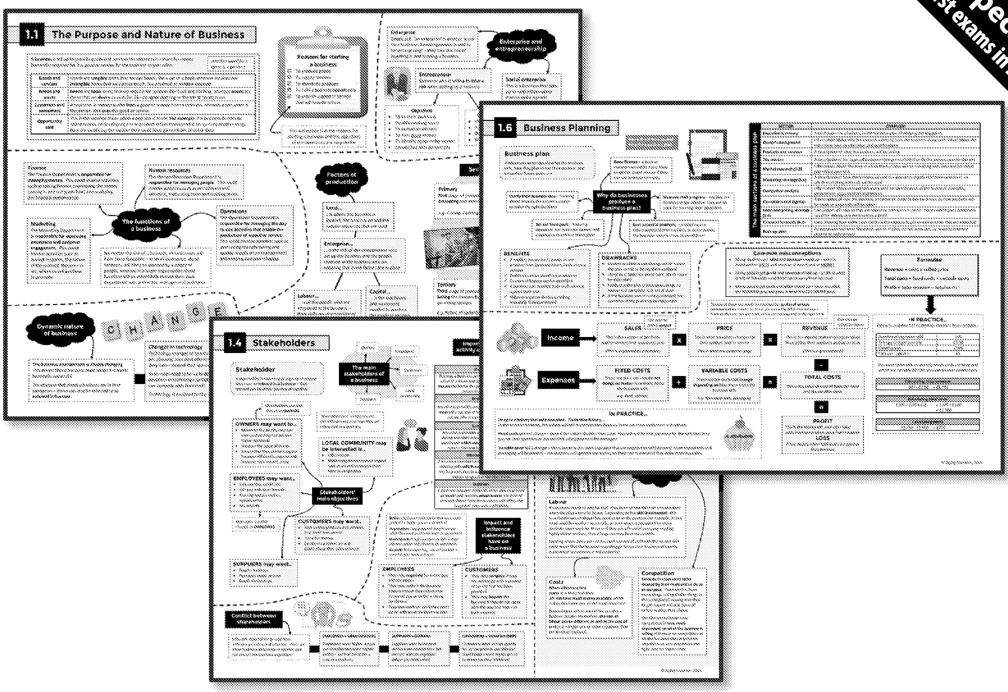
Zig Zag Education

Business

GCSE (9–1) | AQA | 8132

2017 specification
first exams in 2019



Topic on a Page

for GCSE (9–1) AQA Business

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All of the above are provided as Summary Posters and Activity Posters, in both A3 and A4 format.

Teacher’s Introduction

This resource covers the AQA GCSE (9–1) Business specification. There are 25 A3 posters covering all content from the specification. Most subtopics are covered on one poster; some posters include two smaller subtopics.

Activity versions of the posters are also included, where some of the sections are blank, so that students can test their knowledge by completing these. Answers for these activities are on the summary sheets.

It is intended as a summary of the material and focuses on the main points rather than the detail, so all important areas are covered without going into too much depth. There are some topics where BLT (because… leading to… therefore…) points have been included to give students examples of how they could develop their chain of argument.

The posters can be given to students in class to refer to as an A3 laminated place mat or to stick in exercise books as an A4 poster. They could be stuck in books at the start of a topic so that students can see what concepts are coming up and to enable them to engage in class discussion, or at the end for retrieval practice.

At home, students can use the posters to add to their independent revision or to complete homework assignments. They could:

- Produce mind maps
- Read, cover, write and then check what they have remembered
- Produce flash cards
- Write quiz questions and answers
- Complete the partially completed posters

Teachers could use the posters **in class**. They could:

- Set homework to prepare for a topic before it is covered in class, i.e. for homework students could produce flash cards or quiz questions and answers for the key words and formulae in 1.6 and the lesson could be focused on completing calculations.
- Set homework to complete an activity after the concepts have been taught, i.e. to produce a mind map.
- Give out a section at a time, stick in books and annotate during class discussions and/or activities.
- Use the poster to RAG rate student understanding of the topics to identify areas that require more work in class and/or areas that require students to give independent attention to them.

The resource consists of:

- 25 completed posters which provide solutions to the activity posters, labelled **1.1** to **6.4**
- 25 activity (partially complete) posters for students to complete, labelled **1.1** to **6.4**

Both sets of posters are provided in A3 and A4 formats.

Different styles and layouts are used to help make the information interesting and to help students engage with the information in a productive way.

April 2025

1.1 The purpose and nature of business

A **business** is set up to provide goods and services to customers in return for money. Demand is required for the good or service for the business to gain sales.

Another word for a good is a product

Goods and services	Goods are **tangible** items that we can touch, like a car or a book, whereas services are **intangible** items that we cannot touch, like a haircut or window cleaning.
Needs and wants	**Needs** are **basic** items that we require for survival, like food and clothing, wh[illegible]reas [illegible]ants a[illegible] items that we **desire** or wish for, like designer clothing or the latest sm[illegible]e.
Customers and consumers	A customer is someone who **buys** a good or service from [illegible]ess, [illegible] consumer is the person who **uses** the good or service.
Opportunity cost	This is the sacrifice made when a decisi[illegible]e. **For e**[illegible], [illegible] a business decides to spend money on developing [illegible] spend it on opening another shop, they are sacrificing the i[illegible] gained from an extra shop.

Reasons for starting a business

- ☑ To produce goods
- ☑ To supply services
- ☑ To distribute products
- ☑ To fulfil a business opportun
- ☑ To provide a good or service that will benefit others

You will notice that the reasons f starting a business and the objecti of entrepreneurs are very simila

The functions of a business

Finance
The Finance Department is **responsible for managing money**. This could involve activities such as raising finance, monitoring the money coming in and out (cash flow) and analysing the financial performance.

Human resources
The Human Resources Department is **responsible for managing people**. This could involve activities such as recruitment and selection, motivating them and training them.

Operations
The Operations Department is **responsible for managing the day-to-day activities that enable the production of a good or service.** This could involve activities such as overseeing manufacturing and quality, supply chain management and keeping customers happy.

Marketing
The Marketing Department is **responsible for increasing awareness and customer engagement.** This could involve activities such as market research, the nature of the product, the price to set, where to sell and how to promote.

No matter the size of a business, all businesses will have these functions – in small businesses, these functions are likely to be covered by a couple of people, whereas in a larger organisation, these functions will be more likely to have their own department with a director, manager and assistants.

Factors o producti

Land...
... is where th located, the la natural resour

Enterprise...
... is the skill o set up the busi involved in th ensuring that t

Labour...
... is all the people who are employed in the business – their skills are also considere

Dynamic nature of business

The business environment is always changing. This means that a business must adapt if it wants to remain successful.

The changes that affect a business are in four categories – these can also be referred to as **external influences**:

Changes in technology
Technology changes so quickly – Apple are planning their next iPhone before they have released the previous one!

Businesses need to be up to date with advances in technology so that they can compete with their rivals.

Technology is explored further in 2.1

Changes in environmental expectations
Businesses are constantly under pressure to be socially responsible – customers are becoming increasingly interested in how businesses manufacture and where they get their supplies from.

For some customers, these expectations will be the reason whether they purchase or not.

Environmental expectations is explored further in 2.2

1.2 Business ownership

*When someone starts a business, they need to decide what … as. There are many benefits and drawbacks, and so the o… their circumstances. **All** these business structures can emplo…*

A sole trader is a person who owns the business by themselves – no paperwork is required to set up, they just start trading

Sole traders **CAN** employ other staff

Sole trader

Benefits
- ✓ Easy to set up
- ✓ Full control ove[illegible] aspects of the b[illegible]
- ✓ Quick decision-m[illegible]
- ✓ Keep all the profits

[illegible]
- × [illegible]
- × [illegible] difficult to raise finance
- × Limited skills
- × Lack of buying power due to size

Partnership

A partnership is set up by two or more people – usually a Deed of Partnership is dra[illegible] up to set out the [illegible]

Deed of Partnership
[illegible] legal document which [illegible] information such as:
- ☑ The name of the partnership
- ☑ Information about the partners
- ☑ The amount of capital invested
- ☑ How profits/losses are shared
- ☑ Roles and responsibilities of each partner
- ☑ How to resolve disputes

With no DoP the business is split 50/50

Benefits
- ✓ Different skills
- ✓ Access to more finance
- ✓ Sharing the risk and workload
- ✓ Joint decision-making

Drawbacks
- × Unlimited liability
- × Shared profits
- × May have disagreements
- × Lack of full control

