab perception of quality.

9. **a.** Examples include luxury goods, such as home entertainment system
b. Examples include necessary goods, such as bread, milk and cheese (alternatives).
c. Examples include inferior goods, such as instant coffee, second-han

10. Students should explain one way that businesses are affected by YED, in
- Businesses can better plan out their production output in response many goods to produce with regards to disposable income
- Businesses can also make better decisions as to which type of good necessary or low-value goods
- Furthermore, businesses can expand their portfolio of goods offered disposable incomes of their customers

1.3 Marketing Mix and Strate

The *Marketing Mix* is the combination of elements a company uses to best offer a market, or to test the marketing strategy it is currently using. Companies employ e research how, why, when and where a product will succeed, and what needs to be

The marketing mix can be broken down into four Ps:

PRODUCT

Firms will consider everything from the features of a prod characteristics in order to understand why consumers buy not another. If the product were changed somehow, woul For example, redesigning the packaging of a product or s service.

PROMOTION

Marketers will often look at why a product is not selling. W product sell more? Do consumers react positively to prom harm a brand's image? This may depend on the market.

PRICE

What are consumers willing to pay for a product? Does th Is demand for the product elastic or inelastic and what wo price was increased? Would consumers assume the produ

PLACE

What channels do producers use to distribute their goods? expectations on how a product/service is delivered to the link in the distribution chain? What would happen?

1.3.1 Product/Service Design

! Key Points Covered

- Design Mix
- Changes in the [cut off] Reflect Social Tr[cut off]

Design Mix

Markets are always changing and so is consumer expectation. What was acceptab[le] considered out of date today. Businesses often react to consumer trends by creati[ng] innovating on an existing product to make it more app[ealing] e.g. changing desig[n] Dyson understood that the vacuum cleaner was a source of frustration for many p[eople] he invented the 'bagless' vacuum.

Another method is to introduce an existing product to a new market (e.g. repacka[ging] audience or exporting to different countries). Once only found in colder climates, [...] a thriving m[arket in] many African countries.

Whichever method it chooses, a company will ensure it has a complete design mi[x]

The *design mix* splits into three main areas: Function, Aesthetics and Cost. Some fi[rms] costs first and address the other elements later. Other companies may concentrat[e] time. Airlines, for instance, were once seen as a luxury and so aesthetics were very [...] luxurious comfort). Nowadays, economy airlines have changed the way we think a[bout] people can afford and so the design mix has had to change, too.

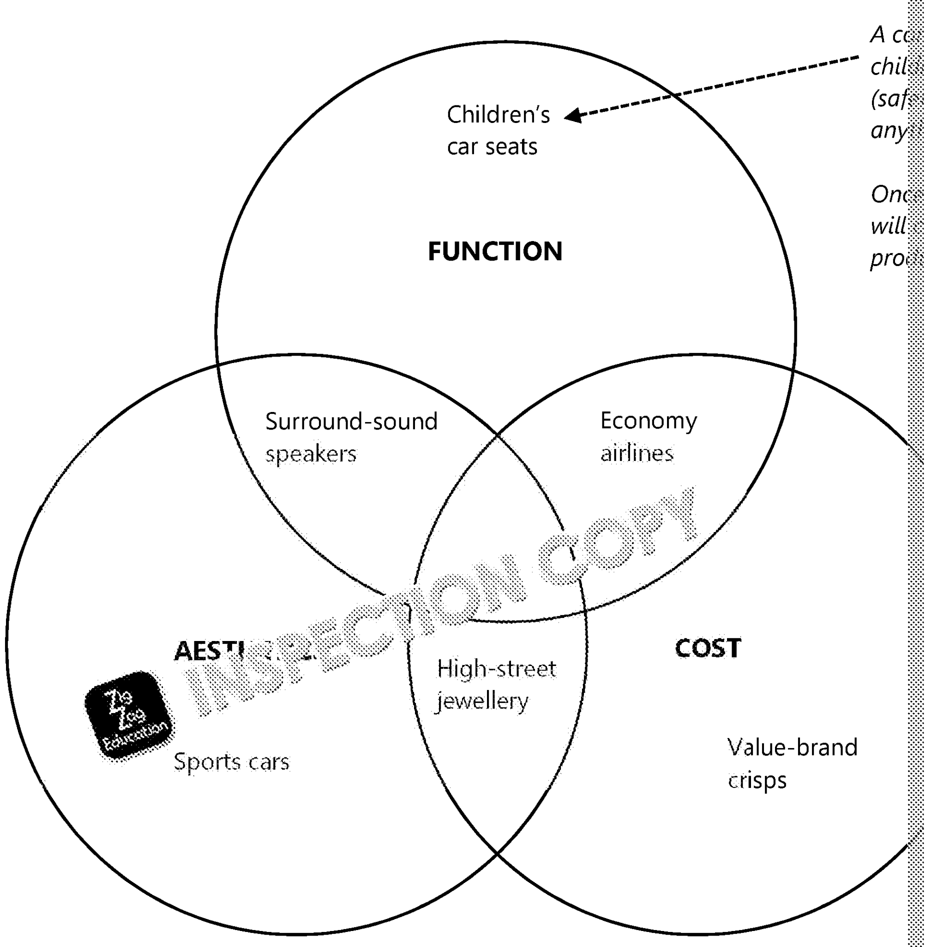


Figure: Example products and services in the design mix

Some Things Never Change
Businesses have to understand their markets and be aware of what competitors a
coming to the end of its life cycle, for instance, a business should be ready to intr
on the current product.

Some things, however, never seem to go out of fashion. Coca-Cola and Cadbury's
impressively long life cycles. Even when consumer tastes change, these products a
through an effective design mix.

Activity: Can you think of a brand name that fits in each section of the design mi
involve all three?

How the Design Mix Can Change

Firms decide how to manage their design mix using a variety of factors, including c
environmental issues and the market. They also need to take into account their ow
is looking to maximise profit, it has to consider whether the best way to achieve t
making the cutting the product or offering a unique selling point that no other

Changes in the Elements of the Design Mix to Reflect Socia

The design mix of a firm can change depending on a variety of internal and extern
may change in a few years. A business must be able to react to this and fulfil cust
someone else will!

Sustainability: Resource depletion has become an essential concern for businesses
government regulations, but because this is what consumers expect. As such, man
of *waste reduction, reuse and recycling* by starting or joining schemes that give ba
amount of packaging required to ship a product or planting trees for every three

Ethics: General business practices have had to change, too. In today's digital world
consumer to research an organisation and learn whether their processes are ethic
promote the fact that they use suppliers that pay fair wages to factory workers, w
fashion industries have worked to stamp out animal cruelty from their business pr

Health: The modern consumer is no longer willing to just buy something without
Fast-food chains, such as McDonald's, have had to change their product ranges in
for healthier options. This rise in demand has also brought organic food into the s
certain independent shops, consumers can now buy organic produce in most maj

Technology: Technological advancement has the power to influence how firms do
have as consumers. Online shopping is now the norm – and home delivery, too. Y
electronics shop, find a TV you like and look up prices on your phone while you're
change their models to match this – and you can now order anything you like onl
like, too, with films and series available digitally via television, laptop, mobile, t
surely there are more to come!

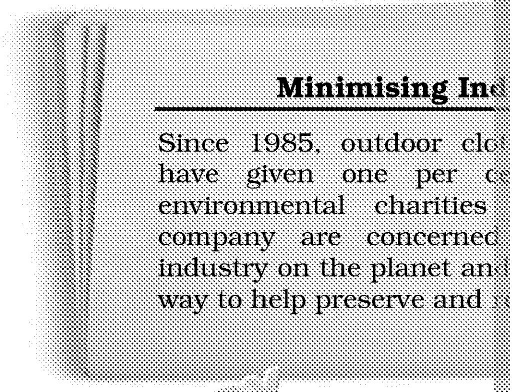
Government legislation, such as that in reaction to climate change, has created a
to behave more responsibly. This can be seen in equal employment policies, but a
are now being produced. Have you noticed an increase in wind turbines or solar p

Business Objective: Whether a business is looking to survive, enter a new market, c
a market leader, it will need to formulate a working design mix. For survival, the b
increase sales. However, if it wants to become market leader, it may need to focus
develop a unique selling point.

A unique selling point (USP) is any feature that makes a product appear different
created through intense research and development while others come out of exte

Focus: Patagonia

Question:
Identify who you believe is the target audience for Patagonia and discuss what other measures the company could take in order to appeal more to this customer base.

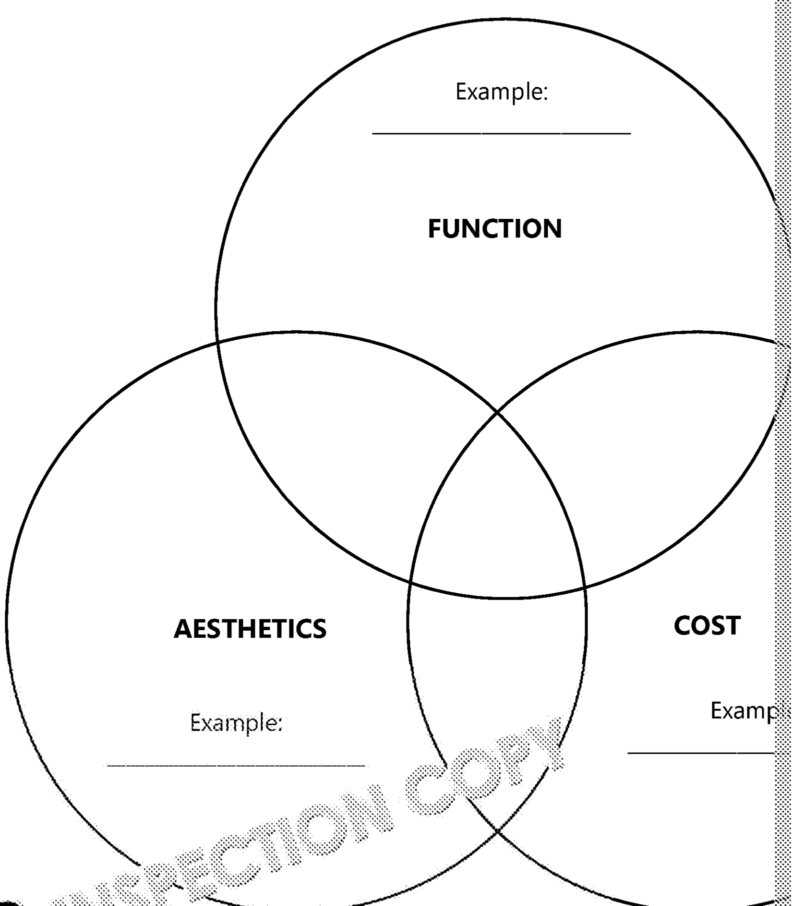

Minimising Ind

Since 1985, outdoor clo
have given one per c
environmental charities
company are concerned
industry on the planet an
way to help preserve and

1.3.1. Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. *Copy out the following design mix and identify one example product/service for*



2. *Explain one way in which the following can change a product's design mix.*
   - **a.** *Sustainability*
   - **b.** *Health*

1.3.2 Branding and Promotion

! Key Points Covered

- Types of Promotion
- What Influences a Business's Choice of Promotional Mix?
- Changes in Branding to Reflect Social Trends
- Types o
- The Be
- Ways t

Types of Promotion

The promotional mix, also known as the *Marketing Com... tions Mix* or *Marco* communications that a company uses to promote its ...ducts or services. From p sponsorship and advertising, promotion ... ential part of any business.

Public Relations

Companies ...s ... ique as a way to *increase selling potential* of their produ image for t... nal market to see. They achieve this in many ways, such as spo positive media coverage (in the news), encouraging employees to have a respectf anyone in contact with the business and understanding how to handle negative p

Advantages of Public Relations:

- Businesses promote themselves through storytelling, which can incite
- Through this promotion businesses create a name for themselves, wh

Disadvantages of Public Relations:

- It is difficult to measure success with this method
- Once a business story is released to the press, it can become skewed

Direct Marketing

This involves contacting carefully-selected target audiences on an individual basis either by telephone, in person or through 'personalised' letters. Direct selling initiatives aim to get an immediate response so that businesses can create long-lasting relationships and build on their customer database.

Advantages of Direct Marketing:

- Businesses can track the success of their work
- Companies can test the usefulness of a method before opening it to a full-scale marketing campaign

Disadvantages of Direct Marketing:

- Many consumers do not want to be co...te..., especially in an unsolicited manner
- This form of promo... to poor-quality leads

Personal S...

Businesses ... n send a sales representative to meet with potential customers to promote t... human side of the business, injecting personality into the marketi

Advantages of Personal Selling:

- Person-to-person means the method can be adjusted to whoever th
- This is a good way to build strong personal relationships

Disadvantages of Personal Selling:

- Personal selling has a high cost per action (CPA), i.e. the price of find
- Employees require training in order to practise personal selling

Advertising

This consists of any paid form of communication that is not personal. Companies
consumers and persuade them to buy their product or service without having any
advertising include newspapers, television, radio, buses and bus shelters, hoarding
cinema.

✓ *Advantages of Advertising:*

- The potential for consumer reach is great
- Some types of advertising can be easily tracked

✗ *Disadvantages of Advertising:*

- If an advertising campaign becomes too ubiquitous (i.e. you see/hear
could be a backlash from consumers who come to hate the company – is
- Potential for reach is great, but targeting can be impersonal and so co

Sales Promotion

This is a short-term marketing *technique* designed to encourage and persuade the
service. Examples of this include in-store samples and demonstrations, competitio
time/inventory offers and buy-now bonuses.

✓ *Advantages of Sales Promotion:*

- Promotions can help encourage repeat purchases
- They can also entice customers who previously may have been relucta

✗ *Disadvantages of Sales Promotion:*

- The sales from promotions can often be one-time purchases and then
- They are also expensive to manage (i.e. if the promotion does not wo
a loss)

Sponsorship

Companies use sponsorship to promote their products or services to consumers t
Examples of this technique include sponsoring live events, organising product pla
and celebrity endorsement.

✓ *Advantages of Sponsorship:*

- If people like the sponsored event, the business's brand can receive a
- Since people are already watching the event, the firm can easily disse

✗ *Disadvantages of Sponsorship:*

- If people dislike the event, the brand receives a negative knock-on eff
- Some events, such as the Olympic Games, are so big that numerous b
advertising clutter and so limited genuine brand exposure

Digital Communications

Information technologies allow businesses to reach out to more potential custom
scope for online advertising, product-focused apps, mobile adverts, user-generate
social media sponsorship.

✓ *Advantages of Digital Communications:*

- Businesses can target the consumers they want through paid search r
- Digital is much cheaper than physical communications, such as newsp

✗ *Disadvantages of Digital Communications:*

- Since most brands are looking to advertise, there is great potential fo
- As consumers become more Internet-savvy, they are learning to igno

What Influences a Business's Choice of Promotional Mix?

Choosing the right promotional mix depends on the business and its objectives. S

- *Budget:* How much money has been allocated to the company's promotio it last?
- *Competition:* Who are the competition, what is their potential threat and w help to combat them?
- *Promotion Objectives:* Are the promotion objectives to create product awa identity or generate sales or enquiries?
- *Product:* What mix would best suit the product?
- *Product Life Cycle:* What stage is the product at in the life cycle?
- *Target Market:* Who are they? What do they need or want? When do they and why?

Changes in Traditional Advertising

In the past, if you advertised on a TV channel such as ITV, most viewers around th would have seen your product. Nowadays, however, there are so many channels, a different ways to watch TV, that advertising on TV is no longer the most cost-effective option. Commercial breaks are not the only way to grab attention any m Advertisers now use mass media in a variety of ways, including product placemen live-event sponsorship.

Types of Branding

While promotional activities can be used to generate an immediate reaction, so th consumers buy a product or service (e.g. a clothes shop advertising a limited end- season sale), companies use branding as a way to increase *consumer recognition* o their product, service or name.

Businesses invest in branding as a way to promote the way they wish to be seen. A strong brand means less reliance on direct selling, sales promotions or price cuts, a the customers will hopefully come to you! Branding also helps create a personalit a product, service or business.

Types of branding include:

- Manufacturer/corporate
- Product
- Own brand product

Manufacturer/corporate: This branding focuses on the business itself by getting th along with an idea of who they are and why their products or services stand out a example, are considered high quality by consumers due, in part, to the products t brand that the company have managed to create.

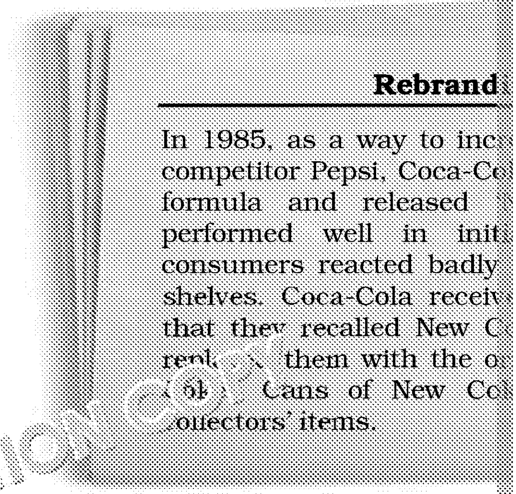
Product: Companies that invest in this type of branding want to ensure their produ thinks of when they have a specific need. Many companies promote a select few f which are the most successful products they sell. Microsoft Corporation's flagship pr Windows and Office.

Own-brand product: This branding started as a way for some supermarkets to offe consumers (Tesco Value, for example). Nowadays, most supermarkets offer their o their own 'Essential' product range. How do you think Waitrose's own-brand prod

Rebranding is a marketing strategy in which a company changes a brand to give i Companies rebrand by creating a new name, term, symbol or design (or a combin consumers, stakeholders or suppliers will see the brand differently. Some rebrand while others fail miserably.

Focus: New Coke

Question:
Discuss where you think Coca-Cola went wrong in the promotion of New Coke. Could the company reintroduce the product to today's market? Explain how Coca-Cola could succeed this time.



Rebrand

In 1985, as a way to inc competitor Pepsi, Coca-Co formula and released performed well in init consumers reacted badly shelves. Coca-Cola receiv that they recalled New C repl them with the o 61. Cans of New Co collectors' items.

The Benefits of Strong Branding

Strong branding can significantly *add value* to a product, compared with generic, unbranded products. This allows the producer to command large areas of a market. If consumers see a brand as particularly high quality, they might be willing to pay a premium for it and even seek it out directly. This can lead to a reduction in *price elasticity of demand (PED)* for the product, meaning the producer can charge a higher rate without affecting the number of sales.

Once the bu

Having a strong brand can also help create *barriers to entry*, which keep potential competitors from joining the market.

Creating a brand is still a risk, though: just because a brand is well known doesn't mean it will be successful. If a brand has a history of providing low-quality products, for instance, the producer can have major difficulty when they finally try to turn the business around. Consumer opinion is difficult to shift!

Another pitfall in branding is to make your product so famous that every similar, g by the same name. These products are called *brandnomers* or *generic trademarks*. Velcro, Sellotape, Pritt Stick and Tannoy.

Ways to Build a Brand

Differentiation and Unique Selling Points

Differentiation is how different a product appears compared to its competitors'. M
in differentiation rather than cutting prices for several reasons:

- Price cutting can create a negative image for a product or service, becaus
  quality with price
- If a product appears different enough from its competitors (in a positive w
  remain loyal
- A brand image of high quality allows the producer to charge a premium without losing sales

[redacted]
Dyson
world
techn
The c
believ
engin
low-c
count
says I
keep a

One way that a business can achieve differentiation is through *unique selling points (USPs)*. Examples of types of USP include:

- Design
- After-sales service
- Unique features
- Distribution
- Quality
- Durability

A business looking to differentiate itself from competitors must first understand w
markets, for instance, quality is the most important factor while, in other markets,
convenient form of distribution (e.g. online, home delivery).