	Sole trader	Partnership
Benefits	MANAGEMENT and CONTROL **The owner would have full control over all aspects of the business** – this is **because** they are the only person in charge, which would **lead to** them being able to make all decisions. The sole trader would **therefore** do things the way that they want them done.	MANAGEMENT and CONTROL **There would be more than one person with different skills** – this is **because** in a partnership more than two people work together which would **lead to** them being able to work on different aspects of the business. The partners could **therefore** specialise in different things, overall providing a better service.
Benefits	DISTRIBUTION OF PROFITS **The owner would keep all the profit to themselves** – this is **because** they are the only person in charge, which would **lead to** them not having to share their reward with anyone else. The sole trader would **therefore** be able to choose what they do with that profit.	MANAGEMENT and CONTROL **Decisions would be made together** – this is **because** there is more than one person who owns the business, which would **lead to** more people being available to discuss issues and identify solutions. The partners could **therefore** see someone else's point of view and benefit from different perspective.
Drawbacks	SOURCES OF FINANCE AVAILABLE **It can be difficult to raise finance to get started** – this is **because** there is only one person available to raise money, often having to rely on their own money or lending from family members. This would **lead to** them being limited on the amount of money available at first, which wo[illegible] **therefore** limit their competitiveness.	MANAGEMENT and CONTRO[illegible] **The partners may hav[illegible] disa[illegible]eemen[illegible]** – th[illegible] is [illegible]ecause each partner wo[illegible] a [illegible] in the partnership. This cou[illegible] [illegible]aving different ideas as to what [illegible] they [illegible] the business to go in; **therefore** they c[illegible]d [illegible]ict.
Drawbacks	LIABILITY **The owner's [illegible]onal p[illegible] [illegible]at risk** – this is **beca**[illegible]ld ha[illegible]ility. This would **lead** [illegible] of t[illegible] [illegible]aving to sell their own posse[illegible]uld **therefore** give them enough money [illegible]ay off their debts.	DISTRIBUTION OF PROFITS **The profit would be shared** – this is **because** there is more than one person who owns the business. If the partners have put in a different amount of effort this could **lead to** them not agreeing on a 50/50 split; **therefore** this could put stress on their partnership.

Sole traders and **partnerships** have **UNLIMITED LIABILITY** – this is when the owner's personal possessions are at risk if they find themselves in debt. Should they owe money, they are legally responsible for that debt and therefore may have to sell their personal possessions to pay that money back. This means that there is **more risk** with these types of ownership.

Bene[illegible]
- ✓ Limited lia[illegible]
- ✓ Separate le[illegible]
- ✓ Privately s[illegible] means ow[illegible] controlled

Limite[illegible] invested [illegible] their pers[illegible]

Not-for-profi[illegible]
A not-for-profit [illegible] set up for the be[illegible] something othe[illegible] Social enterpris[illegible] are examples.

While they will s[illegible] money so that t[illegible] business like ot[illegible] purpose is more[illegible] with any surplu[illegible] help further.

When some peopl[illegible] this does not requ[illegible] trade immediately[illegible]

As the business be[illegible] want to protect th[illegible] money and theref[illegible]

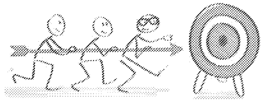
Wanting to grow a[illegible]

1.3 Setting business aims and objectives

Aims vs objectives

An **aim** is a **general goal** that the business wants to achieve whereas an **objective** is a **specific target** that a business sets which helps to achieve that aim.

For example, a business may have a general aim of growth… so HOW can they achieve that? Through setting a more specific objective of *'opening three more stores by the end of the year'*



Main aims / objectives

- ☑ Survival
- ☑ Profit maximisation
- ☑ Growth
- ☑ Market share
- ☑ Customer satisfaction
- ☑ Social and ethical
- ☑ Shareholder value

Many businesses use the acronym **SMART** when setting their objectives

S	**Specific**	The objective needs to clearly show **what the business wants to achieve**, e.g. instead of 'open more stores' the business would say, 'open three more stores'
M	**Measurable**	The business needs to be able to see **whether the objective has been achieved**, so by adding 'by the end of 2025' to their objective, they can easily assess whether they have done this
A	**Attainable**	The objective **needs to be realistic** and so when deciding what it will be, the business will have to be clear that it is achievable, e.g. three more stores by the end of the year may be more attainable than 30
R	**Relevant**	The business should be setting objectives that are **in line with their own approach and ethos** as well as matching their own context, e.g. in order to grow, some businesses may choose to release new products rather than open more stores
T	**Timely**	Setting a time by which to achieve the objective **keeps the business on track**; by stating 'by the end of the year', it gives them a point at which to work towards

Why set objectives?

- To give the business direction **so that** everyone knows what the business is trying to achieve
- To motivate employees **so that** they are more engaged in their work
- To enable the business to monitor their progress **so that** they can check whether they are doing well
- To ensure that resources are managed properly **so that** time and money are used on the most important things

Changing objectives

Over time, it is inevitable that the objectives that a business sets themselves will change

A **new business** is likely to want to survive before they start thinking about profit maximisation

An **established business** has already survived and therefore will more likely be focused on growth and market share

Remember, businesses can be faced with **external influences (1.1)** that may make them have to rethink their objectives

Faced with a national downturn in sales, an **established business** may be forced with having to go back into **survival** mode while they try to get customers back on board

Why can objectives differ between businesses?

There are three main reasons:

1. The size of the business, **e.g.** a small independent shop vs a multinational
2. The level of competition faced by the business, e.g. a business facing lots of competition needs a USP **(5.4)** and so may choose/change objectives that can achieve this
3. The type of business, **e.g.** a not-for-profit organisation will focus on social objectives

Measuring success

PROFIT is not the only way success can be measured… businesses may also look at:

- Whether **sales** have increased
- Whether **market share** has increased
- How good **relationships** are with customers, employees and suppliers
- The level of **growth** that they have achieved
- The impact that they have on the **environment**
- **The number of customers** that continue to come back (repeat purchase)
- Whether the **shareholder value** has increased

Social and et

Most likely a main

To act more ethica to approach their b are thinking of othe

For example, ensu good wage, treatin customers are all w

Although this can b long term, a busine thus customers, es running their busin

Social objectives are very common for **not-for-profit organisations** where their main objective is NOT about profit but is about helping other people / society, e.g. supporting local communities, promoting fair trade or reducing environmental impact

1.4 Stakeholders

Stakeholder

A stakeholder is someone who has or a group of people who have an **interest in a business** – that interest can be either positive or negative

The main stakeholders of a business

- Owners
- Employees
- Customers
- Lo… …mm…
- Suppliers

'Ma… …impl… …ns … …at they are …ed in … business

Shareholders are also classed as **OWNERS**

OWNERS may want to…

- Maximise the prof… …n earn so that th… higher divider…
- Increase the va…
- Ensure that they … the business efficiently, expand and increase their market share

LOCAL COMMUNITY may be interested in…

- Job creation
- Minimising environmental impact such as air and noise pollution, litter or congestion

EMPLOYEES may want…

- Safe working conditions
- Fair pay and other benefits
- Training and promotion opportunities
- Job security

Managers are also classed as **EMPLOYEES**

Stakeholders' main objectives

CUSTOMERS may want…

- High-quality products and services that meet their needs
- Value for money
- Excellent customer service (particularly after-sales service)

SUPPLIERS may want…

- Regular business
- Payments made on time
- Good relationships

Impact of business activity on stakeholders

Owners
… …usiness performs impacts directly o… …valu… of a share and the level of dividend… …ich means the better the performance, the better the return for the owners.
Employees
A business provides employment and wages wh… **means** the success of the business can affect h… secure jobs are as well as income levels.
Customers
A business provides customer service before, during and after a product or service has bee… purchased **which means** the level of custome… satisfaction and loyalty can be affected.
Local community
A business contributes to local economies thro… creating jobs **which means** if businesses do we… the local community will gain jobs and have mo… money to spend in their local area.
Suppliers
A business requires materials to be able to provi… products and services **which means** the level o… demand shown from the business will affect th… suppliers' sales and profitability.

Strike: Employees collectively stop working to protest for better pay and working conditions

Negotiation: Two groups of people discuss what they want and try to reach an agreement

Work to rule: Employees strictly follow their job description and refuse to do extra tasks

Boycott: Refusing to buy, use or t… … something to apply press…

Impact and influence stakeholders have on a business

EM… …EE…

- … **nego…** for better pay … …ditions
- They may strike if the business does not meet their request for increased pay or better working conditions
- They may work to rule if they don't agree with what the business asks

CUSTOMERS

- They may **complain** if they are not happy with a produc… or service that has been provided
- They may **boycott** the business if they do not agre… with the way that they run their business

Conflict betw… shareholder…

Different stakeholder groups have different priorities and interests – this can often lead to a difference in opinion and can impact the business objectives:

EMPLOYEES vs SHAREHOLDERS

Employees want higher wages, but shareholders want higher profits – both of these are a cost to a business

SUPPLIERS vs OWNERS

Suppliers want to be paid within a reasonable time, but owners want to negotiate longer payment terms

CUSTOMERS vs SHAREHOLDERS

Customers want the highest quality possib… for as low a price as possib… but shareholders want higher price… to maximise their dividends

1.6 Business planning

You will not be expected to write a business plan

Business plan

A document which details what the business sells, how they plan to run their business and what their future plans are

Why do b... ...ce a ...ss plan?