Whenever a business considers a promotion or branding strategy, it must also tak
competitors – what are other companies doing and where is there a gap? The bus
strategy as part of its marketing mix, alongside the other three Ps: *Price*, *Place* and

Advertising

Businesses advertise their products and services in many ways, including print (ne
hoardings (or billboards), television and radio (commercial breaks), public spaces
metro/tube tunnels) and online via web-page banners, search engine results, vide

Advertising generally comes at a high price. This strategy works well for businesse
afford to reduce their profit margins, but smaller businesses will struggle to comp
volume of advertising, such as cereals, this can also prevent new firms from enteri

In the 1990s, Budweiser beer were looking for ways to reinvigorate their brand for
ages 21 and 30). The company decided on a TV advertising campaign in which thr
as 'Bud...weis...er'. The advert played during the Super Bowl and was an instant su
the 21–30 market. The campaign won numerous advertising awards and is celebra
its time.

Sponsorship

*The use of product placement in television shows and film is becoming more regula
think this is happening?*

Some brands use sponsorship over advertising. This involves giving support (u
something in exchange for an increase in brand awareness.

Examples of sponsorship include:

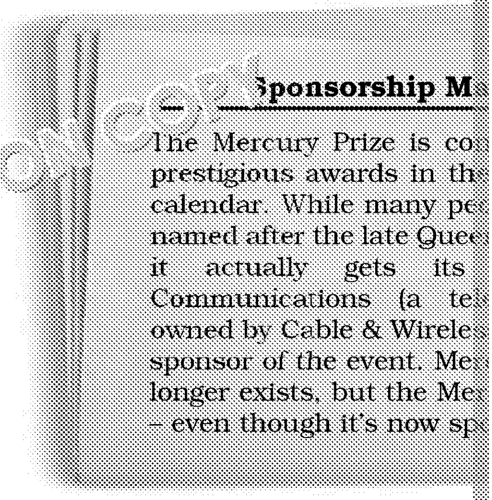
- Sponsored events
- Product placement (film and television)
- Social media sponsorship
- Celebrity endorsement

English footballer David Beckham is arguably as famous for his fashion tastes as fo
years, Beckham has taken part in many sponsorship campaigns with big-name bra
Armani, Samsung and Burger King.

A controversial form of sponsorship is the *advertorial*. This is a brand advertiseme
seem like a genuine article. Newspapers and magazines receive payment for publi
clearly show that they are advertisements. However, it is not always easy to tell the
advertorial!

Focus: The Mercury Music Prize

Question:
Discuss whether the Mercury Prize was right to keep the original name of the award, even though the sponsoring company no longer exists. Analyse whether the Mercury Prize could still have the same prestige under a different name.


Sponsorship M

The Mercury Prize is co
prestigious awards in th
calendar. While many pe
named after the late Quee
it actually gets its
Communications (a te
owned by Cable & Wirele
sponsor of the event. Me
longer exists, but the Me
– even though it's now sp

Changes in Branding and Promotion to Reflect Social Trend

The Internet plays a major role in most people's daily lives and has changed the w
another. This goes for branding and promotion, too; consumers are still exposed t
obvious than in the past.

Viral Marketing

Nowadays, people can share content with one another in seconds – we don't even
any more to share a silly video! Companies understand this, and the power it has,
content to be published online. This can include video clips, images, infographics,
campaigns, among countless others. The aim with creating this content is for so m
viral.

Social Media

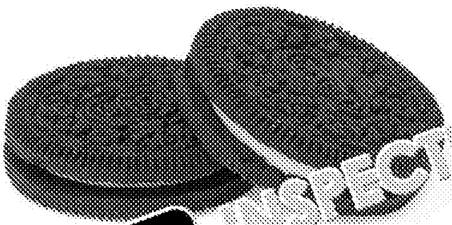
Shareable content can be exchanged online via email and message boards, thoug
social media. These channels, such as Twitter or Facebook, can be used as adverti
Much like advertising at the top of search engine results, brands can pay for 'spon
consumers' social media feeds. This sort of brand awareness is highly user-focused
result in high volumes of user-generated content, where consumers end up volun
your brand.

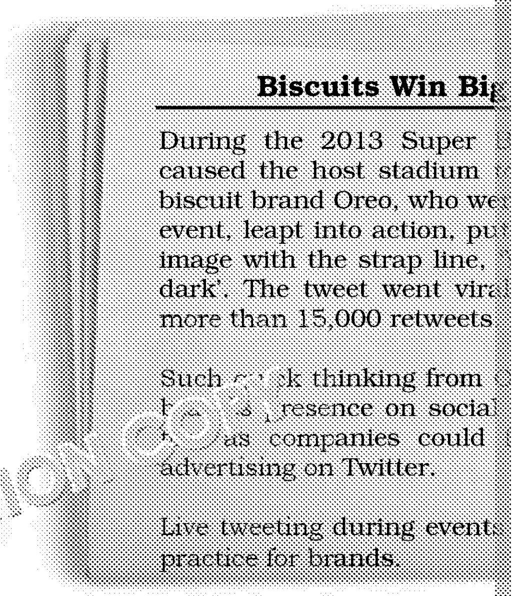
Social media channels also allow businesses to relate to their customers on a mor
responding to questions or complaints, and to promote their brand's persona
entire social media team to focus on this side of the business – and some teams w
events (such as the Academy Awards or BAFTAs) in case they can use their social m
anything!

Just as a brand can instantly communicate a message, so too can their consumers
product or service and tells all their followers, this can easily spiral out of control.
manage this sort of negative publicity – and quickly!

Focus: Oreo Cookies

Question:
Analyse the possible benefits and costs of a business such as Oreo having an online social media presence.




Biscuits Win Bi

During the 2013 Super
caused the host stadium
biscuit brand Oreo, who we
event, leapt into action, pu
image with the strap line,
dark'. The tweet went vira
more than 15,000 retweets

Such ... k thinking from
... presence on socia
... as companies could
advertising on Twitter.

Live tweeting during event
practice for brands.

Emotional Branding

This form of branding plays on the emotional states of consumers; their needs, wa use advertising to promote its product to consumers and associate it with an emc Company, for instance, advertise the theme park Disneyland Paris with a focus on Travel agents often run advertisements showing consumers their 'perfect getaway friends and family coming together.

Focus: Coca-Cola

Question:
Look up one of Coca-Cola's Christmas advertisements online (**YouTube link: https://youtu.be/-gMjPezr8TY**) and analyse why the company's campaigns are so successful.


Seasonal Selling

The Coca-Cola Company have run many successful TV marketing campaigns over the years, but none more successful perhaps than their Christmas advertisements.

1.3.2. Questions

Please writ... ns ... on a separate piece of paper or in an exercise book.

3. *Rebranding can significantly boost public awareness of a product, service or cor possible positive and negative effects that come with this?*

4. *A beverage company wants to introduce a new fizzy drink to the market, but wi advertising (newspapers, TV, radio, etc.). How else could the company promote any examples.*

5. *Why are so many companies using social media as a way to advertise their bra any risks involved?*

1.3.3. Pricing Strategies

! Key Points Covered

- Types of Pricing Strategy
- Changes in Pricing to Reflect Social Trends
- Factors that Det
  Pricing Strategy

Types of Pricing Strategy

Companies use pricing strategies to evaluate business decisions based on the ma consequences that may arise. A company looking to sell a product or service can how much it is worth and what people would be willing to pay.

Strategies for New Products or Services

Price Skimming

Microsoft

This involves charging a higher price on release of a product or when it is in the growth stage of the product life cycle. Companies use this technique as a way to make back a significant portion of the funds that lead up to a product's launch, such as research and development and production costs. This strategy is often used by games console manufacturers. There is a risk, though: if one games company releases its new console at a high price at the same time that another new console enters the market at a similar price or lower, this could result in a significant loss of potential sales.

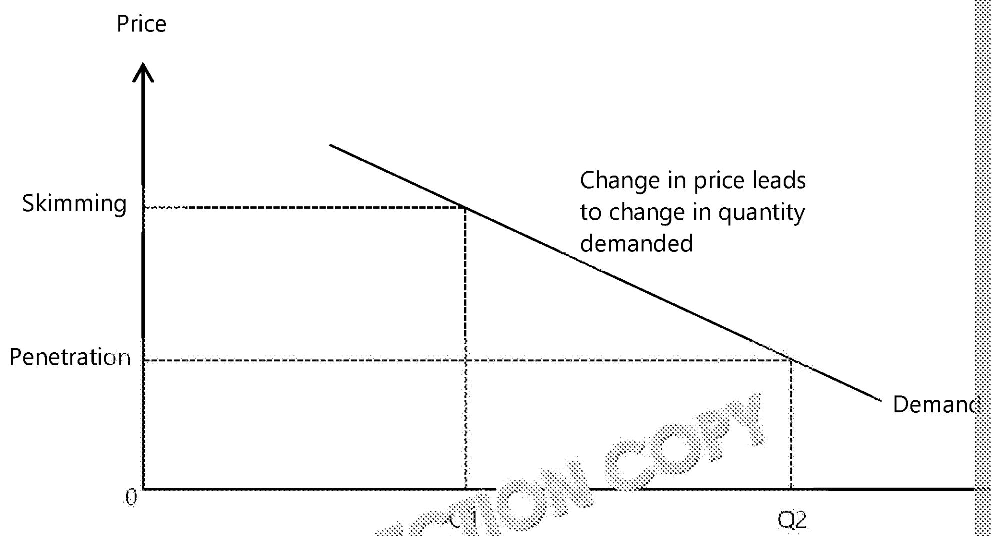
Price Penetration

At the other end of the spectrum is price penetration: this is when a company cha their product or service. This is sometimes used on the launch of a new product a and quickly gain market share. A publisher, for instance, may use this technique to new magazine. The drawback to this technique comes if other businesses decide t price war on your hands, which is not good for anyone (except perhaps the consu

Price Skimming	Pric
When demand for a product is price inelastic	When demand for a pr short term
Quickly recoup costs of R&D	Recoup costs of R&D o
Product life cycle is relatively short	Product life cycle is lor
Barriers to entry are high	Barriers to entry are lo
If PED is unknown, it is better to be safe with a high price on introduction	If a business is able to volumes, it can save m

Table: Why businesses choose price skimming or price penetra

The graph below shows the relationship between demand and price when a busin penetration or price-skimming strategy. When a business enters the market with a than the rest of the market (price skimming), demand will probably be low. On the in at a ludicrously low price, undercutting all competition, demand should go up.



Price Penetration vs Price Skimming – adapted from Baines

Strategies for Existing Products or Services

Competitive Pricing

Price leadership is common in oligopolistic markets, such as the airline industry. O set the price for a product or service and then all other businesses will follow. The established company that controls the largest market share due to selling high-qu setting the going rate, price leaders demonstrate their dominance and premium s retain brand loyalty, as customers perceive them as the high standard. It also mea has lower price elasticity of demand (PED) since customers will be more willing to believe the product is of the highest quality.

A market that has clear price leadership will have a number of *price takers*. These market price set by its price leader/leaders. Price takers cannot compete on price is high – if a price taker decided to increase the price of its product, consumers wo competitor that offers it at the market price.

Price discrimination, or *yield management* involves a business charging different p same market. An example of this is the cinema, where businesses will manage the of day or target audience, e.g. matinee performances on a Monday are priced low

Perception is Everything

Price leadership can turn into *collusion* if the market price of a product/service inc needing to rise.

Nowadays, it is illegal for businesses to get together and decide on the price of a that collude together to fix the price of a product/service is called a *cartel*.

Cost-Plus Pricing

One common method businesses use to determine how much to charge for t *Plus* pricing method involves calculating the average cost of producing an in a *markup*, which considers how much consumers would actually be willing to pay.

$$\frac{\mathit{Total\ budgeted\ cost} + \mathit{markup}}{\text{Budgeted sales in units}}$$

The following data shows figures for Larry Wellington's shoe shop. Larry plans to
to charge a markup of 25% on each pair of shoes. Larry has budgeted for £20,000

Total budgeted costs	£20,000
Markup percentage	25%
Budgeted sales in units	5,000

Markup:
= £20,000 x 0.25
= £5,000

Total cost + Markup:
= £20,000 + £5,000
= £25,000

Budgeted selling price
= £25,000
= £5.00

The final price per unit is £5.00. This includes the cost of the item plus markup to

Price Tactics
These are the short-term price manipulations that companies use on a day-to-day over their rivals.

Discounts: Companies offer discounts for a short time as a way to stimulate dema include two-for-one offers and buy-now-pay-less schemes.

Special Promotions: A company may choose this tactic if sales decline for one of it sometimes uses this tactic, for example, by offering eight cans in a pack instead o

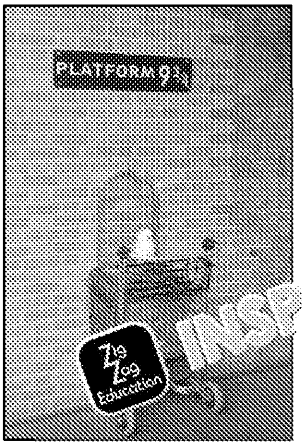
Loss Leaders: This tactic involves selling one product at an artificially low price in o see what else is on offer. Supermarkets often stock loss leaders, a DVD player for the attention of customers and bring them through the door.

Psychological Pricing: A company might want to get £10 for its product, but decid emotional tactic that plays on the fact that £10 is not as much of a bargain as £9.9

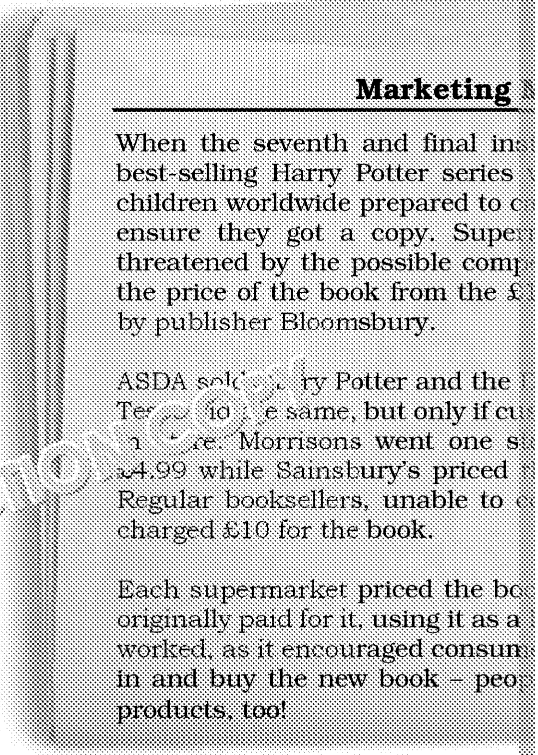
Predatory Pricing: When a business sets a price so low that it threatens to destroy market's barriers to entry. This sort of pricing should only be done in the short ter afford to make such losses. Businesses must be careful though, not to go against Fair Trading.

Focus: Harry Potter

Question:
Discuss the advantages and disadvantages for retailers that sell loss leaders.



Platform 9 ¾ is now a popular tourist destination



Marketing

When the seventh and final in
best-selling Harry Potter series
children worldwide prepared to c
ensure they got a copy. Supe
threatened by the possible comp
the price of the book from the £
by publisher Bloomsbury.

ASDA sold Harry Potter and the
Tesco did the same, but only if cu
in store. Morrisons went one s
£4.99 while Sainsbury's priced
Regular booksellers, unable to c
charged £10 for the book.

Each supermarket priced the bo
originally paid for it, using it as a
worked, as it encouraged consum
in and buy the new book – peo
products, too!

Factors that Determine the Most Appropriate Pricing Strate Situation

Businesses make pricing decisions based on a mix of factors. Some of these factor while others are external.

Level of Competition: Are there other similar products or services available on the react to a product differently depending on its price.

Amount of Differentiation: The unique selling points (USPs) of a good can have sig consumers value it and so businesses can use this to decide on appropriate pricin make their products/services too different from the crowd and they might just los

Costs and the Need to Make a Profit: Can the product be manufactured at a cheap understand how much it costs them to introduce a product to the market and the

Price Elasticity of Demand: Businesses must understand the price elasticity of dem for a good is very *price elastic*, any increases to its price could *significantly reduce* mangos: people can live without these goods and may choose to buy something expensive). Conversely, if demand for a good is quite *price inelastic*, any changes t *difference* to quantity demanded (e.g. petrol or bread: these goods are essential to probably continue to purchase them even when prices go up).

Pricing Objective: What is the business objective? Is it looking to expand? Increase have bearing on which strategy a business chooses.

Target Audience: Does the business want to sell to the general public or to a speci socio-economic group? Does the product or service have a particular age range? business will consider its audience before setting a price.

Stage in the Product Life Cycle: Does the product have a long or short life cycle? If life cycle is long, the business can afford to charge less because it will make sales a longer period. However, this also depends on the stage of the product life cycle the product has already reached the saturation stage, it may not be long until qua demanded begins to drop.

Strength of the Brand: How different is the product/service from its competitors? D the brand have a strong presence within the market? A business must also consid taker. If the business is a leader with a strong brand, its product will be less price e

Changes in Pricing to Reflect Social Trends

The rise of the Internet has given way to more innovations in communication thar
predicted – and the world continues to change, as does business.

Online Sales: Pioneered by Amazon, online selling is a firm fixture in today's marke
you find something you like, there's no point putting any money down until you've
sold online can be much cheaper since producers do not need a physical location,

Price Comparison Sites: No one likes buying car insurance, and before price compa
Now, you can go online, choose your price range and instantly find a list of packa

Both online sales and price comparison sites have created a climate of competitive p
in a price-transparent environment, where demand has bec[illegible] more price elastic –
they will go somewhere else to find the same prod[illegible] this, marketers need
strategies. Some businesses will cut down [illegible] production process (such as p
and pass the saving on to the cons[illegible] method is to use *loss leaders* as a
though this is easier for bi[illegible], such as supermarkets, that offer a variety of

Focus: [illegible]ohead

Question:
Analyse the reasons why Radiohead did not try the honesty policy to sell their 2011 record, The King of Limbs. Consider the differences between the music market in 2007 and the same market in 2011.

Radiohead's Hon

In 2007, British band Radiohea studio album, In Rainbows, us scheme. With the scheme, fans considered to be a fair price (in download the album straight awa the album on CD and vinyl, thou these and wait a few months afte

The pay-what-you-want release m the world, as Radiohead was the f this pricing strategy. Many criti beginning of the end for music consumers downloaded the re numerous fans chose to pay r volumes of physical CDs and vi the band had made more than 3 CDs and special £40 'discboxe heralded as a success: Radiohead with In Rainbows than with all p Nevertheless, the band did not release of their 2011 studio recor

1.3.3. Questions

Please write your answers on a separate [illegible] or in an exercise book.

6. **a.** *Bill Oddity plans [illegible]rdseed shop. He has projected that he will sell his [illegible] would like to charge a markup of 20%. Use the table belo u[illegible] of seed) that Bill should charge his customers.*

Total budgeted costs	£7,750
Markup percentage	20%
Budgeted sales in units	25,000

b. *What would happen to the price per unit if Bill increased the markup perce believe consumers would pay this price? Explain your answer.*

7. *Identify and explain two factors that can influence a business's pricing strategy.*

1.3.4 Distribution

! Key Points Covered

- Distribution Channels
- Changes in Dist

Another P in the marketing mix is Place, or distribution. Any business that wants t product or service is available in the right place, at the right time and with enough order to achieve this, a business must establish, maintain and develop the approp product or service.

If a business has not considered these factors, it may fail to draw attention or satis the newest technology in the right place, for instance, if there aren't enough prod

Focus: Buzz Lightyear

Question:
Could the toy manufacturer have been better prepared? Identify two actions the company could have taken in order to be ready for the toy craze.

It's War at the

Buzz Lightyear was one of Disney's 1995 film Toy Sto office smash, grossing m manufacturers quickly ge action figures to go along December 1996, toy sh parents desperate to get children. However, manufa Woody would be the year's had not made enough Bu demand. They did not exp the breakout star.

Many children woke up or floods of tears and manu had significantly misjudg suffered a huge loss in sale

A distribution network shows the journey that a product/service takes to get from the right distribution method is essential. Distribution networks should:

- Encourage repeat purchases from consumers
- Enable safe delivery of a product/service
- Maximise the number of potential customers for a product/service
- Ensure quick delivery of a product/service
- Provide market information to producers and retailers
- Create a positive relationship between producer and consumer

Distribution Channels

A distribution channel is the flow of organisations that connect a product from pr member of the channel plays its part. If a small-scale producer was to handle distr business expenses would be high, making the product cost more for the consume some form of distribution channel.

There are three main flows in distribution and these can be separated into two grou

Short-channel distribution, or direct marketing, involves just two organisations in t consumer.