Raise finance – a bank or investors would be more likely to lend or invest money if they can see financial forecasts

Clarify their business idea – thinking ahead enables the business owner to make the right decisions

Measure their progress – enables the business to see whether they are on track for meeting their objectives

...als – ...ng ...otivate owners and ...ieve those goals

Spot potential problems – predicting any future problems that are likely to occur means the business can plan how to avoid them

BENEFITS

- ✓ It enables the business owner to see whether their business idea is likely to be a success
- ✓ Problems can be identified in advance
- ✓ Sources of finance can be identified
- ✓ A business can monitor their performance against their plan
- ✓ Helps to organise decision-making, especially if inexperienced

DRAWBACKS

- × Market conditions can change which means the plan needs to be regularly updated
- × The plan is based on predictions which could be inaccurate
- × Producing the plan is time-consuming; no sooner is it complete, it is out of date
- × If the business owner is inexperienced, the contents of the plan may be inaccurate

The main sections of a business plan

SECTION
Executive summary
Owner's backgroun...
Products and servic...
The market
Market research (5...
Marketing strategy
Competitor analysi...
Operations and log...
Costs and pricing st... (5.4)
Financial forecasts...
Back-up plan

Common miscon...

- Many students get **sales** and **reven...** expressed in <u>UNITS</u> and revenue is...
- Many people get **profit** and **revenu...** is left AFTER costs have been taken...
- Many people get **costs** and **price** m... the BUSINESS pay and price is what...

The use of these key words is important for **quality of** ... **communication** – make sure that you know the differe... them so that you can use them in the correct way and...

Income → **SALES** This is the number of products and/or services that a business sells *(This is expressed as a number)* *Can also be called* ***output*** × **PRICE** This is what a bu... charges for their pro... ...r service *...is w... ...e customer pays* = This is... from s...

Expenses → **FIXED C...S** The... ...e cost... ...a... ...o n... ...tte... ...o... many items ... business sells *e.g. rent, salaries* + **VARIABLE COSTS** These are the costs that **change depending on** how many items the business sells *e.g. raw materials, packaging* = This is...

This is t... costs h...

A loss...

IN PRACTICE…

Imagine a bakery that s... ...kes… Flutterbies Bakery…
In the summer holidays, the bakery will sell more cupcakes because there are more customers in the town.

Fixed costs will not change – even if the bakery doubles their sales, they will not be charged more for the rent that they pay for their premises or the monthly salary payment for managers.

Variable costs WILL change – this is because the more cupcakes that are required to fulfil demand, more ingredients and packaging will be needed – the business will spend more money on their raw materials if they make more cupcakes.

1.7 Expanding a business

BENEFITS
- ✓ The business can control the rate at which it grows
- ✓ The brand image of the business can be maintained
- ✓ The risk of debt is reduced as growth is more likely to be funded through internal sources (6.1)

DRAWBACKS
- × Growth can be slow
- × Significant investment needs to be made to expand
- × Entering new markets may be halted by the limited resources of the business

(organic) ... Selling more of its own products

OPENING NEW STORES
Different stores can be opened in different locations

BENEFITS
- The brand image can be maintained, ensuring that customers have consistency
- Profit gained belongs completely to the business and does not have to be sha...
- The business ... over their operations

DRAW...
- M... e needed to open new stores, lea... high costs
- Expansion can be slow due to all the different elements required to open a new store
- Having multiple stores can become complex to organise all different elements

E-COMMERCE
Introducing products for sale online

BENEFITS
- Sales can be increased without the expense of opening a physical store
- It is easier to grow through expanding a product range online than opening more stores
- Customers can be targeted through analysing their past online purchases

DRAWBACKS
- The cost of marketing can be high when trying to get noticed in a competitive market
- Providing high-quality customer service online can be challenging
- The business must invest in a secure payment system to protect customer data

FRANCHISING
A business allows other ... trade using their name

BENEFITS
- The financial risk of growing is shared between the franchisee and the franchisor
- A business can grow quickly, becoming more recognised
- Franchisees often have a better understanding of their local market

DRAWBACKS
- The franchisor has less control over each store, making consistency challenging
- The reputation of the franchise can be damaged if customers have a bad experience
- The profits **must be shared** with the franchisee, which can **limit overall profits gained**

Franchisor: The business that is allowing others to operate using its brand

Franchisee: The individual or business that buys the rights to use the franchise name

- Franchisee uses the franchisor's brand
- Franchisee pays royalties to franchisor
- Training is provided
- Franchisor organises ... arket...
- Franchisee fol... fro...

OUTSOURCING
Paying another business to produce something for them

BENEFITS
- Can often be cheaper than purchasing the equipment and skills to produce yourself
- Allows the business to have experts working on their products which the business cannot otherwise afford
- The business can focus on their main strengths, gaining ideas and improvements from experts

DRAWBACKS
- Control is lost which can lead to inconsistencies and quality issues
- The providers may be in different time zones, and talking a different language can be challenging
- The business is at risk of misuse or theft of intellectual property

...conomies of scale

As a business grows, the unit cost falls; they become **efficient**

PURCHASING
As a business grows, they will require more stock or raw materials

It is more likely that if a business is **buying in bulk**, they can gain a discount from the supplier

TECHNICAL
As a business grows, they will be producing more units

As their output increases, this means that the high fixed costs are spread over more units

This will lead to the **unit cost being lower** – the business can then afford to **lower the selling price** to be more competitive **OR** they can enjoy a **higher profit margin**

Diseconomies of scale

As a business ..., the unit cost rises; they be... ...cient

POOR COMMUNICATIO...
As a business grows, communicati... can become more difficult

This is **because** there are more people to communicate with **which means** delays and misunderstandin... are more likely

This can **lead to** a reduction in efficiency

As a bu... activiti...

This is b... differe... means...

This ca... within t...

2.1 Technology

The impact of the changing use of ICT and how it influences business

BENEFITS
- ✓ Businesses are able to sell globally – this **expands their market** and **increases the number of customers** massively
- ✓ Running an online shop has lower overheads than a traditional physical shop – this would **lower the costs** and **increase potential profit**
- ✓ Customers have the convenience of being able to shop 24/7 – this would **increase customer satisfaction** thus **increasing sales**

DRAWBACKS
- × The market is saturated with millions of online businesses in the world – this can make it **difficult to compete**, especially for new and small businesses
- × As the business grows, logistics (3.2) can become challenging, especially when dealing with purch... returns and lost parcels – this can add ... the running of the business as well a... **loweri... customer satisfaction**
- × Technology c... **unreliable – sales will b... ay be damaged** if ... website pages or complete ...

E-commerce: The ... and selling of goods ... services online

M-commerce: Using a handheld device to buy and sell online

Increased market reach and engagement
Doing business online enables the business to reach more customers as well as being able to engage with customers through digital marketing platforms

Increased productivity and efficiency
Many routine tasks can be automated, e.g. answering phone calls or manufacturing, which can reduce human errors and costs

Data collection, storage and analysis
Businesses can keep track of customer purchases to identify preferences so that they can personalise their future marketing

Innovation and competitive advantage
New business models are available such as subscriptions and digital products

This enables the business to adapt to changes in the market, supplying what customers demand

DIGITAL COMMUNICATION
Businesses exchange information electronically using diff...

Methods of digital communication
- **Direct messaging (DM)** *e.g. WhatsApp, Facebook Messenger, MS Teams*
- **Email newsletters**
- ... *...ps, websites*
- **Em...**
- **SMS and te... messaging**
- **Social media** *e.g. Facebook, TikTok, Instagram, LinkedIn*
- **Intranet**
- **Podcasts** *e.g. BBC Sounds, Apple*
- **Webinars** *e.g. YouTube, Facebook*
- **Video conferencing** *e.g. Zoom, MS Teams*
- **Blogs** *e.g. Wix, WordPress, Blogger*

Communicating with stakeholders
OWNERS/SHAREHOLDERS: Emails, video conferencing, intranet

EMPLOYEES: Intranet, direct messaging

CUSTOMERS: Social media, chatbots, blogs, direct messaging, webinars, email newsletters

SUPPLIERS: Intranet, email

Ethical a...

ETHICAL MARKE...
Advertising products sh... without any false claims...

Customers will trust the... future marketing messa...

COMPETE FAIRLY
The ways in which the business c... compete with rivals should be fai... should be no unfair trade practic... false advertising, price fixing, mis... packaging or selling counterfeit g...

PROTECT CUSTOMER...
There should be robust security... that customer data is protected...

Giving customer's control over ... data and preferences will reduc... data breach thus increasing the... customer has in the business

TRADE-OFFS
Ethics vs profit
Sustainability vs profit

Behaving ethically or manufacturing... sustainably can be expensive so in t... short term, a business may have to forego some of its profits in order t... meet their social objectives

Sustainability: Being able to continue to pr... in the ...ure without harming the environm...

Impact on t...
Businesses c... work from ho... share progra... **Customers** c...

Recy...
Busine... imple... progra... **Custo...** prelov...

Disp...
Busi... **Cust...** creat...