Two-stage distribution
This method is commonly used by businesses that sell large machinery or equipm
company, for instance, will manufacture a new product and then use direct selling
consumers.

Producer → Consumer

Long-channel distribution, or indirect marketing, involves the producer, consumer
the way. These intermediaries can be anyone from wholesalers and distributors to
resellers.

Three-stage distribution
This is the distribution method of choice for electrical goods manufacturers. When a
creates a new product, it will then sell it to retailers, who then set a price for th

Producer → Retailer →

Four-stage distribution
Wholesalers act as *middlemen* between the retailer and producer by buying up lar
four-stage distribution, the producer could be a cheese farmer, who provides the
bulk. The wholesaler then breaks the cheese into smaller quantities and sells it to
country, such as supermarkets, newsagents and corner shops. Retailers then sell th

Producer → Wholesaler → Retailer

Changes in Distribution to Reflect Social Trends
The aim of a distribution network is to deliver a product/service on time and in go
must make sure to choose the right one. In order to choose the most relevant net
the following:

The Product
If the product is *new to the market*, it may need to be introduced to the customer
explanations. Consequently, it would be inappropriate to sell it through general re
types of machinery, equipment and tools may best be sold at trade shows, or thro
The sale of such products should be backed by an extensive advertising and mark

The Market
Products that are extremely *specialist or particular / expensive*, e.g. ships, earth-mo
relatively small *customer base* and, therefore, need to be made available to buyers
specialist retailers. This is different for *general household groceries*, which have a ve
therefore, can be bought from a *large number of outlets*.

Legal Restrictions
The law of the country will determine *where* certain goods can be sold. For examp
purchased from a chemist's shop.

Customer Expectation
Customers *expect to buy certain goods in traditional establishments*. For example, b
supermarkets and glasses from opticians.

Internet Distribution

Those four are not the only factors that drive a company's choice of distribution n
is a global one, with communication instant, and so businesses need to stay infor
affect them. This includes methods of distribution.

Consumers expect businesses (especially large ones) to offer their products and se
allow customers to buy their products/services in all sorts of ways, from website c
(e.g. PayPal) to mobile phone apps and online stores (e.g. Amazon and eBay).

These outlets, while all digital, are still costs for a business. Amazon, for instance, p
right 'place' in order for the consumer to see it and make a purchase. Google, mea
sponsor their links so that consumers find certain products above others. These o
shops and trade shows, but they are still places in the distribution network and, th

Focus: PANDORA

Question:
Analyse how PANDORA's distribution network, and position in the distribution channel, has changed over time.

Family-run Jewellery Sh

PANDORA began life in 1982 as
shop in Copenhagen, Denmark. T
to Thailand in order to import
directly to consumers. The shop l
by 1987, the family stopped imp
and concentrated on creating th
PANDORA unveiled their tradema
Danish market. Demand quickl
entered the US, German and Aus

Today, PANDORA primarily sell t
and their branded franchise sh
expanded since their humble beg
serve markets in more than 70 co

1.3.4. Questions

Please write your answers on a separate piece of paper or in an exercise book.

8. *Copy out and fill in the blanks of this four-stage distribution flow diagram:*

Producer	→	....	→	....

9. *Name an example for each stage of the flow diagram, e.g. producer = apple far*

1.3.5 Marketing Strategy

! Key Points Covered

- The Product Life Cycle
- Extension Strategies
- How Businesses Develop Customer Loyalty
- Boston Matrix a
- Marketing Strat
Types of Market

The Product Life Cycle

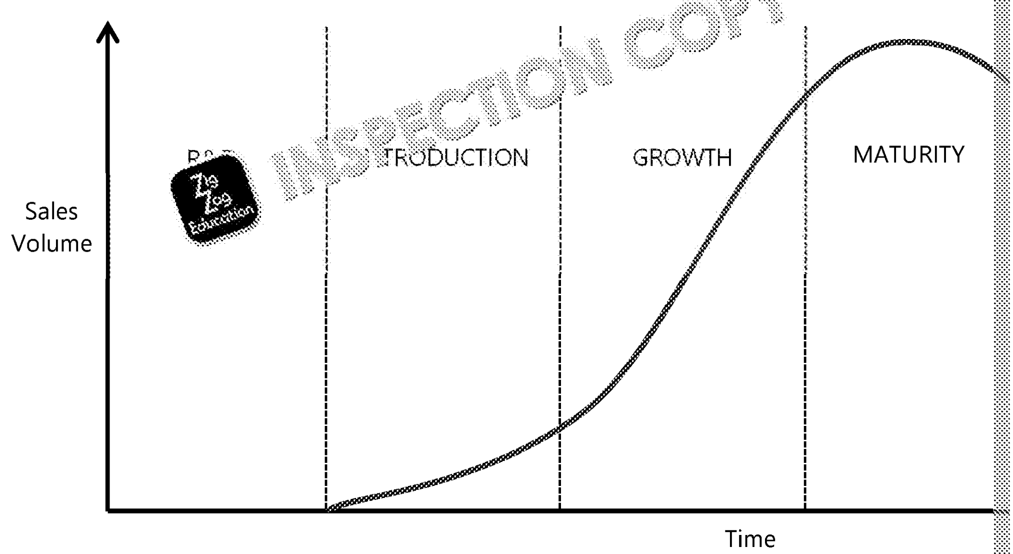


Diagram: The Product Life Cycle

The product life cycle is the basic life story of a product/service. Much like the life
life cycle has a beginning, middle and eventual end. Some life cycles are incredibly
toilet paper) while others have much shorter expectancies (such as mobile phones

Stage	Description	Cash flow
Research and Development	The point before any sales can be made	Only costs at this point
Introduction	The product/service is now launched	It is in the beginning stages and so makes few sales, low profitability and has little market share
Growth	The product/service becomes established	Sales and profitability are growing, as is the potential for greater market share/growth
Maturity	The product/service comes towards its peak and sales have begun to level out	The brand has strong market share and so the company still receives profit at this point
Decline	Sales are falling due to decrease in market share and growth	The company may be making a slight profit or even a loss at this point

Problems with the Product Life Cycle

- It is difficult to understand which section of the life cycle a product/servic of its life (product death). This is because markets can change and so a pr moment may become the ultimate must-have item the next.
- The life cycle works most effectively when markets are stable, without any between trends.
- The classic bell curve ignores the idea that a product/service can continu have been saved from the decline phase thanks to life *extension strategies* younger audience.
- Some products/services die directly after the Introduction stage, because enough research on their market – the market might not even exist! Othe their lives in Decline, because companies [illegible] advertising.
- The product life cycle cannot show [illegible] sales (i.e. businesses canno are in the cycle) and so [illegible] cannot see whether there are more sale product/service [illegible] start declining.
- If a [illegible] at a life cycle with up-to-the-minute data, there m in s[illegible]day. This could look like a genuine problem for the company, w How[illegible], if the same marketer looks at the life cycle next month, this spik than a blip.
- If decline is long and drawn out, a business might not realise and confuse the product/service is on its last legs!

Many of today's marketers choose 'benchmarking' over using the product life cyc comparing a business's achievements with those of the industry standard. A yo-yo selling thousands of cases of yo-yos this year, but how does that compare with th life cycle shows a product/service's life from start to finish and so needs all the pa to tell the whole story.

Extension Strategies

When a product or service is nearing the end of its life, a company will sometimes breathe new life into it. These strategies can prolong the life of a product/service sometimes indefinitely. Not every strategy works, though.

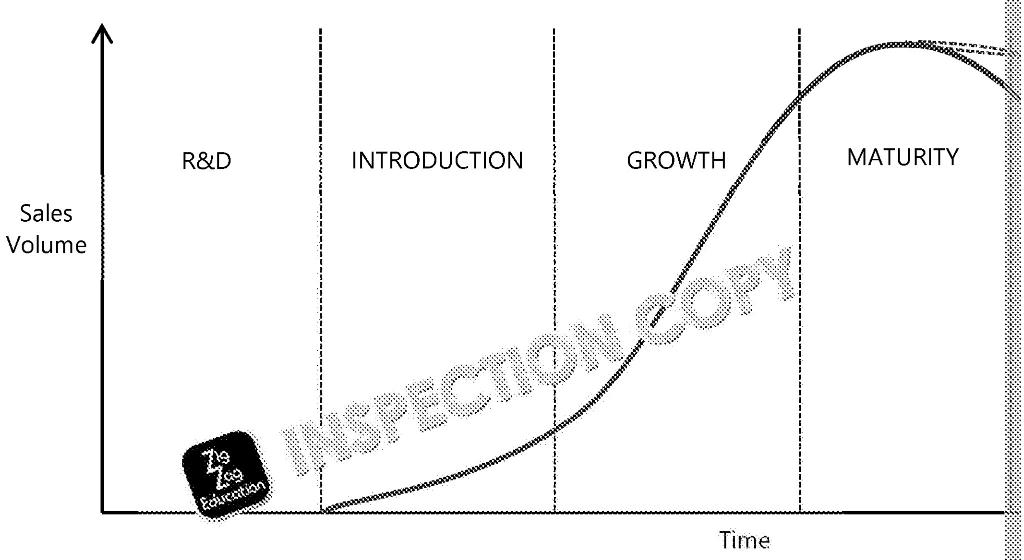


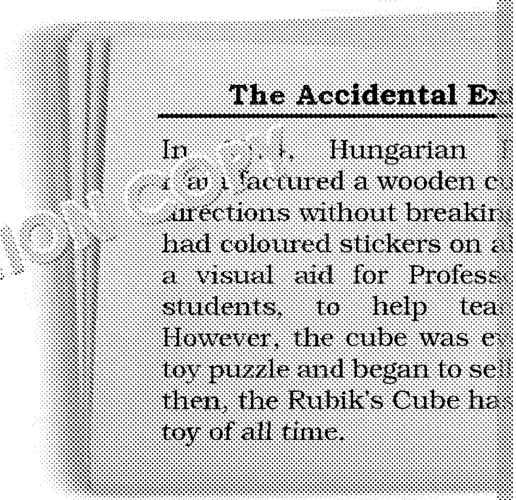
Diagram: The Product Life Cycle with potential extension str

Product extension strategies involve techniques such as developing new features product/service. Apple, for instance, have managed to extend the lives of their mo the app store, which gives consumers the chance to buy and download new appli experience.

Promotion extension strategies involve anything from finding new users for a prod
of an item to redesigning its packaging. Some products experience a new lease of
advertising campaign (see 1.3.2 Branding and Promotion) while others just get wo
increasing or decreasing the price of a product/service and suddenly get hit with
because many consumers still associate high price with quality.

Focus: Rubik's Cube

Question:
Professor Rubik's cube was never meant to become a toy, let alone the best-selling toy of all time. Identify and explain two strategies that companies c use in order to exte... lives of their pr.../services.


The Accidental Ex

In ..., Hungarian
...a...factured a wooden c
...rections without breakin
had coloured stickers on a
a visual aid for Profess
students, to help tea
However, the cube was e
toy puzzle and began to sel
then, the Rubik's Cube ha
toy of all time.

Boston Matrix and the Product Portfolio

Companies that have a selection of products under their control, a *product portfol*
way of analysing where there are opportunities for growth.

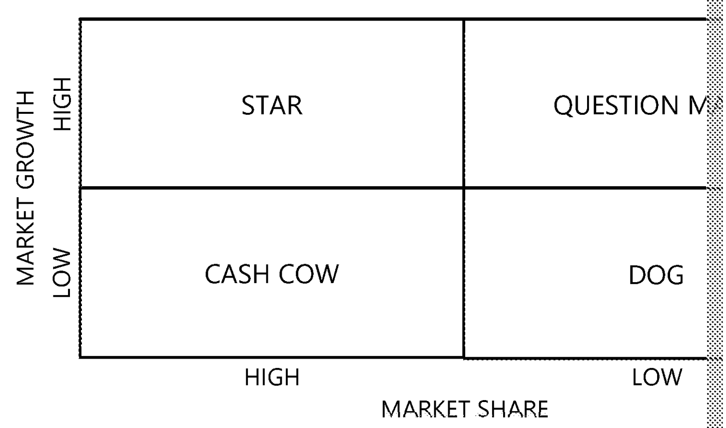


Diagram: The Boston Matrix

The matrix displays each product/service in relation to the market: how much mark
and how well the market is performing in general.

By organising its portfolio of products and services into the Boston Matrix, a comp
the cash flow and where the potential for investment lies. The matrix shows how
used in order to manage growth and performance over time.

Stars: These are the market leaders, or the ones with a large portion of a market. S
experience intense growth. However, they cannot support themselves alone and s
large investments to keep the market share.

Question Marks: Also known as *problem children*, these sit in a growing market, bu
unprofitable, with a negative cash flow. An example of this could be a product tha
the company is not yet sure whether it is going to succeed.

Cash Cows: In low-growth markets, such as mature markets, cash cows have a high market share. This brings in positive cash flows and high profitability, which means they do not need ongoing investment. The cash flow from cows can then be used as investment in stars and question marks, which are unable to support themselves. Good examples of cash cows are Coca-Cola and iPhones.

Dogs: Experience low market share in low-growth markets. Dogs may create negative cash flow as they often operate in declining markets that have no real future. Firms should keep dogs in their product portfolio as long as they continue to create cash. Once a dog begins to restrict assets from other products, such as stars and question marks, the firm should consider selling off (divesting) the product or rebranding.

Problems with the Boston Ma[illegible]

Much like the Product Life Cycle, [illegible] Matrix is limited to how much it can [illegible] many instances when th[illegible] not quite fit real business life:

- Wh[illegible] ket? Some are more difficult to define than others. W[illegible] in [illegible] an one market?
- Indu[illegible] data on a market is not always freely available.
- Most businesses active today are looking for profit. High market share do[illegible] What if the product needs lots of investment from the company, as well a[illegible]
- Cash cows might be a firm's main source of profit. Coca-Cola is still going [illegible] has been mature for years.
- Dogs are able to return a profit. It is not until the products need further in[illegible] the company.

Marketing Strategies Appropriate for Different Types of Ma[illegible]

Each market has its own core customer base. This is the group of consumers that [illegible] In order to gain market share, and also satisfy any business objectives it may have[illegible] marketing strategy.

Mass Marketing

Businesses use this type of marketing to target a wide range of potential custome[illegible] radio and TV advertisements, direct selling, and search engine and webpage bann[illegible] generally only used by large organisations, but can result in high sales and so the [illegible] less significant.

Mass marketing is used for:

- General consumer goods (such as Unilever's PG Tips and Persil brands)
- Consumer durables (such as Dyson vacuum cleaners)
- Entertainment outlets (such as Amazon and Netflix)
- Video-game consoles
- Mobile phones

✔ *Advantages of M[illegible]*

- [illegible] ket allows for high number of potential sales
- [illegible] marketing allows economies of scale for the company
- [illegible] tial to create huge brand with worldwide recognition

✘ *Disadvantages of Mass Marketing*

- Expensive form of marketing
- Time-consuming to both implement and analyse
- Requires constant investment for brand to stay relevant
- Risk of irritating the consumer

Niche Marketing

This strategy targets small sections of a market (or small markets) as a way of fillin
being served by big business. Examples of this include providing excellent custom
schemes (such as coffee shops offering one free drink with every nine you buy) an

Niche marketing is used for:

- Local-area TV stations
- High-end sports cars
- Luxury chocolate
- Boutique clothing

✓ ***Advantages of Niche Marketing:***

- This strategy targets a specific customer t pe
- Less expensive than mass marketing

✗ ***Disadvantages of Niche Marketing:***

- Can ... attract many competing firms
- Potential for sales is much lower than that of mass marketing

Business-to-Business vs Business-to-Consumer

Business-to-business (B2B) and *business-to-consumer (B2C)* marketing share many
markets are very different. Marketers, therefore, have to work differently dependin

Business-to-business marketing is aimed at very few buyers (other businesses) wh
for almost anyone. We have all been consumers at some point in our lives, from b
researching the costs of holidays or new cars. Consumers will generally make a pu
own needs (unless buying for friends or family). Businesses, on the other hand, wi
corporate objectives in mind.

Whether business-to-business or business-to-consumer, marketers need to be cu
looking to get what they need at the right price and businesses want to build/mai
their consumers. And so, all marketers need to gather information on their marke
and the competition out there.

Consumer Behaviour: How Businesses Develop Customer L

Since the 1990s, there has been a growth of club cards, saver schemes and contra
consumers. All of these methods work towards one goal: increase customer loyalt

Customer loyalty is incredibly important to businesses, as it represents *repeat busi*
to you, they are more likely to shop with you the next time. Some of the ways tha

- Loyalty/points cards: Now commonplace in most supermarkets, loyalty ca
points every time they shop and then receive ... In-store offers are
members only, too, which can encourage more people to join.
- Saver schemes: Coffee shops ... this technique by offering customers a f
Online marketplaces ... this too, by giving away free shipping when cu
than £20 fo...
- Excellent customer service: More than just price, customers are looking fo
now recognise this and work hard to provide a level of customer service t
again. Emphasis on service and community spirit is something independe
customers.

Problems with Developing Loyalty

While a customer is giving a firm repeat business, the firm cannot always assume it loyalty.

Convenience: A customer sometimes gives a firm repeat business simply because it If a new business opened closer by, the customer might instantly change loyalties.

Price: Alternatively, it could be the price. If a customer is buying from the business same customer remain loyal once a different business offers an even lower price?

Indifference: Some customers stay with the same mobile phone, Internet or electri be out of loyalty, though it is not likely. When a person first moves into a home, th the best supplier that suits their needs. Once they have a supplier, however, there happening in life that they may not consider switching suppliers for many years. T phone and Internet providers.

1.3.5. Questions

Please write your answers on a separate piece of paper or in an exercise book.

10. *The Rubik's cube is the best-selling toy of all time; an estimated 350 million cube How does the Rubik's cube differentiate itself from other toys on the market?*

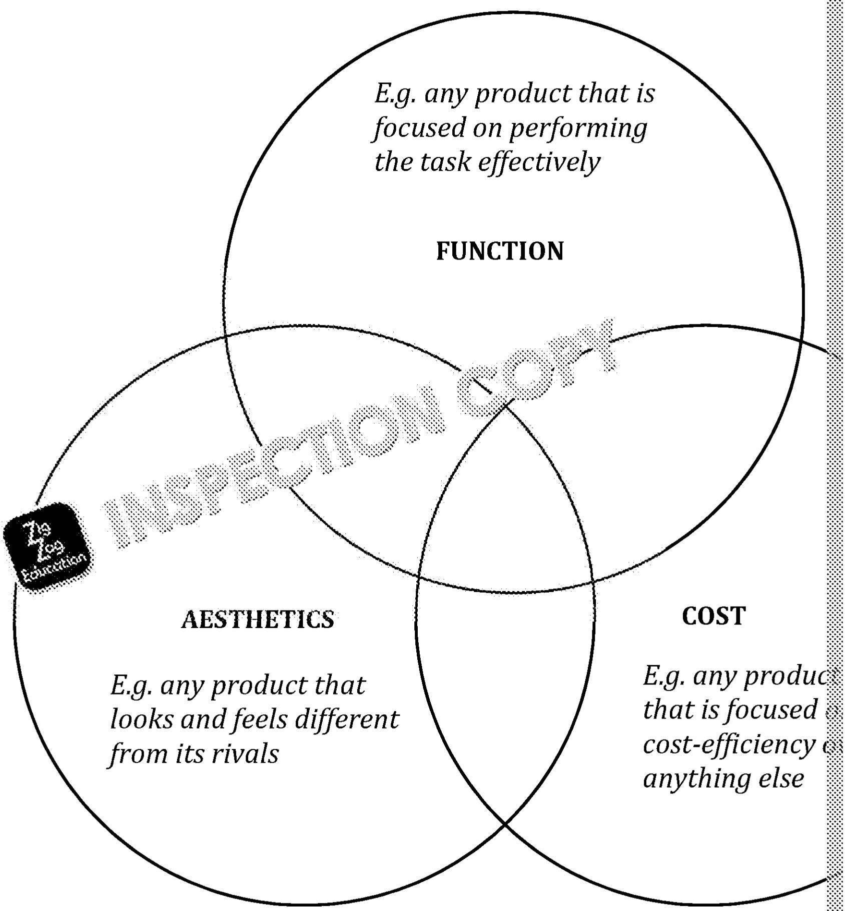
11. *A small, local food market is looking to bring in more repeat customers. The bus investments; however, it does not have much cash readily available. Advise the they should invest in a loyalty card scheme or training of their staff in better cus*

1.3. Keywords

Unique Selling Point (USP):	This is a feature that makes a product/service app
Sustainable:	Businesses that fulfil their own strategic objective or society in which they operate.
Objective:	A business's objectives are those goals/targets re
Branding:	This is the image that businesses create for a proc themselves.
Promotion:	This is how businesses raise awareness of a produ as direct selling and online advertising.
Sponsorship:	When a business supports another person/busine promotion, such as the sponsorship of sporting e
Loyalty:	Brand loyalty (for a product, service or company) stay with a business and make repeat purchases.