2.3 The economic climate on businesses

As interest rates **rise**, borrowing becomes **more expensive** but saving becomes **more appealing**

As interest rates **fall**, borrowing becomes **cheaper** and saving becomes **less appealing**

You do not need to know how/why interest rates change

Interest rates are the cost of borrowing money, given as a percentage

Interest rate changes are an **ECONOMIC** change

Int... tes

How fluctuatin... rat... ect...

... CONSUMER S...

HIGHER inte...	LOWER interest rates
Borrowing becomes __more expensive__: taking out a loan for big purchases such as houses and cars is more expensive to pay back which means people will either purchase cheaper items or they will not buy at all **Saving becomes __more appealing__:** the more you save, the more interest will be earned, which means you are less likely to spend and more likely to save	**Borrowing becomes __cheaper__:** bigger purchases are encouraged as the monthly repayments would not be as high **Saving becomes __less appealing__:** less interest will be earned on money saved which means you are more likely to spend

How businesses are affected by changes in the rate of interest

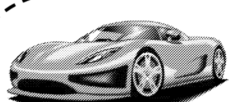
Interest rates RISE	...rest rates FALL
Customers with loans ha... disposabl...	...ome... with loans have **more** disposable income
↓	↓
...ers ...ss	Customers spend **more**
↓	↓
Th... ...ess sells **fewer** products	The business sells **more** products
↓	↓
The business receives **less** revenue	The business receives **more** revenue
↓	↓
Profits are likely to be **lower**	Profits are likely to be **higher**

... BUSINESS SPENDING

HIGHER interest rates	LOWER interest rates
Borrowing becomes __more expensive__: this means it is more expensive for a business to take out loans for assets such as machinery, equipment or vehicles, which could lead to the business not being able to expand **Consumer spending is reduced:** this means that a business may have to reduce its production levels due to a lack in demand	**Borrowing becomes __cheaper__:** this means businesses are more likely to take out loans to buy assets which will help the business to expand

Economic climate

This refers to how well an economy is performing, e.g. if a country is selling lots of products and services, it is said to be strong or improving



STRONG economic climate	WEAK economic climate
High employment	Low employment
↓	↓
Motivated employees	Employees more likely to move jobs with better pay and/or conditions
↓	↓
Secure jobs	
↓	↓
Increased demand	Lower demand
↓	↓
Higher ...	Lower revenue
↓	↓
High... ...r...	**Lower profits**

Income elastic

The sales of these products will change as incomes change, e.g. when people earn more, they are more likely to purchase more of these types of products; when they earn less, the opposite will happen

Non-essential products (luxuries)

These are products that customers **WANT** to buy, such as health club membershi... sports cars or desi... clothing – ... kn...

...nsumer spending

Essential products

These are products that customers **NEED** to buy, such as bread, toilet roll or travel expenses

Levels of employment

High employment
→ more money in the household
→ buy more products

Low employment
→ less money in the household
→ buy fewer products

How unemployment can affect a business

- Customers are spending less
- Sales will reduce
- More people available to employ
- Lower pay can be offered to new worke...
- Profits will be reduced

S	Strong
P	Pound
I	Imports
C	Cheaper
E	Exports
D	Dearer

The pound... (or ap...
£1
£1
£1
The poun... (or de...

BE...
Be...
Cus... bett... be c...
OR
Sim... whi... cust... bett...

2.5 Legislation

Key points
A business must:
- Provide a safe place of work
- Provide safe equipment
- Ensure staff are properly trained
- Carry out risk assessments
- Provide proper facilities
- Appoint a competent person to oversee health and safety

Legislation: The process of making laws which are a set of rules for different countries to abide by

Consumer law

Consumer law protects consumers from poor-quality products and poo[illegible] business operations
- Prod[illegible] ave **accurate descriptions**, e.g. a [illegible] ds [illegible] show information such as key fea[illegible] and dimensions
- [illegible] ucts must be **labelled**, e.g. a food company must show ingredients and allergy warnings on their packaging
- Products must be **safe to use**, e.g. toys must be tested to ensure they meet safety standards for children
- Products must be **advertised honestly** e.g. car dealerships must not give exaggerated claims about each vehicle's performance

Equality Act 2010
Protects employees from discrimination

It is illegal to discriminate against one of the nine **protected characteristics**
1. age
2. gender reassignment
3. being married or in a civil partnership
4. being pregnant or on maternity leave
5. disability
6. race, including colour, nationality, ethnic or national origin
7. religion or belief
8. sex
9. sexual orientatio[illegible]

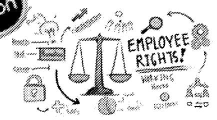
Health and Safety [illegible]
Ensures that all empl[illegible] [illegible] king environment [illegible] s out for [illegible] alth of their employees

F[illegible] of permanent, casual, [illegible] ved [illegible] temporary workers, as well as visiting [illegible] rs of the public

Failed to follow the law?
- Fines
- Negative publicity
- Bad reputation
- Loss of customers
- Staff may leave
- Decreased productivity

There are different pieces of legislation that protect consumers:
- Consumer Rights Act 2015
- Consumer Protection Act 1987
- Trade Descriptions Act 1968

Employm[illegible] law



Health and safety law

National Minimum Wage / Living Wage
- The minimum wage a worker is entitled to in the UK depending on their age
- Hourly rate set by the government
- Hourly rate is updated each year

How can H&S affect the profit of a business?
- Workers need to be trained on safety protocol
- Protective clothing needs to be purchased
- Safety equipment needs to be installed
- Insurance needs to be purchased to cover potential risk

Trade Descriptions Act 1968
The main points of the law:
- It ensures that a business **accurately describes** their goods and services
- It is **illegal to falsely describe** any part of any products that they sell
- **Adverts should not be misleading** – false claims cannot be made

	Employment law	Health and safety law	Consumer law
Positive impact	**Legal issues are avoided:** This is **because** the business has clear guidelines on how employees should be treated **which means** mistreatment is less likely **Lower labour turnover:** This is **because** employees are more likely to be satisfied with their job **which means** they are less likely to leave **Easier to attract potential applicants:** This is **because** the business would have a good reputation for following employment law **which means** people may be more [illegible] apply to work there	**Fines, compensation and negative publicity are avoided:** This is **because** working conditions are safer **which means** there are fewer accidents in the workp[illegible] **Staff are happier and mor[illegible] produ[illegible] ive in the workplac[illegible]** Th[illegible] s be[illegible] use workers h[illegible] viron[illegible] w[illegible] h [illegible] y feel [illegible] and valued by the business	**Customers are more likely to be loyal:** This is **bec[illegible] se** customers can see that the b[illegible] rotecting them, enabling them to [illegible] nfo[illegible] ed decisions before purchasing [illegible] h means they are likely to buy from that business again **Competition is fair:** This is **because** all businesses must follow consumer law **which means** no business can gain an unfair advantage through dishonest business practices
Negative impact	**It can be costly:** This is **becau**[illegible] lega[illegible] vice and work m[illegible] d **wh**[illegible] eeting the requirem[illegible] an i[illegible] the costs for a business **It can be** [illegible] **ially for small businesses:** This is **because** t[illegible] f details within the law **which means** it may [illegible] e fully understood by a business that cannot afford its own Human Resources Manager or team **Risk of negative publicity:** This is **because** not understanding or following employment law correctly, such as paying the incorrect rate of Minimum/Living Wage, can be exposed by disgruntled employees **which means** the business will be named as not paying its workers the correct amount	**It can be costly:** This is **because** safety measures would have to be implemented and maintained **which means** time and money would need to be spent on training, purchasing equipment and regular inspections **Risk of negative publicity:** This is **because** if a business does not comply with the health and safety law, they can be reported as well as gain a fine **which means** it is likely that their non-compliance will be known locally and sometimes nationally	**It can be costly:** This is **because** to adhere to the law, production of products needs to ensure that the products produced are fit for purpose with the right level of quality, **which means** along with any costs of legal advice or staff training, the process can become expensive **Innovation can be reduced:** This is **because** there are constraints on the way that products can be promoted or sold **which means** the business may lack the flexibility to use any means possible to increase their sales

3.1 Production processes

Production involves turning **raw materials** (primary sector) into **products** through manufacturing (secondary sector). Products can be made using job or flow production.

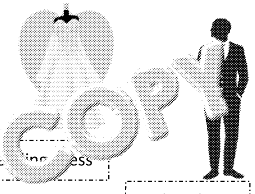
Job production

A method of production where one product is made at a time and is designed and made to fit the requirements of the customer

Benefits
- ✓ Products can be **customised** to meet customer needs
- ✓ Usually **high quality** due to the time and attention that is given by skilled employees
- ✓ **Higher prices** can be charged due to the high quality of the product
- ✓ Employees are likely to be **motivated** due to the job satisfaction gained by having a varied job

Drawbacks
- × Can be **expensive** [illegible] materials [illegible] not bought in bulk
- × It can **take time** to [illegible] the customisation – this [illegible] customer satisfaction
- × It can be **inefficient** due to the customisation of each product being different – this can lead to reduced productivity and increased costs

Examples…

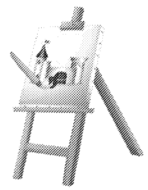


Wedding dress

Tailored suit

House key

Artwork



Job is best when…
- ❖ Products need customising
- ❖ Smaller quantities are required
- ❖ Customers are happy to wait
- ❖ You have little to no production budget
- ❖ You have access to a skilled workforce

TRANSPORTATION (T)
If there is too much movement needed to get materials from one part of the production line to another, time is being wasted

INVENTORY (I)
Stock that is not being used and is just sitting in the warehouse is taking up space and therefore is costing money

MOTION (M)
Employees moving around too much could mean the workplace is not designed effectively and results in loss of productivity

WAITING (W)
Having to wait to use machinery or for materials to arrive wastes time and decreases productivity

OVE[…]
If too[…] stock[…] throw[…] to se[…]

TIMWOOD <u>will not be examined</u>

Lean production focuses on reducing waste

TIMWOOD (developed by Toyota) helps you to <u>remember</u> seven areas where a business could improve efficiency in the manufacturing process

If a business can eliminate these kinds of waste through becoming **'leaner'** the business will be **more efficient** – reducing waste means that **costs are lowered** which means the business can be **more competitive**. Lower costs means that **lower prices** can be charged or **more profit** can be made.

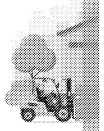
Lean production

Kaizen

This is a Japanese term that means **'continuous improvement'**. It refers to the practice of making small changes to improve overall performance.

Kaizen is a part of **lean production** – continuous improvement refers to the belief that the **small changes over time** will add up to large, significant changes.

The kaizen approach requires the **involvement of employees** (and encourages them to make suggestions) all the way from the shop floor workers to management – it is believed that those who are closer to the 'shop floor' will know how best to improve to become **more efficient**.



Efficiency

Efficiency describes how well a business uses its resources such as materials, money and employees

Efficient = low cost per unit
Inefficient = higher cost per unit

How efficient a business is <u>depends on</u>:
- ❖ **How well the employees are managed** – if they are motivated then they should produce more, which means the unit cost would be lower
- ❖ **How well technology is used** – using up-to-date software, machinery and systems will help improve productivity [illegible] phy[illegible]
- ❖ **How good the rel**[illegible] **h sup**[illegible] – supplies arriving o[illegible] quality and good communication wil[illegible] costs low **(more in 3.2)**
- ❖ **How often processes are reviewed** – continuously ensuring that there is little to no waste and implementing changes to streamline production processes will help to keep costs low

Reducing waste in a business is known as LEAN PRODUCTION

3.2 The role of procurement

Businesses hold **stock (3.1)**, some more than others. This means that for some businesses the process of stock control is extremely important. There are two approaches to stock control that a business can use.

Just in time (JIT)

A method of stock control where the business aims to hold as little stock as possible

Benefits
- ✓ **Costs are reduced** as not as much storage is needed – this means that the existing storage can either be used for something else or it can be sold
- ✓ **Not as much money is tied up in stock** which means that money can be used on other things such as expansion or marketing
- ✓ **Less likely** that the business will have **damaged or out-of-date stock**

Drawbacks
- × If any **material** ... **ged** ... **affect the sup** ... **rs th** ... **ecting** customer satis...
- × If **demand chan** ... **dly**, the business may not be able to de...
- × As materials will be delivered in smaller quantities more often, this could have a **negative impact on transportation costs and the environment**

JIT is best if...
- ❖ The business must respond often to changes in what customers want, i.e. trends, fashion
- ❖ The business has a wider **product portfolio (5.4)**

VS

Just in case (JIC)

A ... stock control ... the ... siness holds a ... level of stock *just in case* it needs it

Draw...
- × Car... for...
- × The... me... inv...
- × It g... red...

JIC is best if...
- ❖ It is important that the business benefits from economies of scale to keep the unit cost dow...
- ❖ The business does not have a wide product portfolio

Remember

Reduced costs are great... BUT...
Following the principles of JIT will mean more deliveries and lost purchasing economies of scale

Having spare stock to satisfy demand is great... BUT...
It does come with the costs of storage as well as other costs associated with holding stock, e.g. insurance

Factors affecting choice of suppliers

Price
This includes the cost of products or services to the business as well as other costs like transportation

Quality
To ensure that the busin... **maintains its reputation** ... **customer satisfaction,** it ... ensure that the supplier ... is **consistent** in the quali... they are providing

Reliability
The business needs to be able to trust that the supplier will **deliver on time** so that delays are not passed on to the customers

Contract terms
Allowing the business ... it ... attractive to a business. The ... **nd cond** ... laid out by the supplier are ... g benefits to the business.

Lo... term relationship potential
It is important to maintain strong relationships with suppliers as it can lead to **better prices** and **priority access to materials** if there is a shortage of resources

Supply chain
The entire journey of the product or service from raw materials (primary sector) to the final customer (tertiary sector) – it includes both the production and the transportation

Procurement
Really important for the supply chain – it involves finding the best ... for all materials required ... ct or service and the tr...

Logistics
This refers to the move... ods and services throughout the supply chain – it involves planning and storing deliveries and ensures that deliveries are managed efficiently and at the right place and the right time

The value of effective supply chain management

Working with suppliers to ensure that key processes are running efficiently and cost-effectively
- ✓ Orders will arrive on time
- ✓ Businesses will not run out of stock
- ✓ Customer needs will be met
- ✓ Customers will be happy to purchase again and recommend to others
- ✓ Sales should remain constant

Getting goods and services for the be... price and value
- ✓ Research will be carried out into t... best suppliers
- ✓ Price AND quality will be researche... into
- ✓ Negotiations will be carried out to... the best deal
- ✓ Businesses should achieve the bes... price for the expected quality
- ✓ Lower unit costs will help to keep competitive

3.3 The concept of quality

5 ways that businesses can MEASURE quality and IDENTIFY quality PROBLEMS

Monitor returns
By keeping an eye on **how many items are being returned** faulty can indicate whether there are issues in quality. Higher returns could indicate a problem.

Customer surve
Customers will be ask they think about produ services to help them to **areas for improvement**.

Look at defects
An easy way of measuring is to see **how many units in a batch are faulty**. The less that are faulty, the higher the quality.

Check a sample
The business would **inspect a random sample** from a batch and based on their findings they would decide whether to **accept or reject the whole batch**.

Monitor delivery times
Where a business **offers a service**, delivery of that service can be monitored to see whether the work is being carried out or items are being delivered **on time**. On time shows **efficiency and reliability** which contributes to a quality product/service.

For example…
A drinks manufacture ps o bottles to check that t ough. They will even check how much fizz is in there!

Methods of maintaining consistent quality

Key features of TQM
- Customer focused
- Continuously improving
- Employees involved
- Committed managers
- Strong relationships with suppliers
- Preventative
- Trained employees

This is an approach to quality which encourages all functions **(1.1)** of the business to work together to meet quality targets and customer needs a holistic

Quality control vs quality assurance
Both are structured processes used to ensure that products are meeting customer requirements and quality standards

The aim of **QUALITY CONTROL (QC)** is to identify and correct faults in the finished products whereas the aim of **QUALITY ASSURANCE (QA)** is to prevent the faults from happening in the first place

QC is a REACTIVE process whereas QA is a PROACTIVE process

	Benefits
Total quality management (TQM)	✓ Processes should be **streamlined** and **waste should be reduced** thus **improving efficiency** ✓ Involving all employees can **empower and encourage** which would **boost morale** ✓ **Supplier relationships should be stronger** as TQM encourages close working relationships (3.2) ✓ Businesses that implement TQM can gain a **competitive advantage** through consistently delivering a high-quality product or service
Quality control	✓ It can lead to **cost savings** as faults are identified and corrected while the need for after-sales repairs or refunds is reduced ✓ **Customer satisfaction is more likely** if faults have been identified before the products hit the shelves
Quality assurance	✓ Being proactive and identifying issues before they can occur will **minimise the likelihood of something going wrong in production** ✓ This approach is closely linked to the **kaizen** (3.1) approach of 'continuous improvement' which helps the business to become **more efficient**

We can own exp or servic can be what the

To maintain their quality, a business should…

Inspect products
Quality control processes should be clear and evident through the whole of the production life cycle

Regular inspections should take place to identify and address potential issues

Encourage a culture of qu
From the point at which jobs are advertised and new staff recruited ethos of prioritising quality and continuous improvement should b evident

The business should make it easy fo to report quality concerns and sugg improvements to the processes use production to reduce human error a ensure improved consistency when checking quality

Invest in employee training
Employees should be trained in quality standards and processes

Staff are more lik on cially where ch b if is c ated to HOW and WHY can powered to identify and address qua ssues thus improving motivation (3.3)

Implement QA practices
The business should introduce a programme that highlights preventative measures and continuous improvement

Regular monitoring of quality processes should reduce the number of faults

Use reliable suppliers
The business should ensure that their chosen suppliers meet their quality standards

Any materials or finished products that are supplied should be good enough quality to meet the requirements of the customers

The business should regularly inspect the supplier's performance

3.4 Good customer service

Customer service
This is an approach to enhancing a customer's experience, building strong relationships with them and meeting their needs fully

The sales process

Before the sale
Product knowledge
Having **detailed knowledge** about the company's products or services enables employees to provide accurate information to customers.