1.3. Answers

1.



2. **a.** Sustainability: Students should explain at least one of the following.

- Many firms focus on waste, which can help bring down costs
- There are other sustainability objectives to meet (i.e. governme represent larger costs to production
- As consumers become more interested in sustainable practices, aesthetic ways to sell the sustainable nature of their products
- Following on from waste management is the amount of packagi influence the expenditure on each product and also the aestheti

b. Health: Students should explain at least one of the following.

- The function of a product must meet the healthy lifestyle of the
- Companies now focus on selling the health benefits of their pro
- Making something healthy can be expensive, especially if consu organic produce
- On the other hand, by giving the public what they want (organic economies of scale in the long run, as there is more potential fo

3. *Positive effects:* If a consumer learns the name of your product, servic come directly to you when they have a requirement.
Businesses do not have to focus their efforts on price cutting in order to
Strong brand leads to lower price elasticity of demand.

Negative effects: Rebranding can lead to a backlash from consumers wh brand. If enough people speak up, it could change public opinion on the or company previously had a bad reputation, it can be difficult to change rebranding.

4. Alternative forms of promotion for the drink include public relations, sa
and digital communications. Learners should name possible activities th
promotion (e.g. sales promotions: offering free in-store samples).

5. Possible answers might include changes in communication and the popu
contact with consumers, taking advantage of key events and generating
boost your brand. Possible risks include instant communication: consum
brand and it might snowball in minutes. Social media communications a
like any other medium to prevent inappropriate brand messages.

6. a.

Total budgeted costs	£7,750
Markup percentage	20%
Budgeted sales in units	25,000

Markup:
= Total cost x markup percentage
= £7,750 x 0.20
= £1,550

Total cost + Markup:
= £7,750 + £1,550
= £9,300

Budgeted selling price per unit
= (Total cost + Markup) ÷ Budgeted sales in units
= £9,300 ÷ 25,000
= £0.37 (0.372 to 2 d.p.)

b. If Bill increased the markup to 30%, the budgeted selling price wou
This is only a £0.03 increase from the previous figure and so consum
Since birdseed is a cheap product in general, it is likely to be price e
should do enough market research to ensure he is not seriously ove
other retailers. If he does overcharge, consumers are likely to switch
price elastic as bird seed.

7. Students can explain any of the following factors:
- Competitor businesses can affect the way consumers see a product/
- The pricing objective of the business, i.e. looking to increase profits,
infrastructure, etc.
- Costs, i.e. how cheaply can a product be made?
- There may be a price war, meaning new businesses are unable to en
- Who the business is selling to
- Where the business sits in the marketing mix, e.g. are they price lea
- The price and income elasticity of demand can influence how much
command pr[illegible]
- Where the product is in its life cycle can significantly affect a busine

8. Fill in the blanks of this four-stage distribution flow diagram:

Producer → Wholesaler → Retailer

9. Name an example for each stage of the flow diagram, e.g. producer = app
Example answers:
Producer = electronics manufacturer or dairy farm
Wholesaler = supplier to supermarkets or book warehouse
Retailer = high street shop or online store
Consumer = family buying produce or business needing machinery

10. Learners should show that USPs play an impor[illegible] in the success of
price initiatives. Specific USPs include d[illegible] cube, its unique feat

11. Students should choose [illegible] loyalty card system or customer servi
decision. Points [illegible]:

Loyalt[illegible] system:

- In-store offers encourage people to buy more while shopping
- Loyal shoppers may also tell their friends and family, potentially bu
- The scheme can track the buying habits of customers, letting the bu offers and, potentially, securing more purchases
- A problem could be the fact that loyalty card systems cost a lot to im has very little cash to spend
- Another problem might come from customers rejecting the system tracked

Customer service training:

- Customers that feel they have had a positive experience in the shop purchases
- Community spirit can be pushed in this way, too, making the busine member of the local economy
- A drawback might be the fact that if the business has been trading fo consumers may be accustomed to their regular practices and becom friendliness
- Another drawback might be that training could be a waste of time a shop has already been in business for a number of years (supposedl form of training in that case)

1.4 Managing People

1.4.1. Approaches to Staffing

! *Key Points Covered*

- Staff as an Asset or Cost
- Flexible Workforces
- Distinction betw
- Employer/Emplo

Businesses hire employees for a variety of reasons: to complete a project; to help
new knowledge, to improve a production process, to fill a temporary vacancy. Wh
someone, a business will look at its staff as either an asset or a cost – sometimes b

Staff as an Asset
Businesses that consider their staff as an asset are likely using 'soft' HR methods. T
employees as the most valuable assets within the company. Firms that follow 'so
their staff in to boost their value to the business – this development comes
market changes.

The 'soft' approach to HR views employees as useful assets that contribute to the
through bringing added value, supporting manufacturing processes or offering hi
HR processes take the view that staff are likely to perform better if a firm invests i

Staff as a Cost
Firms that treat their staff as a cost focus on the amount of money they are spend
employee might develop and become a greater asset for the company. There are
employees, too: recruitment, training, payment, welfare and severance being the m

Businesses that view staff as a cost are likely using 'hard' HR methods, which cons
just like any material or piece of equipment the company uses. 'Hard' HR processe
possible and to utilise them efficiently in order to meet corporate targets. Once th
contractual work, they may be discarded.

Flexible workforces
Flexibility is needed because of dynamic changing markets where consumers are d
pull, through organisations that need to have more flexible operations to respond
competitive.

'Flexible working' is a phrase that describes any working pattern adapted to suit y
flexible working are:

- Part-time: working less than the normal hours, perhaps by working fewer d
- Flexitime: choosing when to work (there is usually a core period during wh
- Temporary: employed by a company on a short-term contract that has
  workers are used when a company knows there is not enough work to ful
- Annualised hours: hours are worked out over a year (often set shifts with
  workers working other hours)
- Multi-skilling: employees train to become experts in more than one task /
  them to adapt more quickly to changes in a company
- Compressed hours: working contracted hours over fewer days
- Staggered hours: different starting, break and finishing times for employe
- Job sharing: sharing a job designed for one person with someone else
- Teleworking/telecommuting: working from home

Flexible workforces are attractive to companies for many reasons, including:

- Businesses can avoid the costs of having to pay for full-time employment
- They can benefit from access to skilled individuals without having to train
- Cover shifts can be filled when demand spikes

There are drawbacks to this form of employment, however, such as:

- Staff may have low job security, which could lead to low morale/motivatio
- Communications can be difficult, especially if some employees work from
- The low motivation can lead not only to poor productivity but a high turn

Outsourcing

This is another example of flexible working, where a busin... ill find a person / c business processes. Businesses, especially large on... ft... choose this method o

- Firms do not have to pay for holid... n... nal insurance since this is th company
- It can be a cheap... working if the outsource company is based i
- The ... oc... ell for firms if they need highly skilled individuals but trai... full-time employment

Outsourcing comes with certain problems too, though, including:

- Since businesses are contracting out to an external person/firm, they are l produced
- Due to this, the quality may not match that of the business
- It can be tricky for businesses to communicate with outsourced workers; t outsourcing firm after all, not the business

Distinction between Dismissal and Redundancy

Dismissal is the act of terminating an employee's contract. There are many reason this, including:

- Employee is unable to perform key tasks due to lack of skills or qualificati
- Gross misconduct, such as violence or theft in the workplace
- Long-term illness that is not related to disability
- Exceptional cases, such as refusing reasonable contract changes or a priso

An employee can become redundant once his/her job no longer exists. Redundan

- A company has to close down
- Technology replaces tasks normally performed by human workers
- A firm moves its production line overseas

If a company needs to make at least 20 people redundant, it is required to consul employee representative at least 30 days before any redu... y is made. The co employee, too. Any employee who has been giver... a... wo years of continuo entitled to paid redundancy.

Many companies that ar... having to make redundancies will offer their *redundancie*... ir... giving an employee the choice of whether to resign fr the offer of ... *ance package* (often a financial incentive, such as several montl enter into le... y legal disputes.

Employer/Employee Relationships

Relations between employer and employee are concerned with preventing and re individuals which arise out of work situations. Information is provided to employe understanding of management goals and policies, to advise employees about app regulations. Keeping employees fully informed about policies, procedures and pra avoid unnecessary industrial action such as strikes, sit-ins, work-to-rules and picke

Some benefits of good employee/employer communication:

- Good exchange of ideas between workforce and management (such as Ka workforce means more motivated staff and improvement in productivity.
- Better morale, as workers have a voice. This means possible reductions in plus cost savings for the company.
- Better decisions made by management are more likely to be adopted by s consultation process – less resistance to change.
- Improved relations between management and workers means reduction o

Approaches to Employee/Employer Relations

Individual approaches involve single workers negotiating with their employers on t rates of pay while *collective bargaining* occurs when a trade union or employee re of many workers.

Examples of Trade Unions

- Fire Brigades Union
- Musicians' Union
- Professional Footballers' Association
- National Union of Journalists
- British Medical Association

Resolving issues at work can be all about getting management and employee rep things over. Essentially, conflict is caused because two sides – the employees and t Conflict resolution, therefore, will involve some method of two-way communicatio representative talks on behalf of many union members, this is called *collective bar* impossible for the management of Toyota to talk to their thousands of staff and s union representatives who have their workforce's interests at heart.

Unions take action in an organisation when other communication has broken dov communication have closed. Misinformation or poor communication are the most industrial action.

When employee representatives, such as trade unions, present demands and griev matters are discussed and agreed upon. If they reach deadlock, then a third party deadlock. It is then no longer a negotiation and instead becomes a mediation, wh agreement to be reached. If this still does not work, the business may seek to go t the Advisory, Conciliation and Arbitration Service.

Methods of Employee Representation

Method of employee representation	Advantages	
Trade unions	• Examples are NUT (National Union of Teachers) and MU (Musicians' Union) • Lobby for satisfactory rates of pay • Can secure appropriate working conditions • Negotiate on target bonuses • Negotiate on grievance procedures • Collective bargaining in an attempt to get the best possible pay and conditions for its workers and to communicate their members' wishes to the employers	• If they only r workers in a influence; 63 unionised co • If they negot can lead to r • Trade unions changing wo machinery o • Unofficial wi productivity put a strain o employees a
Staff associations	• Examples are Society of Radiographers and Chartered Society of Physiotherapy; represent workers but carry out only some of the functions of a union • Provide a common voice for workers • Increase participation and involvement of staff • Sit on management policy groups and help to make decisions • Help to coordinate training by giving employee input on what is needed	• Require a lar and effort or • Some emplo joining or wi • Managers m joining • Lack of clarit keep numbe • May be over
Professional associations	• Examples are the Police Federation and Professional Football Association • Perform many similar tasks as unions • Responsible for setting and maintaining standards in their industry	• May insist or members are
Works councils	• Legal requirement if the business is part of a multinational company (MNC) that operates in at least two European countries with at least 1,000 employees (at least 150 employees in two member states) • Right to representation by a works council has been an EU directive since 1999 • Employees in different member states have the right to be informed and be consulted about transnational issues via a works council	• Complex to • Language ba • Communicat cultures and
Employee groups	• Forums made up of employee representatives from selected areas of the business and representatives of the employers • Also known as staff representative forums • Are joint committees made up of management, HR and staff representatives from selected parts of the business • Meet to discuss and raise issues that affect, or are likely to affect, employees • Bridges the gap between management and workers	• May lack the • Managemen and block de • Can lead to l the organisa • Employees m • Possibility fo employees a managemen

1.4.1. Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. a. *Would a business using 'hard' HR methods be likely to view its employees a*
   b. *How else does 'hard' HR differ to 'soft' HR?*

2. *Identify and explain two types of 'flexible working'.*

1.4.2. Recruitment, Selection and Training

! Key Points Covered

- The Recruitment and Selection Process
- Costs and Benefits of Recruitment, Selection and Training
- Types of Training

1. **A vacancy arises.** This may be due to the creation of a new job or because an existing post has to be filled due to an employee being promoted or leaving the organisation. *Termination* of employment is also known as *severance*.

2. **A job description and person specification are drawn up**. The *job description* sets out the *duties and responsibilities* of the actual job while the *person specification* details the *experience, skills and abilities* the employee will need to possess in order to carry out the job effectively.

3. **The post is then advertised in the appropriate media** which, depending on the job, could be local or national newspapers, television, radio or specialist journals and magazines.

4. **Application forms** along with the job description and the person specification are forwarded to those who respond to the advertisement.

5. **Short-listing** takes place based on the contents of the application form and the criteria specified in the job description and person specification. If a large number of *Suitably Qualified* candidates apply, then an *enhanced criterion* may be used. This process *reduces* the number of candidates to be interviewed to a manageable number.

The Recruitment and Selection Process

The outcome of the recruitment process has a significant impact on a business. W negative impact will depend on the quality of the employee selected. Finding the drawn-out process, but it will benefit the business in the long run. However, empl a serious detrimental impact on the business.

Given these considerations, a business must choose an employee *very* carefully, w attitude or skills (or, many times, both). The business can consider filling a vacant their existing workforce, or they can recruit *externally*. Both methods have their dr

Internal vs External Recruitment

Internal recruitment involves filling a job vacancy through ... *of the existing* w advertised *within* the organisation using an intern... staff magazine or mee

Advantages of internal re...

1. Existing emplo... *less training* and they know the business's *et*
2. It ... *and retain* employees as they can see that loyalty ar w... successful career path.
3. Th... business *already knows* the skills, qualities and personality of the em
4. Internal recruitment is *relatively cheap* to undertake and usually *quicker* recruitment.

Disadvantages of internal recruitment

1. The business may *need* to employ *new blood with fresh ideas* in order to change. This *will cost* the business both money and time.
2. An internal appointment may cause *friction* within the business and de were *unsuccessful* with their application.
3. Recruiting an existing employee to a vacant post will require that *their* p *another* recruitment process posing the *same dilemmas*.

External recruitment involves filling a job vacancy by recruiting from sources *outsi* The vacancy, depending on the job, can be advertised in local or national newspa magazines and journals, recruitment agencies, job centres, headhunting from oth that is, direct recruitment from schools, colleges and universities.

Advantages of external recruitment

1. It brings *new blood with new ideas* into the business.
2. The business has a *bigger pool* from which to choose its employee.
3. It is unlikely that the employee would have already *bonded* with any gro therefore, be *less likely to be unduly influenced* by others.

Disadvantages of external recruitment

1. It can be a *slow and costly* proce...
2. It requires a *rigorous sel... ...dure* as the business does not alread attitude and per... ...the potential employee.
3. It ... de... existing employees as they may feel *undervalued* an b... This may cause them to look for alternative employment.

Costs and Benefits of Recruitment and Selection

People are the *most important asset a business has*. This *special asset* can be used t labour or to *replace* labour. People must be employed to tactically and strategicall work in the *functional areas* of production, marketing, finance, sales, etc. The ques *under what circumstances* should additional staff be employed?

People are the *human face* of any business. Take, for example, the service sector: c insurance companies prefer to *talk directly to people* rather than automated answe businesses, it is the *attitude* of the doctors, nurses, waiters, retailers or hairdresser *perception* of the *quality of service* provided by that business.

A business with good industrial relations and a stable, well-motivated workforce w objectives than one that does not. For all these reasons businesses find it necessa

There are drawbacks to recruiting people, however, which include:

1. People *cost money* to employ, train and retain.
2. People *make mistakes* and *misjudgments* which are costly in terms of mon sca[illegible] precious business resources. Mistakes and misjudgments dam and [illegible]tion.
3. People take *unofficial* time off, breaks, holidays and *are protected* by UK a be *crippling expenses* for a small-to-medium-sized business.
4. People *need to be trained*, even retrained, and this *costs* the business both has a *high turnover of staff*, this cost will increase even further.
5. People are *individuals* and, therefore, it can be *difficult* for a business to fi encourage their employees to be more productive.
6. People can be *very selfish* and are often *reluctant to share ideas* with colle be *stolen*, causing them to miss out on promotion. This may lead to a *cult* workforce and *lack of teamwork*, both of which would reduce the product

Types of Training

Every *new employee* should receive some training, irrespective of the type of job v Training can *improve* an employee's loyalty, skills, motivation and efficiency as we may also *reduce* labour turnover, wastage and absenteeism. Types of training incl job training and induction training. Each of these has its own merits and disadvan

On-the-job Training

This is sometimes referred to as *in-house training*, because it involves the employe

✓ *Advantages of on-the-job training*

1. The employee is still working within the business and is *contributing t*
2. It is *less expensive* for the business as they do not have to pay for the
3. Employers will find it *easier to assess the progress* of the employee's tr
4. The employee will *learn the job* from experienced workers who he/she build *good working relationship*.

✗ *Disadvantages of on-the-job training*

1. [illegible] training, the employee may pick up *bad habits* from existing e [illegible]ence, may *cut corners* and not strictly abide by the rules.
2. This type of training *does not* easily lend itself to bringing *new ideas a* business as the trainee is *grounded with existing ideas and practices*.
3. During the training period, *the trainer is distracted from their own wor* *their productivity* which would not be good for the business.

Off-the-job Training
This is sometimes referred to as *formal training* and involves the employee trainin colleges of further and higher education, universities or undertaking self-study co

Advantages of off-the-job training

1. It gives the employee the chance to *experience new business ideas and applied* for the benefit of the business.
2. The trainee does *not accidentally damage the business's own* equipme
3. Training is given by *specialist, qualified instructors.*

Disadvantages of off-the-job training

1. The business usually *has to pay* for the emplo training.
2. Skills taught to the trainee *may not be ly nsferred* to the workpl
3. The trainee is away from the s the training period and, the *productivity* during th

Induction Training
This is spec ined at *new employees* to familiarise them with the business, i and safety p ures and fellow workers. A *structured* induction programme may management, the human resources department or trade unions and can last for s

The Benefits and Costs of Training

Any business should consider the training of employees as *an investment in the fu*

1. Reducing *wastage* in time and materials
2. Increasing the *flexibility* of the workforce
3. Motivating employees by making them feel *more valued* and so help redu
4. Reducing *staff turnover* as less people will leave if they see that their caree undertaking training schemes offered by the business
5. Improving productive *efficiency and competitiveness* by having a highly sk

However, there are *costs* involved in training some of which are:

1. The *loss in productivity* of the on-the-job *trainer*
2. The cost of external *training resources* such as books and materials
3. The *administrative costs* involved for both in-house and formal training
4. The cost of the *actual tuition* for placement with an external training instit
5. The *transport, insurance and subsistence costs* involved in off-the-job train
6. The cost of *facilities, materials and personnel* necessary for on-the-job trai
7. The *hidden costs* that might be incurred if a fully trained employee is *poac* business

1.4.2. Questions

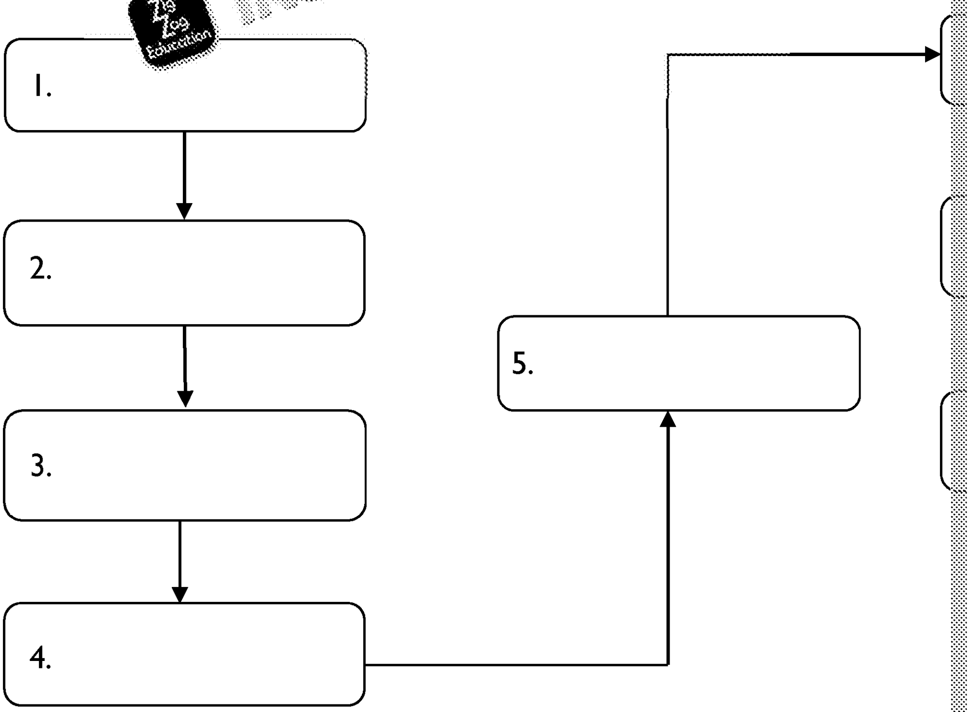
Please write your answers on a separate piece of paper or in an exercise book.

3. *Give one advantage and one disadvantage of the following:*

- **a.** *Internal recruitment*
  - **i.** *Advantage*
  - **ii.** *Disadvantage*
- **b.** *External recruitment*
  - **i.** *Advantage*
  - **ii.** *Disadvantage*

4. *Copy out and fill in the following recruitment flow chart using the phrases below*

References	Shortlisting	Advertise post in appropriate m
Vacancy arises	Application forms	Interviewing



1.4.3. Organisational Design

Key Points Covered

- Organisational Structure
- Types of Structure
- Impact of Differe
  Business Efficien

The design structure of an organisation *must meet its needs*. Some organisations a the *global* marketplace, while others are relatively *small*, working in a *local or natio* organisation's size or structure it must be *fit for purpose*, that is, meet the needs o capable of *responding quickly* to change in a dynamic business environment (i.e. a *change its structure* if it needs to). Business structures are demonstrated using *org*

Businesses can be structured or organised using several criteria, the most commo

1. **Area** – where the business operates geographically
2. **Customer** – the markets where the products are sold
3. **Function** – departments or functional areas within the business
4. **Product** – the type of goods they produce or the service they provide
5. **Process** – the stages involved in making the product or providing the servic

Centralised and Decentralised Business
Businesses are generally structured in either a *centralised* or *decentralised* manner

Centralised: This business has a few *top-level managers* that make decisions and company. Business decisions, therefore, are centralised to a *main office*, which con objectives for the rest of the company to follow.

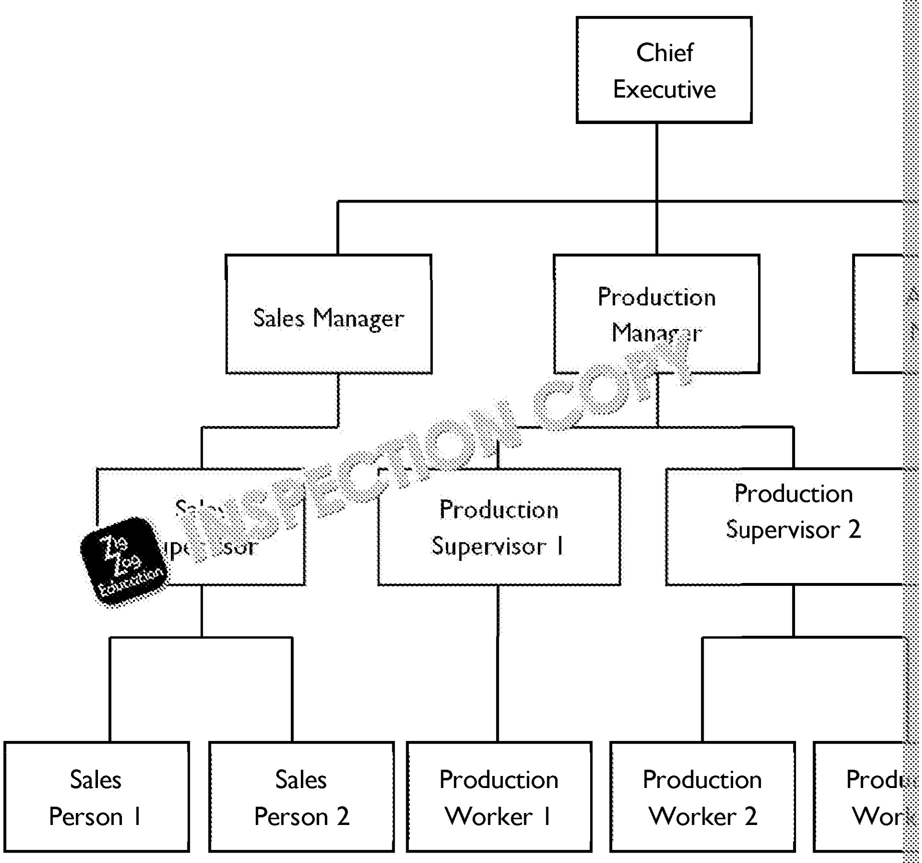
Decentralised: This business *delegates responsibilities and decision-making power chain of command*. Decentralised companies allow their various branches to make independent of the central head office.

Being either centralised or decentralised relates to the three main hierarchical stru

Tall

Tall or hierarchical structures are layered, *pyramid-like structures* that depict the in *functional areas*, or departments, of a business. There is a *chain of command*, or a pyramid, with the number of employees and span of control increasing. The span employees that are directly responsible to a manager or supervisor. Such structur *organisations* such as public limited companies and multinationals.

A typical organisational chart for a hierarchical structure:



In the example of a hierarchical structure, there are four levels, or layers, with each workload, job allocation and degree of authority. At the top (*level 1*) is the *chief ex* which is delegated downwards to *level 4*, the 'chalk face' workers, with the least au information within an organisation should be a two-way process, cascading down

Spans of control also vary. In the diagram, the sales manager has a *span of contro* turn has a *span of control of two*, sales persons 1 and 2. The production manager h production supervisors 1 and 2. However, production supervisor 1 has a *span of co* Production supervisor 2 has a span of control of two, being production workers 2

✓ ***Advantages of hierarchical (tall) structures:***

1. There is an *effective system of command and control*, with every person in defined role, duty, authority and responsibility. Employees know *exactly w* and, equally important, how to get to *where they want* (i.e. there is a clear
2. The structure *encourages specialisation*: everyone works in the area, and a skills. There are specialist sales, production, finance and marketing employ supervisors and managers in these areas.

✗ ***Disadvantages of hierarchical (tall) structures:***

1. They tend to be *very bureaucratic* with every task being accurately recorde this reason, hierarchical structures *respond slowly* to market change. Ideas efficiency also tend to be slowly communicated and reacted upon. *Horizo* level are particularly slow!
2. The *slow response time to market change*, coupled with the problems of in encouraged many hierarchical organisations to *downsize, delay* and *replac* technologies. Such insecurity, along with the large size and impersonal na cause employees to become *demotivated* and eventually *less productive*.

How a Tall Structure Affects the Business
Communication is a two-way process in tall-structured businesses. This sharing of
business's workforce, increasing **motivation** and, as a result, efficiency.

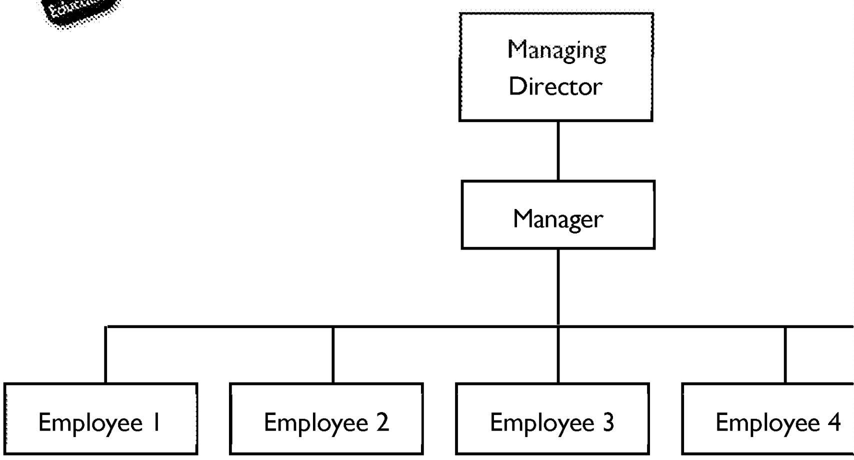
The *operations* of a business are also affected since every department is responsib
again, empowers the workforce as the business values them more highly, leading
and **efficiency**.

Nevertheless, the bureaucracy involved in tall-structured businesses means that, h
workforce may be, business decisions still take a long time to implement.

Flat

Flat structures, unlike the hierarchical organisation structure, will have *relatively fe*
management. Consequently, they have a *... chain of command but a wider sp*
usually adopted by *small organisations* such as sole traders, partnerships and priv

A typical organisation ... for a flat structure:



Advantages of flat structures:

1. There are *fewer levels* or layers of management in a flat-structured organisa
   This makes the decision-making process much *quicker and easier* as there a
   may assist a business's competitiveness by allowing it to react quickly to ch
   environment.
2. Internal communications, internal democracy and innovative potential are a
   feel more valued as an integral part of the organisation. This in turn encoura

Disadvantages of flat structures:

1. The *span of control for a manager increases* their job ... cation and workloa
   effect on their efficiency as they cannot be specialist in *every aspect of the*
   find it difficult to *get to know* all the employees they are responsible for.
2. The individual employee's ... tasks and roles could become *blurred*
   employees, which ... chance of specialisation.

How a Flat Structure Affects the Business
Since decision-making is a quicker process than in tall-structured businesses, thes
changes in the marketplace. There are few layers to a flat-structured business, whi
more than one responsibility; this can lead to higher empowerment and **motivati**
overworked and, potentially, undervalued. Flat-structured businesses, therefore, m
streamlined efficiency and expecting too much of their staff.

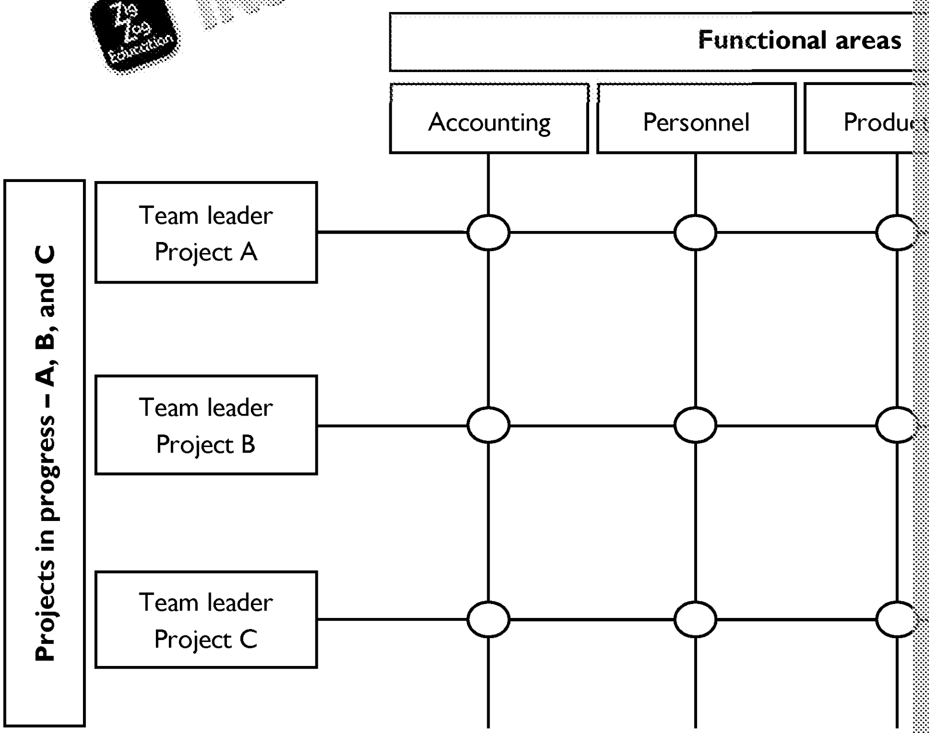
Matrix

Matrix structures encourage *teamwork*, cutting across the traditional idea of *indep*
human resources, accounting, purchasing, marketing, and research and developm
employees and functional area managers to *'think outside the box'*, have input into
successful implementation of a project for the betterment of the business as a wh
their specific *department*.

For example, senior management may decide to implement a few new projects. F
project or team leader and decide on the best employees to be in that team to ens
the project. Project team members would be chosen for their *particular expertise*
departments or functional areas.

During the implementation of the project, team mem[illegible] su[illegible]ly report to their d
as well as the project leader.

The matrix structure diagr[illegible]



✔ ***Advantages of matrix structures:***

1. The project is staffed and implemented by employees who have been *cho*
   particular functional area and is, therefore, m[illegible]ly to be successfully c
2. The project takes on board a wide v[illegible]ty of [illegible]ployees with different *spe*
   and different decision-makin[illegible] *processes* and so avoids the *narrov*
   out of selecting pers[illegible] fr[illegible] only one or two functional areas.
3. Project[illegible] are [illegible] *[illegible]me-bound* and must be completed within a specific t
   res[illegible] an[illegible] must be completed within a specified financial budget. The
   mot[illegible]*al factors* for both the team leader and the team members.

Disadvantages of matrix structures:

1. Project team members report to both their team leader and their departm can cause team members to have a *conflict of interest* or loyalty, especiall of scarce resources within the organisation. When a choice has to be mad allocated to *the project* or to *their department?*
2. It is usual for members of the project team to be given a *degree of indepe responsibility* when carrying out their tasks. This makes the job of *monitor team more difficult* as each team member must be individually monitored accountable for the overall success of the project.
3. If the business increases the number of projects undertaken, they must en and involve *more employees* from various functional areas. This action wo possibly have a negative impact on the efficiency of individual functional

How a Matrix Structure Affects the Bu

Operations in matrix-structured b come under two main categories: *proje* we have seen, employees their project team leaders and to their BAU tea *communicat* ar ultimately, reduce the business's potentials for **effic** businesses become too reliant on project work; this is time-consuming w processes m have achieved the same goal.

Nevertheless, projects are restricted to a certain amount of time (or budget) and a improve the overall business (e.g. updating the IT infrastructure). As such, once a p it can bring higher levels of efficiency to the entire business. After completion, the employees return to their BAU roles, working more effectively as a result of the pr

When it is done well, a matrix structure can **motivate** employees, as they are invo can see the fruits of their labour in the form of a completed project, and see what departments involved in the same project. But when matrix structures do not work reporting to two bosses – the project leader and their BAU line manager – and str priorities. Done badly, matrix structures also have potential to *reduce* motivation.

1.4.3. Questions

Please write your answers on a separate piece of paper or in an exercise book.

5. *Identify whether each of the following statements refers to a 'centralised' or 'de*

- **a.** *All business decisions are made by a single group or person, who then infor*
- **b.** *Authority is delegated from the head office to employees further down the*

6. *Give two reasons why a business owner might wish to keep their organisation s*

1.4.4. Motivation in Theory and Practice

! ***Key Points Covered***

- The Importance of Employee Motivation to a Business
- Motivation Theories
- Financial a
Improve Empl

The Importance of Employee Motivation to a Business

Motivation is the force that *drives individuals* to behave in certain ways. It can be i the individual themselves as a way to gain personal satisfaction or enjoyment) or e tangible factors, such as money). Employers use both financial and non-financial m their employees.

Money is *probably* regarded as the most *effective motivator* for the *majority* of em unique individuals with different needs, wants, attitudes and goals. Due to this, ot (non-financial motivators) must be considered, such as job satisfaction, status, sen recognition, sense of belonging, job security and trust in the individual.

There is *no one motivator* that suits all employees. For this reason, the manager, s *know the individuals* within their *span of control* in order to apply the *appropriate* productivity. It can be quite difficult to motivate staff in large *hierarchical-type* org number of workers employed and the usually *impersonal nature* of these business

Motivation Theories

Frederick W. Taylor (1856–1917)

The main points of Taylor's *Scientific Management* Theory are:

1. The development of *specialisation and division of labour* to improve the e
2. The *systematic analysis* of the relationship between the worker and task u can redesign the way that a task is carried out in order to improve the effi
3. The *formalisation* of the task to be undertaken, which involves developing be followed for a task's completion.
4. The direct *linking of pay to output* for each worker in order to motivate th and efficient.
5. The development of a *rigorous recruitment, selection and training process* employed to do the job.
6. The encouragement of *shared responsibility* between management and th

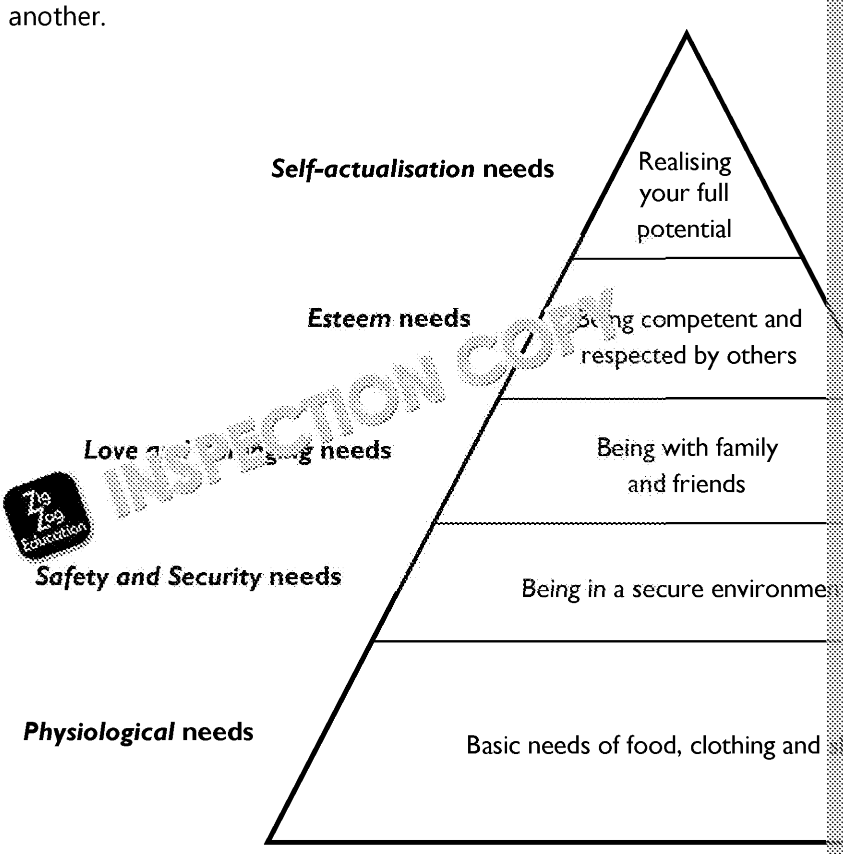
Elton Mayo (1880–1949)

Elton Mayo was the founder of the *Human Relations Movement* and carried out ex for Frederick W Taylor, between 1924 and 1927, on human behaviour. These were *Works* of the Western Electric Company in Chicago. The experiments became wide

Initially, the studies were based on the theory of *Scientific Management*, but over t changes in working conditions and financial incentives had a *negligible* effect on p

He concluded that productivity *did increase when workers participated in team or* management showed interest in what the work employees did, as well as taking a

Abraham H Maslow (1908–1970)
Maslow's contribution to management theory and motivation is his famous pyram five-layer pyramid displays the basic needs of people: from the base, each need m upwards to another.



Frederick Herzberg (1923–2000)
Frederick Herzberg proposed from his research of professional engineers and acc dissatisfaction at work resulted from *two* different categories: *hygiene* and *motivat* present in order to *ensure job satisfaction*.