During the sale
Customer engagem
Clearly and concisely **communicating** inform instructions, or solution customers in a **polite and professional manner** is essential for building a **positive relationship** and creating a positive experience.

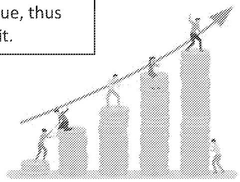
After the sale
Post-sales service
This is the **support provided** to customers **after** they have made a purchase and started using the product or service. The aim is to **maintain the relationship** through addressing issues and/or concerns.

Examples of post-sales service
- Quick deliveries
- Technical support
- Maintenance and repair
- Warranty and service agreements
- Customer assistance
- Refunds

Benefits of GOOD customer service

INCREASE IN CUSTOMER SATISFACTIO
Customers will be satisfied – this is **because** ... good customer service which would **lead t**... likely to leave positive reviews. ... encourage other customers to ...

...TA...Y
T... ess should benefit from increased profitability – this is **because** customers are satisfied with the product/service they have received which would **lead to** them being loyal and more likely to recommend to others. This would **therefore** increase the number of sales and revenue, thus resulting in an increase in profit.



CUSTOMER LOYAL
Customers are likely to st to the brand – this is **beca** they are happy with the p they have purchased or th service they have receive would **lead to** them not s with competitors. This w **therefore** help the busine increase their market sha

INCREASED SPEND
Customers are likely to spend more money with the business – this is **because** they are satisfied with their product/service which would **lead to** them being more confident to try other products/services. This would **therefore** mean that the revenue of the business increases.

The ways in which advances in ICT have allowed customer services to develop

Websites
A website can be set up quite cheaply either ... one-off payment or mont... include ongoing m... sup...

A website can offer ... r service by:
- Offering **product ... ge** about what the business sells or services that they provide through written information, frequently asked questions (FAQs), pictures and videos
- Allowing **customers to engage** with the business through live chat or sharing of contact information such as email address, postal address and phone number
- Giving advice on **post sales** either through sharing 'troubleshooting' solutions, ways to contact the business for help, or information on how to make a complaint

E-commerce
Each year, more websites are appearing on the internet that have an online shop
Businesses can also sell through other marketplaces

E-commerce can offer good customer service by:
- Allowing customers the convenience of shopping when it is best them 24/7 and 365 days a year
- Storing customers' personal and payment details so that they ca purchase and pay for items at the click of a button
- Offering competitive prices
- Making suggestions of other, similar or matching products that a personalised to the customer
- Offering order tracking
- Showing other customers' reviews of products that the business
- Offering simple **post-sales service** for refunds and returns

4.1 Organisational structures

It is important that businesses have a structure. This way, each employee knows who their **line manager** is and who they have responsibility for.

Directors (report to the MD)
Guided by the MD, they set the long-term goals for the business.

Managers (report to the Directors)
They are usually in charge of one of the business functions and aim to meet not only the long-term goals but also short-term goals too.

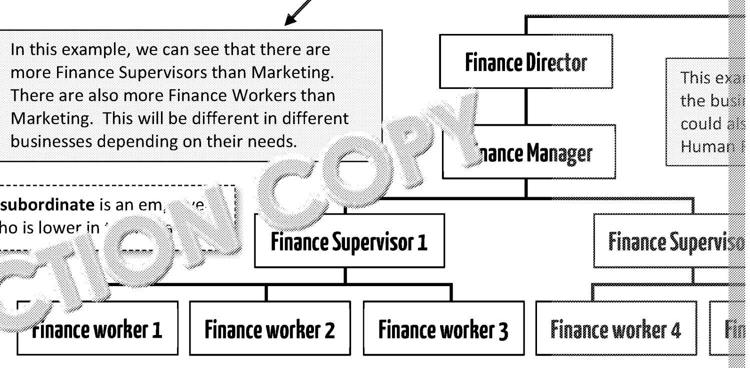
Supervisors (report to the Managers)
They are responsible for ensuring that day-to-d... goals are achieved while man... the ...

Workers (reports to ...s)
These can also be ca... 'sh... floor' workers. They will ca... sks.

Hierarchical structure

In this example, we can see that there are more Finance Supervisors than Marketing. There are also more Finance Workers than Marketing. This will be different in different businesses depending on their needs.

A **subordinate** is an em... who is lower in ...



The **chain of command** shows how communication passes from the top to the bottom o...

Within the Finance function, communication would pass from Finance Director → Fina... → Finance Supervisor 1 → Finance worker 1

Communication methods

Business intranet	Emails	Meetings	Telephone	Video-conferencing	Written docume...
This is a web-based platform that is accessible only to employees **PROS** ✓ Important company documents are available in one place ✓ Easier to collaborate on documents in teams **CONS** × It can be expensive to set up so may only be useful for larger businesses × It would need regular maintenance (adding to the expense if a member of staff needs to be employed)	This is one of the most popular methods of communication for businesses to use **PROS** ✓ Enables you to communicate with others in different time zones ✓ Gives a record of business conversations **CONS** × It can be overused making it difficult for some employees to prioritise × Response times may not be quick enough resulting in slower decision-making	These are traditionally done face to face around a boardroom table **PROS** ✓ Allows real-time communication allowing for feedback and discussion time ✓ Face-to-face communication is clearer, resulting in less chance of misunderstandings **CONS** × Lack of a clear agenda can lead to a lack of productivity × It can be time-consuming as ... costly ... eshme...)	Usually two people but 'teleconferencing' can allow for conversations with multiple people **PROS** ✓ Instant feedback and responses enabling quicker decision-making ✓ Confidential information can be discussed more securely **CONS** × Lack of visual body language wh... lead ... rsta... × ... tions are not ...orded which could lead to inconsistencies when recalling information	These days, you may know this as Zoom or Teams calls **PROS** ✓ Enables collaboration with stakeholders no matter where they are in the world ✓ Screen can be shared allowing ...rticipants ... cuments **CONS** × ...re can be technical issues which can disrupt meetings as well as being frustrating × Meeting across time zones can be difficult to organise and be inconvenient for some stakeholders	Most commonly lett... contracts, agreemen... proposals **PROS** ✓ They are more f... and professional... sets the tone for... stakeholder rece... the document ✓ Allows for confid... information to b... as well as signat... being given and ... back **CONS** × Can be slow to re... and respond to, leading to delays... information exch... × Lack of real-time interaction, mak... difficult to engag... back-and-forth discussions
Employees may h... access to a supplier databa...	**...ume... ...o cus... ...rs as ...er confirmation**	**The board of directors may meet to discuss the future vision**	**Calls may be made to check on the progress of an order**	**Business owners may meet with new suppliers outside of the UK**	**A contract may be p... for a new business premis...**

Advantages
✓ All decisions made will be consistent and in line with the business's overall aims
✓ Cost savings can be made due to **economies of scale**

Centralisation
This is where important decisions that have to be made are carried out by senior managers in the business – not much freedom is given to employees and they are controlled by their managers.

Disadvantages
× The expertise of local employees can be overlooked and lead to the business not fully understanding customer needs
× Employees may feel demotivated if they are not trusted by managers or given much freedom

4.2 Recruitment and selection of employees

Recruitment and selection is a process that businesses must go through when they need to employ a new member of staff.

There are many reasons why a business may be looking to recruit:

- they may be **expanding** and therefore need more staff, possibly in specialist roles
- existing staff may be leaving due to **retirement** or **promotion**, or they may have been **offered a job elsewhere**
- existing staff may have to be temporarily replaced due to illness or maternity lea

Recruiting new staff is an extremely important process for businesses which can be costly if not correctly – <u>benefits</u> of an proce

High productivity – th **because** the right employees will work hard to produce a high level of products which will **lead to** lower unit costs. This would **therefore** help the business to be more competitive due to being able to lower selling prices.

High-quality output – this is **because** the right employees will have the correct skills to produce a high standard of goods which will **lead to** the needs of customers being met fully. This would **therefore** ensure that waste and costs are kept as low as possible.

er service – this is **because** the right will have the right qualities to work directly customers which will **lead to** repeat purchases which in turn may increase brand loyalty. This would **therefore** mean the business is likely gain higher sales.

Staff retention – this is **because** the right employees will enjoy their work and be motivated which would **lead to** them being less likely to leave. This would **therefore** mean the business can keep costs low by not having to recruit as often.