1. *Hygiene factors*: These include supervision, working conditions, salary, sec and management. Hygiene factors need to be present to avoid job dissat can cause job dissatisfaction but hygiene factors *by themselves* will not ca
2. *Motivation factors*: These include recognition, responsibility and advancem present for job satisfaction, but may not be the only factors that can affec

Financial Incentives to Improve Employee Performance
Most management theorists agree that money (or, more precisely, the *lack of mon* worker motivation. However, few believe it to be a primary motivator as most wor *achieving higher goals*. Frederick Taylor, the founder of the theory of *Scientific Ma* workers by *piece rate* (i.e. by the number of units of output they produced) was a psychologist Douglas McGregor's Theory X postulated that some managers thoug and needed a *financial incentive* to motivate them.

Financial motivators would include:

- *Piecework*: Paid according to output of units produced
- *Time rate*: Paid for the number of hours worked
- *Profit-sharing*: Paid an additional amount based on a percentage of profit
- *Commission*: An extra payment based on a percentage of sales
- *Bonus*: This is usually an additional, one-off, special payment
- *Fringe benefits*: These are 'perks' such as free health insurance, cars and h
- *Performance-related pay*: Payment directly linked to how well workers do

Financial incentives can be very effective when used, for instance, with low-skilled
for sales commission. In both of these cases, the potential for higher pay can spur
themselves further than they would if pay stayed the same. These incentives, how
creative environments, where a workforce is usually driven by the prospect of inno
opportunity to make more money. Financial incentives can also toe a fine line bet
between employees and encouraging competition.

Non-financial Incentives to Improve Employee Performance

There are management theorists who believe that money is not as strong a motiv
be and that other factors are stronger motivators. *Abraham H Maslow*, considered
Psychology, developed his famous *hierarchy of needs* showing that *money* was *not*
Frederick Herzberg, the *clinical psychologist* and pioneer of the theory of *job enrich*
higher motivators had nothing to do with money but involved employees getting
recognition and responsibility from their job.

Non-financial motivators include:

- *Job enrichment*: This is the *vertical expansion of an employee's existing dut* employee's degree of control over their job, or to increase the amount of job. Job enrichment should make work more challenging and rewarding.
- *Job enlargement*: This is the *horizontal expansion of an employee's duties*. of the same skill level, to an existing job. The purpose of job enlargement and less boring.
- *Job rotation*: This involves *moving employees between different jobs* in orde more motivated. It has the benefit of making the employee more *multi-sk* business with the *extra costs of training*.
- *Employee empowerment*: This involves encouraging employees *to take mo* Empowerment encourages employees to get involved in the decision-ma they do. It also enables employees to make *independent decisions* about h
- *Delegation:* Management passes *authority* to lower levels of the business. participation in decision making, increasing employee motivation and pro
- *Team working*: This makes the employee feel *less isolated* and helps stimu *innovative skills*. It also increases the employee's *sense of belonging* to a b succeed and so their level of *productivity*.
- *Consultation:* This relates to empowerment. Employees are included in the gives them more say over what aspects of the business will affect them.
- *Flexible working:* A positive work-life balance is important to everyone and hours to the traditional 9 to 5. This is especially true with new parents, wh young children and who still need to work.

Non-financial incentives perform well in environments where the focus is innovation
Apple Inc., for instance, would place more importance on these incentives than fin
drives their employees. These incentives do not work so well in low-skilled workpl
less willing to take on more responsibility, i.e. if the extra work does not lead to ca
money, there is little reason to accept the incentive.

Extend your Knowledge

The following two theories were introduced by Peter Drucker and To
motivation are not essential to your exams, but we have included the
perspective on motivation.

Peter Drucker (1909–2005)

Peter Drucker was the first to outline the theory of *Management by O*
wrote his book *The Practice of Management.* Drucker believed that ef
scientifically based approach, which should attempt to reach producti
managing the resources it already has and should only make decisio
information.

To be effective, Drucker believed that MBO should involve:

- *Setting and communicating organisational objectives* and target
  Measurable, Achievable, Realistic and Time-bound).
- *Organising the workforce* to carry out tasks that help achieve th
- *Devising suitable motivational factors* for the workers. These sho
  and non-financial motivators.
- *Developing a method of measuring the output* of each employee
  predetermined level so that a quantifiable performance measur
  obtained.
- Developing the skills of all employees in the most appropriate w

Tom Peters (1942–)

Unlike other management gurus, *Peters has no one, all-embracing the*
believes that businesses should *recognise the talents of the individual*
the *'Taylorist theory'* and concentrate more on the importance of peo
proactive.

In 1982, Peters and Robert Waterman published a book entitled *In Se*
they identified the *eight characteristics of business excellence* as being

- Proactive management
- Understanding customers
- Entrepreneurship
- Productivity through people
- Hands-on and value-driven management
- Doing what you know best
- Having a simple structure with lean staff
- Having both a centralised and decentralised philosophy

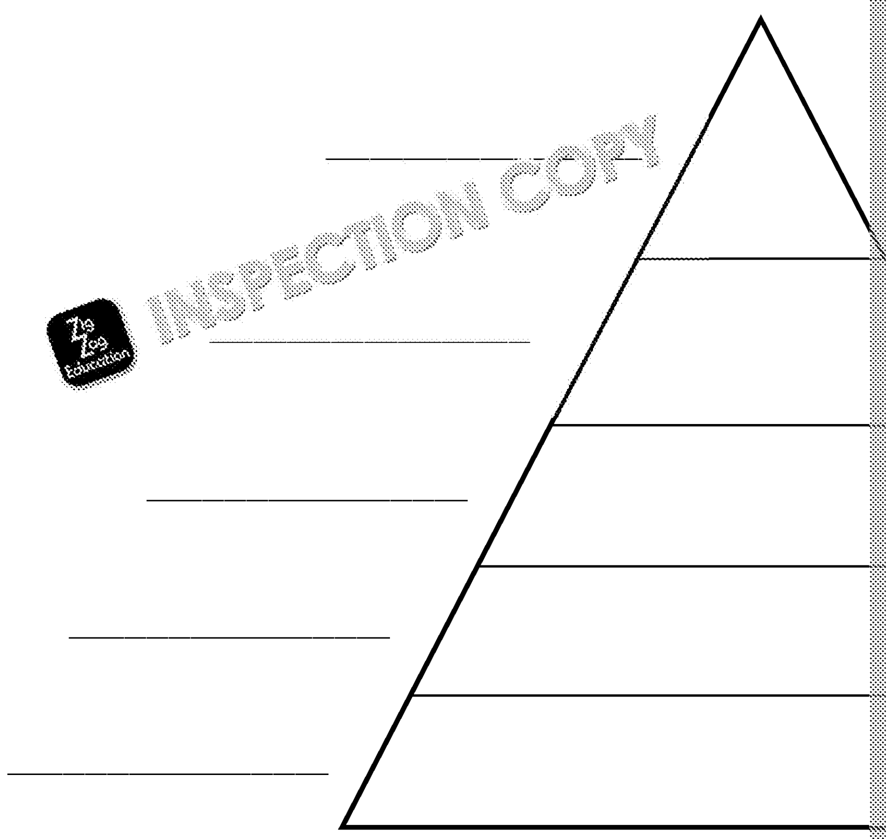
Peters and Waterman, in collaboration with Anthony Athos and Richa
'Seven–S' model, emphasising a holistic view of an organisation, the S
Systems, Skills, Staff, Style and Shared values.

1.4.5. Questions

Please write your answers on a separate piece of paper or in an exercise book.

7. *Fill in Maslow's 'hierarchy of needs' pyramid with the following terms:*

Self-actualisation needs / Safety and security needs / Physiological needs / belonging needs



8. *Explain what Herzberg meant by hygiene and motivation in terms of job satisfa*

1.4.5. Leadership

! Key Points Covered

- Leadership
- Types of Leaders

Difference between Management and Leadership

Management involves *four* basic functions: *planning*, *organising*, *leading* and *coord* business. It is the general administration of a business – the *business as usual* or d

Leadership, on the other hand, describes how a busine... led, how a person employees and positively influence them in ord... success to the business visionary. They have *innate* and often ... characteristics that *encourage* a their full potential.

It is worth r... th... *managers are not necessarily good leaders!*

Types of Leadership Style

The most common styles of leadership are:

Democratic

This involves *empowering employees by involving them in the decision-making pro* employees, but remains in overall control. After a task has been decided *workers t best* to complete it within the deadline. Although such consultation *slows down* th democratic leadership can improve employee *motivation* as it makes them feel pa

Leaders of start-ups and medium-sized businesses often use the democratic style relatively small. Leaders of these firms have short chains of command, with most c employees, and so they tend to involve more people before they act. However, th making, where numerous people all give their opinion, can make it seem impossib anything!

Autocratic

This is a *dictatorial style* of leadership where workers are set a task and *told* how and when to complete it, without consultation and participation in the decision-making process. The absence of consultation can *decrease* employee motivation, but on the other hand the decision-making process is much *faster*.

This type of leadership technique is often used in large factories where businesses might employ many low-skilled workers. The w...rce is directed to perform a task and given very specific instructions ... While an efficient way of getting things done, autocratic le... can lead to resentment within the workplace since employees fe... u... ...ued by their employers.

Paternalist

This is a *'fat... ws best'* style of leadership which allows for *consultation* with e *decision* as to how to carry it out is *made by the business leader*. It is nevertheless a which takes into account the needs and best interests of the employees.

Much like democratic leadership, the paternalistic style is generally favoured by s It can have drawbacks, though, such as a leader becoming so involved in the proc up controlling everything and hindering the development and/or creative freedo

Laissez-faire
This leadership style *empowers* employees to carry out a given set task with the *minimum of interference* from the manager. The degree of the leader's participation in the task is *being available* to *give advice and guidance, when sought* by employees.

The laissez-faire technique works well in large organisations that have many layers of management below the business leader. Departments / business units work autonomously to achieve their objectives, speaking to the leader only when absolutely necessary. This technique can be difficult for leaders to administer, however, especially if they are not 100 per cent confident in their employees. The workforce may also lack confidence in the leader or in themselves, as most are used to being told what to do and when to do it. Laissez-faire can also create a 'big brother' atmosphere in the workplace, where people know that while the boss is not around he/she is always watching.

1.4.5. Questions

Please write your answers on a separate piece of paper or in an exercise book.

9. *Tennis Elbow are a manufacturer of sports equipment. Since their inception, the 30 employees) have been led in an autocratic manner. They are now thinking ab to become more laissez-faire.*

Consider the positives and negatives of changing from autocratic to laissez-faire what they should do.

10. *Describe how management and leadership differ.*

1.4 Keywords

Span of control:	The amount of control that a manager has, e.g. a sales three sales advisors and so the span of control is three
Hierarchy:	The way in which a business is structured, such as flat,
Delegation:	This is the process of transferring authority and power an employee in a lower management layer. Note that downwards but responsibility cannot be.
Chain of command:	This is the *route* in which power and authority are pass *layers of management.*
De-layering:	This is the process of *removing layers* of the organisati
Centralisation:	This often means that a few *top-level managers* retain responsibility for the whole business. All decisions wou *office* and then *communicated* to the business' various
Decentralisation:	This often involves the process of *delegating authority* employees *lower down* the business's chain of comma of *allowing* the business's various *branches and outlets* *independent of head office.*
Outsourcing:	When a business pays workers in another country to m
Dismissal:	When an employee is removed from his/her position v
Redundancy:	This happens when an employee's position no longer e

1.4. Answers

1. **a.** Businesses using 'hard' HR methods often view their staff as a cost. cheaply as possible in order to get a task done rather than investing
   b. Students should show any of the following ways in which 'hard' HR
   - Soft HR looks to develop staff rather than just use them for a pu
   - Soft HR follows market changes to continually train staff in lead
   - Soft HR sees employees as contributing to the output of a firm
   - Hard HR does not focus on development while soft HR sees this value of the company and of the workforce

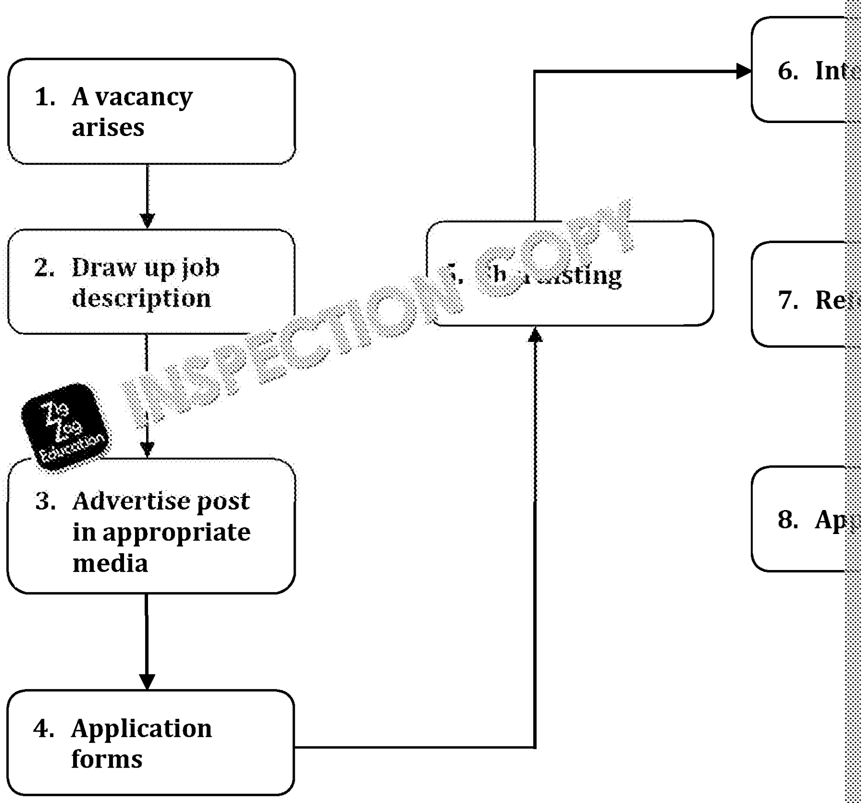
2. Examples of flexible working include:
   Temporary: workers are employed on a short-term basis in order to fulf

   Job sharing: multiple workers are employed in order to fulfil a single rol that cannot commit to a full week of work, for instance.

   Teleworking/homeworking: individuals are employed (or contracted) home.

3. Two examples are given for each type of recruitment.
   a. Internal recruitment
   i. Advantages include: motivation of employees by showing there development; existing employees require less training than ext
   ii. Disadvantages include: hiring internally can cause friction with unsuccessful; hiring within still means that another job become must advertise for that.
   b. External recruitment
   i. Advantages include: hiring externally allows a business to bring change any inefficient processes; advertising externally opens t than if they were to look internally.
   ii. Disadvantages include: the wider pool of people means externa longer than internal, and so it costs a lot more; hiring externally employees who then feel undervalued by their employer.

4. Copy out and fill in the following recruitment flow chart.

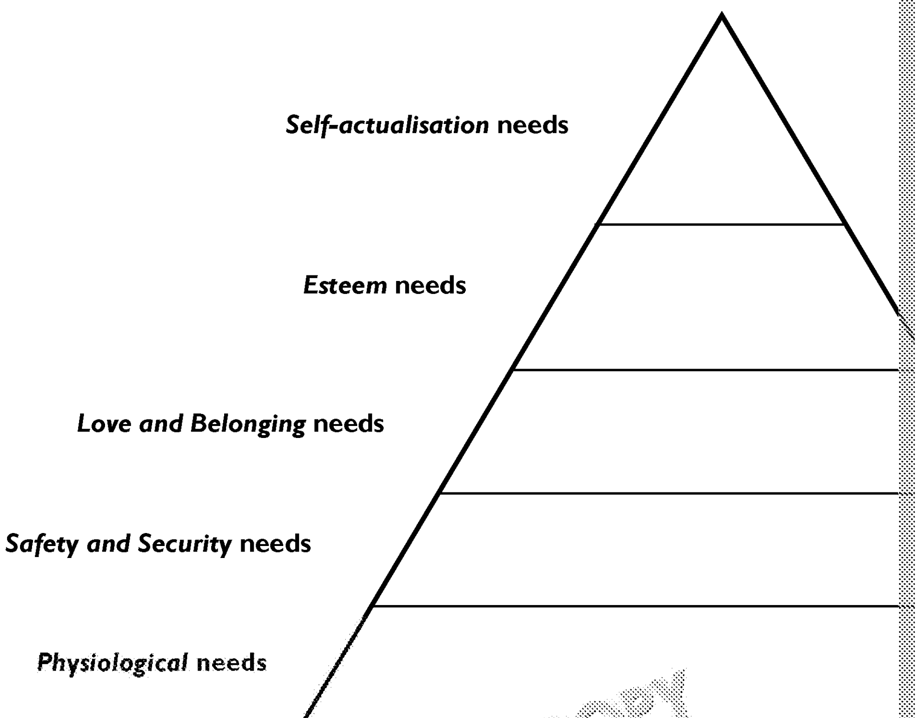


5. Identify whether each of the following statements refers to a 'centralised
   a. **Centralised:** All business decisions are made by a single group or p
      rest of the company.
   b. **Decentralised:** Authority is delegated from the head office to emplo
      command.

6. Students should identify two reasons for staying flat, such as (but not lin
   - With fewer layers of management, there is less bureaucracy to cont making process much quicker
   - Quicker decision-making also means the business can react more qu environment
   - A business owner may also wish to keep a tighter grip on more aspe flat structure allows
   - The business's employees can feel more motivated since communic a benefit for the business and furthermore, the owner.
   - With better communication, employees may feel more part of the t themselves fighting for of the business objectives.

7. Fill in Maslow's 'hierarchy of needs' pyramid with the following terms:

   Self-actualisation needs / Safety and security needs / Physiological n
   Love and belonging needs



8. Students should explain at least one point for each factor.
   Hygiene involves:
   - Security: making the workforce feel safe in their working enviro
   - Salary: employees require a fair salary in order to feel valued by
   - Relationships: management and peers must be able to communic
   - Supervision: management needs to be aware of what is happenin need to feel their work matters to the bigger picture

   Motivation involves:
   - Recognition: a motivated workforce needs to feel valued by its e
   - Advancement: if there is no upward mobility in an organisation, em
   - Responsibility: employees do not always demand money in retur sometimes only wish to have more influence on the company the

9. Learners should show their understanding of the difference between au[illegible] leadership (i.e. autocratic leaders make decisions then inform their work[illegible] leaders act more like advisors to their employees by giving them large a[illegible] intruding less often).

Learners should also consider which manner would work best for a sma[illegible] Elbow. The company are still quite small (with 30 employees) and so the[illegible] stay fully involved in order to ensure processes are completed to standa[illegible] faire approach shows employees that their leader trusts them, which ma[illegible] to succeed.

Learners may wish to mention that a change in leadership should only b[illegible] current one is not working – this applies to Tennis Elbow, too. Learners [illegible] company consider a democratic leadership sty[illegible] would allow more [illegible] members without reallocating all authorit[illegible] aw[illegible] from the main decision[illegible]

10. Students should underst[illegible] th[illegible] t while leadership involves setting the c[illegible] and motivating th[illegible] [illegible]ce, management is more focused on the day-[illegible] the bu[illegible] is [illegible] to run and, therefore, meet its objectives.

1.5. Entrepreneurs and Leade

1.5.1. Role of an Entrepreneur

! *Key Points Covered*

- Creating and Setting Up a Business
- Running and Expanding a Business
- Barriers to Entrepreneurship
- Innovation within a Busine
- Anticipating Risk and Unce Environment

Being enterprising is about risk-taking, innovation, facing new challenges and gen *Enterprise Culture* that involves *any* business activity undertaken with the *aim of m*

Creating and Setting Up a Business

Entrepreneurs are the driving *force* behind the economy as they *stimulate economic activity*. They are the ones who *take the risk* and put their own, or others', money *where their mouth is*. Their *reward* for success is *profit*. Entrepreneurs spot *a gap* (a niche) in the market and develop new products, services and ideas, or develop existing ones to *fill that gap*. By their actions, entrepreneurs provide the customer with an *extended choice* of goods and services, as well as *create jobs* for the local and national economy which in turn *increases economic growth*.

Many entrep

Entrepreneurs are *optimists* who see the glass as being half full and not half empty. They *believe in themselves*, their product or service, and above all the future success of their enterprise.