Internal recruitment

Benefits

- ✓ **Cost-effective**
  External advertising not needed, and less training is re to the exi ee being familiar with the business
- ✓ **In ati**
  ploye more likely to stay with the company and th e that there are opportunities for advancing t

Drawbacks

- × **New ideas are limit**
  Existing staff may st it is and therefore m
- × **Gaps in skills**
  Existing employees experience, which c them money to trai

The recruitment process

All businesses will follow a similar recruitment and selection process

A vacancy arises → **Job analysis** is carried out → A **job description** is produced → **AA** A **person specification** is produced → The job is advertised (**internally** or **externally**) → Application are receive

Job analysis
The job that has become available will be analysed to find out exactly **what is involved in the job** along with the **skills that are required** by a potential candidate

Job description
Basic information about the <u>job</u> will be taken from the job analysis to produce this document – it will include information such as the name of the job, the main duties, the hours and location, and wh the person will be resp

Person specification
The specific qualities, skills, qualifications, experience characteristics of ential candidat aker the job analysis form ment – these kely roken down into ial and **desirable**

Advertising
Depending on whether th is to be recruited **interna** **externally**, the advert is l to include information su job title, location, hours, how to apply and closing for applications

Different types of contract

Job share: This is w two or more people s the duties and responsibilities of a job

Part This is where he employee works fewer ours than the standard number of hours per week

Zero hours: This is where an employee is not guaranteed a fixed number of hours each week

Full time: This is where the employee works the standard number of hours per week – usually 35–40

Benefits to employers	Benefits to employees
Flexibility: businesses can change their workforce to match the demand, i.e. seasonal peaks **Specialised staff**: staff with certain skills can be used without committing to full-time costs	**Flexibility**: employees can manage their working life around their personal life, leaving time for family, hobbies and other interests **Phased retirement**: employees can work towards retirement rather than giving up work straight away
Consistency: staff are always available, leading to better communication and tasks that are performed smoothly **Skill development**: staff are likely to become better at their roles, leading to increased contributions to the business	**Stable income**: employees are able to fulfil their personal financial commitments and have a comfortable standard of living **Promotion opportunities**: employees are likely to be able to advance in their career more so working full-time

4.3 Motivating employees

Motivating their workforce is something that most busi[illegible] way that they do this will be dependent on the beliefs o[illegible] think is best), whether they are new or established, and [illegible]

Motivation is the factors that influence individuals to behave in the way that they do. These factors can be internal or external.

Financial methods of motivation

Salary
- Expressed as an **annual** amount
- Usually paid **monthly**
- **No set hours** each week

PRO: the business can budget for monthly costs

CON: employees may not be motivated t[illegible] harder since they get [illegible] matter how many [illegible]

Salary and wage are the **main methods of payment** that businesses use – an empl[illegible] is paid using one [illegible] Busin[illegible] established [illegible] afford it may [illegible] one of the other payment methods too

In the UK, there is a **Nat[illegible] Minimum Wage** and a **National Living Wage** (2.5)
ALL employers must pay their employees a minimum rate of pay
Almost all employees are entitled to the National Minimum Wage, including casual, part-time and temporary workers
Self-employed and company directors are not entitled to the National Minimum Wage

Profit-sharing
- Paid **some of t[illegible]**
- **Paid a[illegible]** sal[illegible] or wage

P[illegible]: help[illegible] staff, particularly if the b[illegible] quite profitable

CON: some employees may not find it fair if they have worked harder than others

A theorist called **Frederick Taylor** introduced the idea of piecework because he believed that workers would work harder if they could earn more money

Piecework
- Paid based on how many **products they make** or **tasks they complete**
- Usually **paid as well as** the salary or wage

PRO: productivity should rise because employees work harder to earn more money

CON: quality may suffer if employees are rushing to produce more to earn more money

Commission and piecework are similar – the difference is that **commission is linked to selling** whereas **piecework is linked to making**

A theorist called **Abraham Maslow** thought that money was not as important as Taylor thought it was; however, he did think that money was important to an employee as it would enable them to pay for food and somewhere to live

Wage
- Expressed as an **hourly** rate
- Usually paid **weekly** or **monthly**
- Usually **hours are fixed** each week

PRO: if the business offers overtime, employees may be motivated to work harder knowing that they will receive more money

CON: paying overtime during times of increased demand increases the costs of the business

Commission
- Paid a percentage of the value of products/services they have so[illegible]
- Usually **paid as well a[illegible]**

PRO: produ[illegible] ould [illegible] empl[illegible] ork [illegible] earn more money

CO[illegible] [illegible]es may be so focused on ea[illegible]g more money that they forget about customer needs, which could lead to lower customer satisfaction

Grea[illegible] enrich[illegible]
- Job[illegible]
- Jun[illegible] to [illegible]

PRO: w[illegible] need to [illegible]

CON: if [illegible] correctl[illegible] necessar[illegible] and the[illegible] it has n[illegible]

Job enrichme[illegible] to make them [illegible] give the empl[illegible]

A theorist called **Frederick Herzberg** wrote the 'Two Factor Theory' in which he showed his belief that to motivate staff you had to ensure that they were satisfied at work through factors such as giving them responsibility or providing opportunities for achievement

Benefits of a motivated workforce

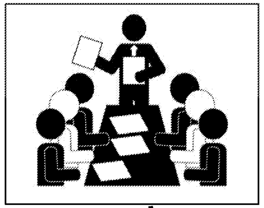
Staff retention
Staff are less likely to le[illegible] **because** employees are happy in their job and enjoy the work that they do which would **lead to** them being loyal to the business. This would **therefore** mean they would be less likely to leave their job to move to competitors.

High productivity
Staff are likely to be productive – this is **because** they enjoy their jobs and so work hard which would **lead to** them working as efficiently as possible. This would **therefore** mean that the business can produce products and services cheaply.

High quality
Staff are likely to produce higher quality work – this is **because** they are dedicated to their job and enthusiastic which would **lead to** them having a greater attention to detail. This would **therefore** mean that customers are likely to repeat purchase and recommend the business to others.

Motivated staff
- ✓ Are punctual and presen[illegible]
- ✓ Work efficiently while a[illegible]
- ✓ Use their initiative to solve problems
- ✓ Are enthusiastic
- ✓ Want to learn
- ✓ Communicate effectivel[illegible]
- ✓ Have a positive influenc[illegible]

4.4 Training



Induction training

This is the training that new employees receive when they **first start the job**
The main aim of this is to introduce staff to the people they will be working with and the environment that they will be working in

Benefits
- ✓ **Employees are les** ... – th ... ecause they feel supported by ... yer which would **lead to** them adapting t ... more quickly. Businesses would **th** ... ss likely to have the costly task of recruiting more employees.
- ✓ **Employees are likely to be productive sooner** – this is **because** the induction programme has given them the necessary knowledge and skills that they need to do their job quickly which would **lead to** them feeling confident in their role. Employees would **therefore** carry out their jobs effectively.
- ✓ **Increased employee engagement** – this is **because** the induction programme has integrated them with their new colleagues which would **lead to** them feeling part of a team and valued. Employees are **therefore** more likely to be motivated, committed and stay with the business.

Induction checklist
- ☑ Introduce to colleagues
- ☑ Introduce the business (aims and vision)
- ☑ Tour of the workplace
- ☑ Learn about fringe benefits
- ☑ Observe what is required day to day
- ☑ Training on IT systems/technology
- ☑ Introduction to health & safety practices

On-the-job training

This is the type of training that employees receive **in the workplace**
Employees learn from experienced staff who already work in the business which enables them to learn using the business's equipment

Where hands-on experience is required, **on-the-job** is likely – nursing and ... are good examples

Benefits
- ✓ The training takes place in the context that the employee will be working in which means it will match the exact needs of the business
- ✓ It is cost-effective as no travel or external providers are needed
- ✓ Employees will be working with their colleagues enabling instant feedback and immediate correction of mistakes while being productive
- ✓ More efficient than off-the-job because they are learning while working

Drawbacks
- × Other employees a... to possible loss of ...
- × New ideas are unli... as well as bad habi... are not used
- × The pace of learnin... by trial and error ...
- × Employees don't h... they are learning w...

Main metho...
- ❖ **Online** ... complet...
- ❖ **Job sha**... them w...
- ❖ **Job rot**...
- ❖ **Trainin**... update ... of staff, ...

Off-the-job training

This is the type of training that employees receive **outside the workplace**
Employees learn from specialised individuals who have knowledge in a particular field – the training may take place at a college or training centre

Professions like solicitors and accountants are likely to use off-the-job as they need expertise in their industry

Main methods of off-the-job training:
- ❖ **Classroom training:** employees are taught by a trainer in a classroom – teaching methods could include discussions, activities and presentations
- ❖ **College courses:** paid for by the employer, time given off work to attend 'lessons' or work would be done in the evening – usually working towards a qualification
- ❖ **Conferences:** usually indus... ic, le... in the industry share trends a... offer ... their success
- ❖ **W... ops** ... usually numerous sessions ... choose from and attend led ...

Drawbacks
- × Can be expensive due to t...
- × Course content may not d...
- × Employees will be away fr... while they are away
- × Employee will have more ... them leaving to gain prom...

Benefits of training employees

Increased produ...
Staff will be more pro... because they would be ... which means they would ... at their job. This would **lead to** them spending more time on their job rather than correcting mistakes which would **therefore** enable staff to produce more products in a shorter space of time.

... deal with changes in technology
Staff will adapt well to changes in technology – this is **because** employees would have the skills to deal with technology that is constantly being updated. This would **lead to** staff easily adapting to changes in their systems which would **therefore** enable them to remain competitive.