There is no entrepreneurial *gene bank*. Anyone, irrespective of age or gender, can provided they have the *right business idea and the resources* of *time* and *personal* Entrepreneurs are *a special and unique type of labour* who can combine the *factor* capital) into a *coordinated, viable and working enterprise*.

Once an entrepreneur has a viable idea, they will go through certain steps before steps can be numerous, including:

- *Market research:* This helps an entrepreneur understand whether the gap actually needs to be filled. This might include primary research, such as in secondary research, such as reading published surveys.
- *Business Plan:* This will allow the entrepreneur to map out what they expe months to few years.
- *Finance:* This is integral to setting up a business. An entrepreneur will eith or look to outside finance, such as bank loans or venture capitalists.
- *Launch:* Once funding is in place, the entrepreneur can prepare to launch type of business they have set up, this might entail purchasing raw materi securing a mortgage for a new location.

Not every business follows these steps, nor do they follow them in order. Business though they are more likely to fail in this way.

Running and Expanding a Business

Once an entrepreneur launches their business, they will likely be the only employe responsible for all day-to-day operations. These include production (making the p (studying the market and promoting in the right way), finance (taking care of the b administration (e.g. bookkeeping and tracking contracts) and purchasing (finding t right price).

As revenue and demand grow, the business expands. This expansion occurs in ma

- Employing staff to work in areas of the business (this will also mean the b management)
- Increasing levels of production to match quantity demanded
- Promoting products/services to new and/or fo... markets
- Purchasing new equipment and locations

What was once a one-pers... grows into a business with multiple emplo entrepreneur ... from production and divide their business into d to the role ...ger, or leader, with subordinate employees working under the

Innovation within a Business

Many companies promote _intrapreneurship_ from their staff as a way to cultivate in leadership. Intrapreneurs are individuals who act like entrepreneurs but work with

Businesses benefit from this initiative as it helps develop employees into highly m that become more valuable as a result. The intrapreneur, on the other hand, bene certain risks, as an entrepreneur would, while comfortable in the knowledge that t on the line personally.

Companies encourage intrapreneurship through reward systems. These can inclu bonuses and commission payments. The business reaps any rewards from this ven responsible for any failures.

Barriers to Entrepreneurship

Entrepreneurs have to face many obstacles along the way, including lack of trainin their own skills. The government recognises the need for entrepreneurs and the s economy to *develop, survive and grow.* Entrepreneurs and small businesses are vie development of *economic growth* and the *provision of employment*. Successful *sm* (SMEs) tend to be *less footloose* than businesses encouraged by *inward investmen*

In an attempt to grow an *enterprise culture*, the government gives support to ente

1. Promoting the work of regional development agencies
2. Promoting and funding the DTI's Small Business Service
3. Encouraging a less-litigious, and more risk-taking society, with less red ta
4. Encouraging the growth of ... business and enterprise colleges
5. Encouraging the development of enterprise education in schools through

Anticipating Risk and Uncertainty within the Business Envi

Risk

Entrepreneurs are willing to take risks – though calculated ones, naturally. The pr informed calculation between success and failure.

Risks present the greatest potential for failure and, at the same time, possible suc small-scale start-ups, introduce a product/service with little to no market research can lead to failure since the business does not know whether there is a genuine n However, there is great potential for success, too, as competition already existing

A main risk for any entrepreneur is whether their planned venture will make as mu doesn't earn the person enough money, he/she may be forced to abandon the pr inspirational entrepreneurs continue even after multiple failures. Steve Jobs is a gr his vision for Apple to the very end, even after failing on multiple occasions and e company!

Uncertainty

Unlike risk, uncertainty involves the elements that cannot be planned for, such as changes, health scares, new competition, legislation and political factors. Entrepre often experience uncertainty through unexpected costs. New businesses often lac knowledge that more-established firms already have, which [illegible] hit them with mo have been anticipated.

Health scares and political unrest [illegible] drastic effects on a business. If a busines affiliated with) an area that [illegible] by either of these factors, their control of the The horse me[illegible] [illegible]3 is a good (or perhaps 'bad') example of how health

Competition [illegible] create problems for businesses, too. If a firm is unprepared for c unwilling to change with cultural trends, the market may disappear from under its this: in the 1990s, Nokia was one of the leading brands of mobile phones across t 2000s, Apple, Samsung and other smartphone producers had entered the market and were quickly gaining customers. Nokia did not change with this trend, instead that brought them success in the 1990s. The company eventually lost out and the were later bought by Microsoft (in order to control production of the Windows Ph keep up with the competition.

1.5.1. Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. *Give one reason why a business might encourage a culture of intrapreneurship.*
2. *The horse meat scandal of 2013 significantly affected food businesses across th wide portfolio of products have helped some firms?*

1.5.2. Entrepreneurial Motives and Characteristics

Key Points Covered

- Characteristics and Skills Required
- Reasons Why P

Entrepreneurs are people that thrive on success, risk and reward. They come in all ideas!) and the reasons for becoming an entrepreneur can differ from person to p

Characteristics Required for an Entrepreneur

Their characteristics, however, are normally very similar and include:

- **Creative** – be able to look to the future
- **Hardworking** – have no problem putting in the necessary effort to run a
- **Resilient** – be emotionally stable enough to bounce back from adversity
- **Self-confident** – have confidence in their own abilities and be able to co
- **Risk-taking** – be willing to take chances that have potential for great rew
- **Initiative** – be able to take an idea/plan and act upon it with minimal gui

Skills Required for an Entrepreneur

There are skills that an entrepreneur needs, too, which include:

- **Problem-solving** – have the analytical skills necessary to understand how
- **Teamwork** – have the ability to work with others and offer support where
- **Communication** – able to convey what they mean so everyone can unde
- **Organisation** – have the ability to juggle many tasks and responsibilities
- **Numeracy** – have the skills necessary for business calculations, such as fi
- **Information technology** – computers are a part of everyday life as they a

Reasons Why People Set up Businesses

Entrepreneurship is stressful, risky and time-consuming. It is also self-gratifying ar contrasts and conflicts do not dissuade people from becoming entrepreneurs bec

1. Enjoy a good *challenge*
2. Are *creative* individuals by nature
3. Have always wanted to be their *own boss*
4. See that *profit* can be made from their enterprise
5. Want to *do things differently* from everyone else
6. Have been *inspired* by the success or image of someone else
7. May have an *ethical stance*, or *moral reasons*, for wanting to enter a mark entrepreneurship, i.e. using business techniques to tackle social issues.

Financial and Non-financial Reasons

There are *financial* and *non-financial* reasons for why people become entrepreneu *maximisation* and *profit satisficing* (financial) and flexibility of the *work-life balanc*

By focusing on *profit maximisation* (more on this in chapter 1.5.3.), entrepreneurs businesses appeal to as many potential customers as possible. *Profit satisficin* making as much profit as possible, involves generating enough profit to fulfil a bu amount of profit businesses aim to make can depend on many factors, such as lo demands of any shareholders.

Society is shifting and the *work-life balance* (more on this in chapter 1.5.4.) is bec People no longer feel the need to work long hours as a way of earning more pay of industries). Instead, people put value in their leisure and family time and so loo around their lives, rather than the other way around. This social change has encou businesses from their own homes. Home-based businesses are often small operat living without compromising what is really important to them.

1.5.2. Questions

Please write your answers on a separate piece of paper or in an exercise book.

3. *Identify three characteristics required in an entrepreneur.*

4. *Explain one reason why a person would choose to set up their own business.*

1.5.3. Business Objectives

! Key Points Covered

- Survival
- Other Objectives
- Profit Maximisatio

Objectives are *goals*, or *targets*, that a business, be it in the *private or public sector* tend to occur in a *layered hierarchy* with *sub-objectives* within each layer. Objectiv hierarchy are the *broad, long-term strategic* objectives focusing on *business policy achieving objectives further down* the hierarchy. Objectives *lower down* the hierar *short-term, tactical and specific*, focusing on a business's *day-to-day operation*.

A *private sector* business may have objectives of survival, profit maximisation, mar share and/or gaining prestige. A *public sector* enterprise may have objectives of ec efficient provision of public services, such as health and education.

In essence, the *creation of an objective* very much depends on the *category of stak* individual objective carries its *own degree of risk and reward*. The following table s possible objectives that might satisfy them.

Stakeholder	Possible business objectives to satisf
Shareholders	Survival, growth and profit maximisation
Owners	Survival, growth, positive reputation and acclaimed
Management	Efficiency, low labour turnover, good industrial relat
Suppliers	High sales, steady growth, good liquidity and positi
Government	Growth, high turnover, high profits, increased tax re awareness
Customers	Low prices, quality product, green credentials and r

There are reasons for each objective and why businesses focus on them. Let's look

Profit Maximisation: this objective is the most common for any business as it pr purchase capital (e.g. equipment, location, etc.) and/or invest in growth and expa

Survival: businesses need a positive cash flow (i.e. enough finances so that they a to-month bills and other expenses). If a company is profitable overall, but does no short-term expenses, it probably will not be able to survive.

Sales maximisation: this objective supports profit maximisation. Since a business subtracting total costs from total revenue, they can achieve economies of scale by they generate, i.e. with more sales comes more revenue and, as such, higher profi

Market share: this objective also supports profit maximisation. Businesses focus o order to promote themselves to more customers. As they introduce themselves to increase their sales and, therefore, profits.

Cost-efficiency: while the previous two objectives help bring revenue up, cost eff This also supports profit maximisation as, with lower costs, businesses can earn m

Employee welfare: this is an important objective for businesses in order to maint the business, i.e. a business may be responsible for the quality of its products, but has control over this.

Customer satisfaction: this objective links back to profit maximisation and surviv
profit, it must make sure it keeps its customers satisfied. This can lead to repeat sa
which ultimately can convert into sales.

Social objectives: while most businesses start out with the primary aim of profit m
objectives by supporting social causes (such as making charitable donations from
with social objectives for many reasons, including the personal ethics of the busin
more positive reputation for the business's brand, which can lead to higher sales (

Any business that sets itself objectives must make sure they are **'SMART'**:

- **S**pecific: to the business's aims
- **M**easurable: quantifiable to ensure that the objectives are achieved
- **A**chievable: agreeing that they are capable of being fully completed
- **R**ealistic: capable of being achieved using existing resources
- **T**ime-bound: given a realistic time for completion

A business can carry out a SWOT analysis before fully committing itself to any obje
business considering factors over which *it has control* – that is, does the business ha
deliver the objective? A business would need to review and build on the **S**trengths th
It would also have to realistically consider the **W**eaknesses that would *prevent* the o

A business's **S**trengths might include a solid liquidity base and a good cash flow p
be a lack of suitably trained employees and a high level of labour turnover.

The business should also consider *external factors* over which it has *no control*. It s
Opportunities that would arise from an *achieved* objective. However, the firm mus
Threats to its existence if it were to *fail (or even succeed)* in achieving the objectiv

Business *opportunities* may include the attraction of new customers and the enco
from existing customers. However, *threats to achieving* the objective may be a los
of image and prestige. The main *threat from success* would come from the compe
taken and possibly from problems arising from overtrading.

Tactical and Strategic Objectives

Tactical objectives are *low down* the layered hierarchy of a business's objectives ar
by *middle management*. They are *short-term* objectives, *narrow* in focus and *speci*
running of the business. Their aim is to *facilitate* the achievement of strategic obje

Once tactical objectives have been identified, defined and agreed, it is usually nec
sub-objectives, or operational steps, in order to facilitate their achievement.

It is essential that these *tactical* objectives are *specific* to the achievement of a lon
of outcome, *achievable with existing resources* and *realistically* implementable. Th
be achieved within a specific period of time, usually, within *one to two years*.

Strategic objectives are at the *top* of the layered hierarchy of a business's objective
objectives, setting the vision and focusing on business *policy* and *long term* in fulfilm
years. Their success *depends* on the *achievement* of the *tactical objectives* further d
will be *several tactical objectives for each strategic objective*.

Strategic objectives are usually associated with *increasing* a business's *sales reven*
customer satisfaction, employee welfare and, more recently, being *environmentally*

It is important for a business to identify, define and agree SMART strategic object
spirit of collective responsibility in achieving common long-term goals. This '*esprit-*
the motivation of the workforce and can be used as a means of incentive.

1.5.3. Questions

Please write your answers on a separate piece of paper or in an exercise book.

5. *Tin-Din Sounds are a record label that want to do a SWOT analysis of themselve shares of the rock, pop and hip-hop markets but have very little share in the pur markets. The current objective for the company is to maximise their share in the lot of competition in this business area.*

Fill in the SWOT analysis, using both the information above and your own imagi strengths, weaknesses, opportunities and threats for the company.

SWOT Analysis for Tin-Din Sounds	
STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

6. *Business objectives should be SMART. Identify what this acronym stands for.*

1.5.4. Forms of Business

! Key Points Covered

- Sole Trader, Partnership and Private Limited Company
- Franchising, Social Enterprise, Lifestyle Businesses and Online Businesses
- Growth to P

Types of Entrepreneur

Sole Trader

This is the *simplest* form of business structure. It is own... ...usually operated by operate it is from the owner's personal savings or loan from a financial institutio owner is regarded as *self-employed* and ... *on the profit* that the business ma *and accurate financial records* of ... and expenditure but does *not have to* However, the owner does ... *complete a self-assessment tax return* for *HM Re* responsible ... their ... *National Insurance* contributions.

✓ ***Advantages of being a Sole Trader:***

1. The owner *keeps all* the profits themselves.
2. The owner *makes all* the business decisions.
3. It a relatively *simple* form of business to *start up.*

✗ ***Disadvantages of being a Sole Trader:***

1. The owner is *personally responsible* for all the debts and losses of the *unlimited liability.*
2. The owner must personally take *total responsibility* for the efficient an business. All business decisions are theirs and *theirs alone.*
3. The owner has a *limited ability* to raise capital for expansion as the bu *limited asset valuation* for use as *collateral security.*

Partnerships

This is a *simple yet flexible* way for *two or more people* to start a business. It is defi as the *'relationship which subsists between persons carrying on business with a com* down certain *fixed conditions* that the partners must follow.

However, most partnerships draw up their own deed of *Partnership or Partnership* *document* detailing, with the agreement of *all* partners, how the partnership is to deed the provisions of the *Partnership Act are enforced.*

The *finance* to start and operate the business is *raised* by *the partners* themselves from a financial institution. *Each partner* is classed as *self-employed* and is *taxed o* partner is also *responsible* for *their own National Insurance contributions*. The part *incomes and expenditures.*

✓ ***Advantages of being a Partnership:***

1. ...p and expansion capital, risks and ideas can be *shared* betwee
2. Each partner can *specialise* in the business task for which they are *bes*
3. A partnership can raise capital *more easily* than a sole trader because *greater asset valuation.*

✗ ***Disadvantages of being a Partnership;***

1. *Profits* must be shared between the partners.
2. Each partner is *equally responsible* for the debts of the partnership.
3. Decision-making can be *slow* as *all* partners have to be consulted.

Private Limited Companies (Ltd)

This type of business exists in *its own right* which means that the *company's financ* the *personal finances of its owners*. *Shareholders* are the *owners* of the company ar *Liability*. This means that if the company fails, shareholders *only stand to lose the c invested* in the company. Their personal goods and holdings are *not at risk*. *Opera* must follow the provisions of the *Companies Act 2006*.

Private limited companies tend to be *larger* than partnerships in terms of both *siz invested* in them. They *must* have at least *one* shareholder but *cannot issue shares* only issue shares to private investors. Private companies must be *registered/incorp must* have *at least one director.*

The *Board of Directors*, or *Director*, will make *all* the m[illegible]nt decisions. *Finan debenture issue, borrowings and/or retained pr[illegible]ts* th[illegible]are profits that have *not* by way of *Dividends*). Private Limited C[illegible] *must* file annual accounts with Co

✔ ***Advantages [illegible] Private Limited Company (Ltd):***

1. [illegible] *risky* investment than sole traders and partnerships as *[illegible]ted liability.*
2. The *protection* of limited liability *encourages* more private individuals limited company a *larger capital base* than the previous two forms of
3. They have *perpetual existence* which means that the company will cor *after* a shareholder has died.

✘ ***Disadvantages of being a Private Limited Company (Ltd):***

1. They *cannot offer shares for sale to the general public* as their circulati investors. This greatly restricts the amount of capital they can raise.
2. Some of the profits made by the company *are distributed to sharehold* reduces the amount of retained profit they can keep for reinvestment
3. They *must file annual accounts* with the *Registrar of Companies* at Co

Franchising, Social Enterprise, Lifestyle Businesses and Onl

Franchises

Franchising allows a *small* entrepreneur to have his/her own business and compet market. Franchises have become a popular form of business type as they allow th in a *'ready-made'* business opportunity.

The franchising process is fairly simple and straightforward: the owner of an *estab* grants a *franchisee* the *right to sell their product or service in exchange for moneta* allows a budding entrepreneur to set up and run a business with a *degree of indep* Motor vehicle dealer franchises (such as Ford and VW) and product *brand franchis* are very common types of business in the UK.

	Advantages	
For the franchisor (seller of the franchise)	1. They r[illegible] *[illegible]p sum income* from the [illegible] sale in addition to a regular agreed percentage of franchisee's profit. 2. The name of the established business gets *more widely promoted* with the sale of every franchise.	1. There is a operation 2. The *reputa* business c franchisee the *standards*
For the franchisee (buyer of the franchise)	1. It trades under an *established business name.* 2. Has access to a *network of help and support* from the franchisor.	1. They *must characteris* 2. Part of the to the fran

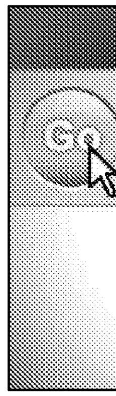
Not-for-Profit Businesses

These *social enterprises* are businesses that trade in order to *benefit the communit* they were set up. Their *profit* is *reinvested in the community* or *used to support* the formed. Profit is *not used* to increase the personal wealth of owners and *guaranto*

Such businesses aim to have a *financial trading surplus* to *reinvest* in and *further a* they were set up. Examples of such *social aims* are job creation, 'people' training, p 'Fair Trade' with developing countries. There are many different types of social en associations, community development trusts, worker-owned cooperatives and leis

Not-for-profit businesses are usually *limited by guarantee*, which means that they *trustees* who are *guarantors* instead of shareholders. These guarantors enjoy the p give an undertaking to contribute a *nominal amount* towards the *winding-up* of th *shortfall on cessation of trading*. A clause in its *Memorandum of Association* restrict members. Not-for-profit businesses can apply for *charitable status*.

Online Businesses and Lifestyle Businesses



Businesses start for all sorts of reasons. Some people come up with a new, innovative design for a product that they are able to patent while others spend years working for a company before deciding to branch out alone and become their own boss. Nowadays, it is common for young parents to set up their own business in order to work around the demands of their children or as a way to completely switch careers.

The Internet has opened doors for many would-be entrepreneurs who have great ideas but are unsure how to market themselves to the right consumer. This advancement in global communication has seen a whole into prominence: the online business. From the dot-com boom of the late 1990s t present day, online businesses are leading the way forward.

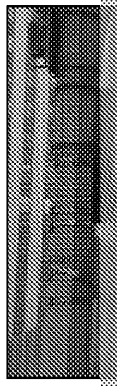
One of the most attractive things for entrepreneurs looking to set up an online bu costs involved compared to bricks-and-mortar high street businesses. Businesses and grow significantly thanks to online trading. Some of today's most successful b Facebook and Groupon, exist almost entirely online.

The growing importance of a positive work-life balance has opened the door to a business. These businesses often start as sole practitioners or partnerships (e.g. hu opportunity (or desire) for growth. While start-up firms can begin small and grow through angel investment and an increasing number of employees), the majority and remain small. This is because of the lifestyle choices the business owners mak businesses are managed and supported by the same one or two people who start maximisation, these businesses are set up for different reasons, such as:

- **Financial comfort:** the owner of a lifestyle business may strive to earn up i.e. only enough to support their lifestyle choices
- **Flexibility:** for entrepreneurs wishing to live in a certain location, or even who... their start-up firm with investors and shareholders. Since lifesty one employee/owner, it is simple to pick up the business and move it son
- **Quality of life:** the business owner might put more importance on leisure work and a lifestyle business can allow for this freedom

Lifestyle businesses often target the creative industries rather than those that requ be difficult to pick up and move around if your business was in manufacturing jet owners of similar lifestyle businesses to come together in the same location. Calif for technology-savvy individuals (Google, Facebook and Apple are all in California of like-minded business owners all living and working in that one area.

Growth to PLC and Stock Market Flotation



Shar
Exch

A Public Limited Company (PLC) is a type of business that also *exists in its own right*. This means that the business's finances are separate and distinct from the *personal finances* of its *shareholders*, who are also protected by limited liability. PLCs must follow *the provisions of the Companies Act 2006.*

PLCs tend to be *much larger* than private limited companies in terms of both *size and the amount of capital invested* in them. PLCs *must have at least two shareholders* and must have issued shares to the value of *£50,000 or more* before they can begin to trade. Unlike private limited companies, PLCs can *issue shares to anyone* through the Stock Exchange. They must be registered, or incorporated, at Companies House and must have *at least two directors and a professionally qualified Company Secretary.*

The company's board of directors *make all* management decisions while *finance c debenture* ... *rrowings* and *retained profits*. Public Limited Companies *must fi* Companies House.

✓ *Advantages of being a Public Limited Company (PLC):*

1. They can obtain *very large* amounts of capital as their *shares can be bough* worldwide by individuals or financial institutions.
2. As they are *very large*, usually *dominate* the market and have an *extensive* companies *find it easy to obtain loans* from financial institutions.
3. Because of their huge size, they can benefit from *Economies of Scale*. For e *purchasing power* commands *favourable purchasing* terms from its supplie

✗ *Disadvantages of being a Public Limited Company (PLC):*

1. They can *get too large* and *impersonal*, causing employees to *lose their se* cause *motivation and communication problems* as well as *diseconomies of*
2. There is a *divorce of ownership* by the *large* body of *shareholders and cont directors*. This means that a *small group* of people may make decisions ab company will take. These decisions *may not be* the ones that the vast maj An *unpopular* decision could be *challenged* at an *Annual or Extraordinary* However, in reality the rank-and-file shareholders *seldom* attend these me
3. The large hierarchical structure of these organisations often *works against* as it takes a long time for an idea to *move up* the hierarchy for *approval* a approval to be *actioned*.
4. They can be subject to *hostile takeovers* – that is, being unwillingly taken o usually preceded by a *dawn raid* involving the sudden purchase of a subs ordinary shares, against the wishes of the Board of Directors. The ordinar their shares by being offered a price that is higher than the market value.

1.5.4. Questions

Please write your answers on a separate piece of paper or in an exercise book.

7. ***a.*** *Give two limitations of a partnership.*
b. *Identify two benefits of being a sole trader.*

8. *Explain one reason why an entrepreneur might choose to invest in the McDonal*

1.5.5. Business Choices

Key Points Covered

- Opportunity Cost
- Choices and Po

Opportunity Cost

This is an *economic term* that defines true or real cost, in *non-monetary* terms, as t up) the *next best alternative* when making a decision. Opportunity cost implies tha what is sacrificed to get it. This is an extremely important concept for an entrepre new business or product.

If an entrepreneur decides to invest time and money in one particular project, the the value of the *next best project* that could have used those resources (time and

Opportunity cost does *not separate cost from benefit* – instead, it allows an individ cost *in relation to the benefits* of the *next best* alternative choice.

Assuming that only one of the alternatives is available for a choice then the *secon* The second choice is given up in order to have the first.

Examples:

The Choice Made	The Possible Opp
Build a new motorway	A new hospital
Go on holiday	A new HD television
Repay a loan	A new computer
Go to the cinema	A trip to the zoo
Study for an examination	A trip to a theme park
Buy a music CD	A DVD movie
Become an arable farmer	A dairy herd
Employ extra staff	A machine purchase

Choices and Potential Trade-offs

A traditional business is made up of many individual departments, each with its o are the *goals* (or *targets*) that the department intends to achieve by pre-determin departments should be interdependent, working together with the aim of fulfilling stated in its *Mission Statement*.

The following table shows different departments and the objectives they may hav

Department	Objectives to be Achie
Marketing	To have a dedicated, well-trained and highly-moti To achieve or exceed their monthly or weekly sale
Production	To sustain efficiency by having the most up-to-da To have a highly motivated production team.
Human Resources	To employ the right people for the jobs available. To foster and maintain good industrial relations.
Finance	To maintain a positive cash flow for the business. To manage the business's finances efficiently.

Not all objectives can be achieved in a business – at least, not all at the same time
of the company, some department objectives may need to be discarded. This is kn

For example: a business may give more funding to its marketing department than
because the current plan is to promote its products rather than improve its machi
action dropped in order to put investment into the marketing department would b

Using this example, the business in question should also consider the following:

1. What are the consequences of selective investment, i.e. in a particular dep
2. What are the opportunity costs of such decisions?

Decision to Invest in	Possible Positive Consequences for Department	Possible Negative Consequences
Marketing	Increase in team size Increased motivation Possible sales increase Improved training	Demotivation of other depts No new production machin Poorer cash management Mundane selective procedu
Production	Additional workers New machinery Increased motivation Increased output	Demotivation of other depts Possible loss of sales Poorer Human Resource M Possible cash flow problem
Human Resources	Better staff management Increased motivation Additional workers Better selection procedure	Demotivation of other depts Fewer new sales Poorer financial manageme Less efficient production
Finance	Additional workers Equipment upgrade Increased motivation Better cash management	Demotivation of other depts Poorer sales Ineffective selection proces Inefficient production

What other opportunity costs may arise by investing in one department rather tha

1.5.5. Questions

Please write your answers on a separate piece of paper or in an exercise book.

9. *The record label Tin-Din Sounds wish to invest in one of their main departments, bu costs. Look at the table below and fill in the spaces with a possible opportunity cos*

Decision to Invest in	Possible Positive Consequence for Department	Possible C
Publicity	Increase in team size Increased motivation Improved consumer awareness of Tin-Din's artists	
Artists and Repertoire (A & R)	Bring in additional artists Increased development of musicians Increased output (i.e. more records)	
Human Resources	Better staff management Increased motivation Improved recruitment	
Sales	Additional workers Increase in sales Increased motivation	

10. *Identify and explain one reason why ignoring publicity might be a good thing fo*

1.5.6. Moving from Entrepreneur to Leader

! Key Points Covered

- The Difficulties in Developing from an Entrepreneur to a Leader

The Difficulties in Developing from an Entrepreneur to a Le

Take a look through the news and you'll find an abundance of entrepreneur succe stories. Each news story may make it seem like it took only one person to strike it rich, however, this is very seldom true. Once a small business reaches a certain lev of sales, it generally needs help to get to the next level. There are too many processes for the entrepreneur to keep overseeing alone. This is when they need t take the next step from business owners to business leaders.

Delegating

Building a business from the ground up can be an emotional endeavour. For man entrepreneurs, the companies they create become like family. This is something th entrepreneur must come to terms with once he/she wishes to take the business to the next level. Business owners may wish to oversee every little detail of the company, for fear of their employees doing something wrong. However, this *mollycoddling* only slows down processes and can demotivate workers. A good leader, rather than being an all-seeing entity, will accept that he/she cannot have a hand in everything and push key decisions further down the chain of command.

Trust and Verify

Good leaders will surround themselves with strong management who are able to high standard and (if possible) under budget. In order to fully achieve this, a leade members of the business. Certain employees, even those who started when the co may not be able to move in the direction (or at the pace of) the business. This will entrepreneur, but a necessary one if they want to grow their business.

Be Less Reactive

In the beginning, when creativity and innovation were the prominent factors in a c entrepreneur may have often followed his/her *gut feeling*. A business will eventua to control business processes, such as human resources, finance, marketing, traini problem entrepreneurs have with this is that they think it will harm their creativity businesses succeed and stay creative, because they free employees to focus on th

Learning to Listen

When a business starts up, the owner is likely to be the most important voice. As t entrepreneur is going to tread new, unfamiliar territory. A good leader will surrou some management of the company – who have the knowledge required to help t towards success. The entrepreneur will need to develop their listening skills, too, g join business discussions ... to find their value.

Emotional Intelligence

Entrepreneurs are used to getting their own way – they start their own companies all the decisions. If a business owner gets so emotionally involved in the business wrong turn, employees might be afraid to speak up. This would not only create a but the owner could risk missing vital information since everyone is too scared to

Good communications should be promoted from the business leader down to all entrepreneur can lead his/her team in an efficient but calm manner, this will help nurtures creativity, innovation, teamwork, good communication and, eventually, s

1.5.6. Questions

Please write your answers on a separate piece of paper or in an exercise book.

11. *Give one reason why it is important for a business leader to:*

- ***a.*** *Be able to listen:*
- ***b.*** *Delegate:*

12. *A small bookshop is considering bringing in more systematic processes to take ca and other areas of the business. The shop has always prided itself on being crea concerned that these processes will harm the company's creativity. Give one rea*

1.5. Keywords

Barriers to en	e obstacles that stand in the way of businesses/entr financial requirements and infrastructure.
Stakeholder:	A person or group that has interest in, and/or is affect business.
Shareholder:	A person or group that has invested financially in a co on their profits to all shareholders.

1.5. Answers

1. Students should understand that businesses benefit from intrapreneursh
   - Employees can become valuable individuals to the business
   - Employees can also become highly motivated from the extra respons
   - Individuals are less afraid to take risks, as it is the business's resourc benefit the business as employees are more likely to push what is po

2. Students should understand that it is good practice for firms to offer a wi products/services, rather than just one or two. This allows firms to bette blights or the horse meat scandal.

3. Characteristics include: self-control, realis[illegible] conceptual ability, d emotional stability

4. Examples of reasor[illegible] entrepreneurs are creative by nature; they they ha[illegible] their own boss

5. Tin-Di[illegible]ds are a record label that want to do a SWOT analysis of the large shares of the rock, pop and hip-hop markets but have very little sh country markets. The current objective for the company is to maximise t but there is a lot of competition in this business area.

   Fill in the SWOT analysis, using both the information above and your ow strengths, weaknesses, opportunities and threats for the company.

SWOT Analysis for Tin-Din Sounds	
STRENGTHS 1. Large roster of talented musicians in rock, pop and hip-hop 2. Network of useful contacts to help publicise artists and find new ones	**WEAKNESSES** 1. Company are u correctly 2. Tin-Din do not country or clas
OPPORTUNITIES 1. Possibility to sign new artists to the record label 2. Tin-Din already have fans, who may want to buy more r 'n' b	**THREATS** 1. Many r 'n' b re market 2. Tin-Din may h music that doe r 'n' b (consum

6. Students should show understanding of the SMART acronym:
   - **S**pecific
   - **M**easurable
   - **A**chievable
   - **R**ealistic
   - **T**ime-bound

7. **a.** G[illegible] limitations of a partnership.
   Li[illegible]ns include: all profits must be shared between the partners is held by all partners; decisions can be slow to make since all partn
   b. Identify two benefits of being a sole trader.
   Benefits include: the business is relatively simple to start up; the ow the owner can make all business decisions himself/herself

8. Explain one reason why an entrepreneur might choose to invest in the M Students should show understanding that McDonald's offers entreprene
   - Ability to trade under an established name
   - A network of help and support

9. Table below is filled with possible opportunity costs.

Decision to Invest in	Possible Positive Consequence for Department	Possi
Publicity	Increase in team size Increased motivation Improved consumer awareness of Tin-Din's artists	Human r which co recruitm
Artists and Repertoire (A & R)	Bring in additional artists Increased development of musicians Increased output (i.e. more records)	Sales ma would le less reve
Human Resources	Better staff management Increased motivation Improved recruitment	Publicity priority, fewer op artists to on the ra
Sales	Additional workers Increase in sales Increased motivation	Less inve mean fev into Tin- becomin

10. Identify and explain one reason why ignoring publicity might be a good
Students should show understanding through one of the following (not l
- The cash used for publicity could be better invested in other depart
- If the company's artists are not right for the market, publicity might
- The company may not wish to gain more brand awareness for itself

11. Examples of reasons for why it is important for a business leader to:
- **a.** Be able to listen: as a business grows, it enters new territory for wh the expert; leaders should listen to those around them, as they coul voices give more possible solutions to a problem
- **b.** Delegate: it is impossible for leaders to do everything; a business ne not to burn out; employees could lose motivation if they think their take certain responsibilities

12. Students should show understanding that systematic processes, when in to free up the time of their employees and allow them to be even more c Fewer data entry tasks will be required by employees, allowing for a mo

Keyword Glossary

Add value:	When a business turns the sum of raw materials i more. Value added is calculated as: Selling price c create product/service.
Barriers to entry:	The obstacles that stand in the way of businesses e.g. financial requirements and infrastructure.
Branding:	This is the image that businesses create for a proc themselves.
Centralisation:	This often means that a few top-level managers r responsibility for the whole business. All decisions central office and then communicated to the busi
Chain of command:	This is the route in which power and authority are various layers of management.
Competition:	When two or more firms offer their products/serv competition with one another.
Competitive advantage:	Firms that positively distinguish themselves from the competitive advantage, or the edge, over thei
Decentralisation:	This often involves the process of delegating auth powers to employees lower down the business's c refer to the process of allowing the business's var make their own decisions independent of head o
De-layering:	This is the process of removing layers of the orga
Delegation:	This is the process of transferring authority and p layer to an employee in a lower management laye delegated downwards but responsibility cannot b
Demand/supply shift:	More than movement along a demand/supply cu shifts. A shift can occur from many factors, includ demographic, consumer tastes, fashions and exte instance, comes predominantly from a change in
Differentiation:	This covers the ways in which a company gains co strong product branding, price, marketing and cu
Dismissal:	When an employee is removed from his/her posit
Dynamic markets:	These are markets that change with a variety of fa government regulations and the emergence of ne
External factors:	Influences from outside the company which affec changes in consumer tastes.
Hierarchy:	The way in which a business is structured, such as
Loyalty:	Brand loyalty (for a product, service or company) stay with a business and make repeat purchases.
Market equilibrium:	The point at which consumer demand and produ the two curves intersect.
Market mapping:	Visual representation of a consumer market, whic price vs quality).
Market orientation:	When a business creates a product/service by firs consumers want.

Market segmentation:	When a market is split into groups, such as locati use segmentation in order to understand on whic concentrate.
Objective:	A business's objectives are those tasks required ir
Outsourcing:	When a business pays workers in another country product/service.
Primary data:	Research data that has been gathered first-hand. primary data through questionnaires and surveys.
Product orientation:	When a business focuses more on its product and considering what consumer e looking for.
Promotion:	This is how bu in se. nd awareness of a produ as dire t anu online advertising.
Redundancy:	is happens when an employee's position no lon
Risk vs Un ty	Risk is generally something that can be planned f involves the factors, normally external, that are be can take calculated risks, but they are generally u
Secondary data:	Research data that has been gathered second-ha statistics of a survey published by another compa
Shareholder:	A person or group that has invested financially in dividends on their profits to all shareholders.
Shortage:	If the market price of a product is low, firms may worth their while. However, consumers will be mo so demand will rise. This leaves suppliers with mo and so there is a market shortage.
Span of control:	The amount of control that a manager has, e.g. a responsible for three sales advisors and so the sp
Sponsorship:	When a business supports another person/busine promotion, such as the sponsorship of sporting e
Stable markets:	These markets stay the same regardless of chang dairy and standard bread markets.
Stakeholder:	A person or group that has interest in, and/or is a business.
Stock exchange:	A place where public limited companies (plc) trad Individuals and other compan es are able to buy s owners in a firm.
Surplus:	If the ma ce a product is high, suppliers e goods. However, consumers may n dy fewer products. This leaves suppliers with
Sustainabl	Businesses that fulfil their own strategic objective or society in which they operate.
Trend:	The direction in which most things appear to be r for new technology firms to aim at young consum
Unique Selling Point (USP):	This is a feature that makes a product/service app

Focus: Answers

i Paper: Discuss the disadvantages that come with market mapping.
Students should explain disadvantages of market mapping, such as:

- It is a very black-and-white way of studying a market, which could h unable to be seen on a map – e.g. there may be another dimension to example, no consideration has been given to age or income of the ta
- Market mapping is generally done from an outsider's perspective an picture
- The map is subject to the bias of its author, who, for example, may c more expensive when the market in general disagrees

Poundland: Analyse the possible strategic changes Poundland may need economy is in a more positive position.
Students should show understanding of Poundland's market, i.e. consumers w
Ways in which Poundland could maintain their status once the British economy

- Offer more quality/luxury items to customers. This would give cons with increased incomes
- Allow shoppers to purchase goods online from a single Poundland w costs down if and when consumer demand for bricks-and-mortar Po

Patagonia: Identify who you believe is the target audience for Patagonia measures the company could take in order to appeal more to this custo
The target audience for Patagonia includes outdoor adventurers who look fo also afford to pay more) and consumers who feel strongly about business eth inflicts on the environment.

In order to appeal more to their target audience, Patagonia could:

- sponsor large events that meet the ethical expectations of their cons
- give to charities that are local to their customers, such as helping to b
- expand beyond their current advertising, such as in magazines, to more commercials

New Coke: Discuss where you think Coca-Cola went wrong in the promo company reintroduce the product to today's market? Explain how Coca-C
Students should understand that, while Coca-Cola had conducted market res results on a new flavour, the company's customer base was not necessarily g replacement for a product they already liked.

If reintroduced to the market today, Coca-Cola could:

- sell New Coke as a different flavour, such as that of Cherry Coke or V replacement for Classic Coke
- create buzz with an online social media campaign
- use product placement or celebrity endorsement in order to promo

Students could also consider whether a new flavour would actually benefit Co there is so much consumer interest in healthy products.

The Mercury Music Prize: Discuss whether the Mercury Prize was right the award, even though the sponsoring company no longer exists. Analy could still have the same prestige under a different name.
Learners should understand that the Mercury Prize would have kept the nam recognisable to the general public.

The award would have significant prestige regardless of its title, due to the ar changing the name would not affect this. The award would need significant p the media and general public recognised it was the same prize. This promotio this is likely the reason why the Mercury Prize did not do this in the first plac

Oreo Cookies: Analyse the possible benefits and costs of a business such social media presence.
Students should understand that social media presence comes with advantag
Advantages:

- It is a relatively low-cost form of promotion
- Can be quick to connect with followers and so distribute informatio
- Enables brands to react quickly to topical events and capitalise on th

Disadvantages:

- Social media allows any customer to say whatever they like about y into discussion. These comments can be harmful.
- If not organised correctly, brands can publish inappropriate media c sensitive issues that should not be commented on by businesses.

Coca-Cola: Look up one of Coca-Cola's Christmas advertisements online (https://youtu.be/-gMjPe[illegible]) and analyse why the company's campai
Students should understand that Coca-Cola utilise branding as a way to creat consumers [illegible] then link to the product of Coca-Cola.

Harry Potter: Discuss the advantages and disadvantages for retailers th
Advantages:

- Loss leaders bring more customers into a store through appealing p
- Encourage shoppers to come to new stores that are just starting out

Disadvantages:

- Stockpiling: If the loss leader does not perform that well, the busine unwanted stock, which would be a cost to them
- Perception: Consumers can start to associate low prices (and low qu consistently offers loss leaders. This could then reduce the number shopping there.

Radiohead: Analyse the reasons why Radiohead did not try the honesty record, *The King of Limbs*. Consider the differences between the music m market in 2011.
The honesty policy of 2007 was a response to downloading culture. Howeve had changed significantly. Streaming services, such as Spotify, had become m were receiving music in different ways; this made Radiohead's 2007 strategy

Buzz Lightyear: Could the toy manufacturer have been better prepared company could have taken in order to be ready for the toy craze.
Students should identify two actions, such as:

- Perform more rigorous market research long before the manufactu
- Increase the price of the toys to make them more of a niche item
- Create other products related to Buzz Lightyear to offset the deman

PANDORA: Analyse how PANDORA's distribution network, and position has changed over time
Students should understand that PANDORA's position in the distribution net from retail[illegible]producer and wholesaler. In fact, the company now cover all become more successful, they have been able to branch out further and conti

Rubik's Cube: Professor Rubik's cube was never meant to become a toy, of all time. Identify and explain two strategies that companies can use i their products/services.
Students should explain two strategies, such as:

- Increase promotion: this will bring more consumer awareness to th
- Decrease price: if the product originally had a high price tag, it may decrease, therefore, would enable more consumers to buy.

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