Increased motivation
Staff will be more motivated – this is **because** employees will feel more valued by their employer which will **lead to** them being more committed to their job. Employees would **therefore** be happier in their work, meaning they will be more productive.

Staff retention
Staff will be less likely to leave – this is **because** the training the employees receive will increase their skills. This would **lead to** them having more opportunities for career development within the business which would **therefore** increase the loyalty of the employee to the business.

5.1 Identifying and understanding customers

Needs and wants
Needs are **basic** items that we require for survival, such as food and clothing, whereas **wants** are items that we **desire** or wish for, like designer clothing or the latest smartphone

Different types of needs

Choice
Many customers expect different sizes and colours as well as different products within the same range

Quality
No one expects low quality; however, customers will expect that the quality they receive matches what they are being charged

Price
Customers want value for money – they want to pay what they feel matches the quality that they are getting

Convenience
When customers are busy they require products/services that are easier or quicker and are happy to pay more for this

Why is it important for a business to identify customer needs (or wants)?

What customers want changes all the time and businesses need to maintain this. Identifying and understanding customers will help a business to offer the right product/service

To provide a product/service that customers will buy
Knowing what customers need/want means that a business is more likely to produce a product/service that they actually want to buy

As the product/service would be in demand this would mean a lower likelihood of wasting time and resources

To select the correct marketing mix (5.4)
Knowing what customers need/want means that a business can ensure that the **product** is right for them at a **price** they are willing to pay or can afford to pay in a **place** where they know they would buy from and **promoted** in a way that would grab their attention

To increase sales
Higher demand would be more likely if a business meets the needs and wants of a customer

This in turn would result in more customers purchasing from the business

To avoid costly mistakes
Without knowing for certain exactly what customers need/want, a business may have to make changes to the product (or service), change the advertising, or, at worst, remove the product from their portfolio

Any of these actions can be costly in terms of money and reputation

To be competitive
Knowing what rivals are offering means that a business can make decisions about their products and/or services that are better value for money

As long as the business combines this knowledge with their own customer needs/wants, they are more likely to gain/retain customers

Percentage change

$$\frac{\text{difference}}{\text{original}} \times 100$$

same as...

Market growth

$$\frac{\text{change in market size}}{\text{original market size}} \times 100$$

In practice...
If the market *was* worth £100,000 and it is now worth £125,000:

Change in market size:
£100,000 – £125,000 = £25,000

Original market size:
£100,000

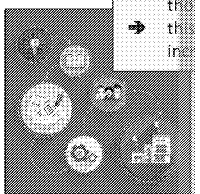
$$\frac{25{,}000}{100{,}000} \times 100 = 25\%$$

Sales volume
This shows how big the market is in terms of the **number of sales**

Sales value
This shows how big the market is in terms of the **revenue**

The **sales value** will increase as the **sales volume** increases – unless the price goes down, in which case the sales value will not increase at the same rate

Develo...
custo...
This is be...
insight in...
➔ whi...
to p...
tho...
➔ this...
incr...



Improve...
This is becau...
gaps in the m...
➔ which v...
➔ this wo...
to be m...
able to...

5.3 The purpose and methods of market research

Why do businesses conduct market research?

To understand what customers want
This allows a business to tailor their products/services to their customers

To identify market opportunities
This allows a business to assess **demand** and enter new markets or introduce new products

To assess who the target audience will be
This allows a business to [illegible] who the[illegible] aim [illegible] product at

To find out about competitors
This allows a business to compare themselves to the **competition**

To identify the best way to advertise
This allows a business to adopt the best marketing strategies that suit their audience

To stay updated on the current market
This allows a business to stay ahead of current trends so that they can adapt

Secondary research

The process of gathering data that already exists

Disadvantages
- × It isn't tailored to the needs of the business and so may not give the required answers
- × The business has no control over how or when the data was collected

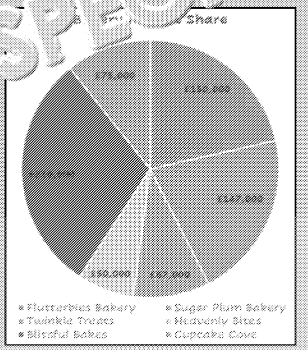
Advantages
- ✓ Most accessible websites are free and as no data collection needs to take place, there are no costs associated with that
- ✓ Lots of data available from different sources

	Benefits	Drawbacks
Internet research The process of gathering information online either directly through a company or organisation's website or through the use of a search engine	✓ Lots of information is available 24/7 which makes it a convenient source ✓ It is cost-effective as no physical resources or travel are needed	× Not all sources may be reliable and/or may be out of date so the information may be misleading or inaccurate × It can be time-consuming to find exactly the information that the business is [illegible]
Printed press Gathering information through the use of printed publications such as newspapers, magazines and industry journals	✓ In-depth specific industry information is collected by specialists which may give expert opinions ✓ Local data would be available	× They can take a long ti[illegible] [illegible]d m[illegible] available for c[illegible] which [illegible] they are more li[illegible]y to [illegible] out [illegible] which would [illegible] ina[illegible] identify current trends [illegible] information gathered may be biased, [illegible]ding to unreliable data

Market share

Expressed as a percen[tage] measures how much o[f] sales are held by the bu[siness]

$$\frac{\text{revenue of the business}}{\text{total market revenue}} \times 100$$



In practice…
Flutterbies Bakery's market share is 21%

$$\frac{150{,}000}{699{,}000} \times 100 = 21\%$$

Heavenly Bites' market share is 7%

$$\frac{50{,}000}{699{,}000} \times 100 = 7\%$$

NOTE! To get the total market revenue, add together the revenue of all the businesses

Disadvantag[es]
- × It can be labou[r] and money
- × Producing effe[ctive] be complex an[d] and skilled sta[ff]

Questionnair[es]
A series of open (own words are expected) or close[d] (predefined answe[r] options are given) questions used to gather information from respondents

Surveys
A way of collecting analysing data – a questionnaire is us[ed] to collect this infor[mation] from respondents

Interviews
Asking questions f[rom] one person or a group of people to gain opinions and/or in-depth responses

Focus groups
A small group of pe[ople] gathered to give th[eir] thoughts, opinions perceptions about product or service

Both **qualitati[ve]** market resear[ch] to make impor[tant]

5.4 Part 1: Product and price

Developing new products

Ov
to
ke

The stages in developing new products...

Generate ideas → Review and select the best ideas → Develop and test the ideas → Assess viability of the ideas → Create the prototype/s →

Benefits

Customer retention – customers are likely to remain loyal to the brand, thus increasing their satisfaction

Competitive advantage – launch something new before competit cou show that the business is a le der indu possibly gainin uh ity a tion

Increased efficiency – producing more could lead to benefiting from economies of scale, thus reducing c

In d m et share – with more possible se from, new audiences may be targeted, aini he business higher sales in their market

Risk of failure – it can be exp new product (spending is needed advertising and production) which may be affected if the new produ

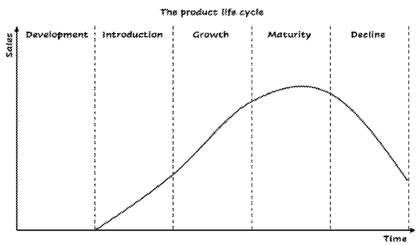
Product differentiation

Unique se
Something ab
different fro
be able to ch

Brand image
The way that a product or business is portrayed or perceived by customers – this can be linked to a name, a logo or colours associated with the business – a strong image will more likely be remembered by customers

Product life c

This shows the stages that a product goes through from the time a business starts to develop it to when it is taken off the market

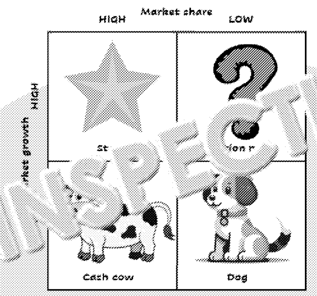


1. **Development:** the product is being developed and tested – there are no sales at this stage
2. **Introduction:** the product is launched; sales are low and costs may be high – the business needs to build product awareness
3. **Growth:** sales increase, profits are growing and there are more competitors – the business should show how they are different from the competition
4. **Maturity:** sales are at their peak and the market is saturated – the business should focus on brand loyalty and introduce product variations
5. **Decline:** sales are decreasing and the product is at risk of becoming obsolete; the business should consider discontinuing the product

In order to stop a product from going into decline, a business can try different things to try to increase sales – these are called **extension strategies**

For example:
- Updating packaging
- Adding more or different features
- Changing target market
- Advertising
- Price reduction

Boston Matrix (Boston Box)
By placing their **product portfolio** into one of the four categories, a business can analyse its range and make deci future of each produc
Ideally, the product po be balanced across the



Stars operate in a fast-gro market with a hig share. The eed ts of m t can gen e revenue – as the ar et matures, they can become cash cows.

Question marks operate in a fast-growing market with a low market share. It is uncertain whether they will become stars – investment is needed to increase their market share.

Dogs operate in a slow-growing market with a low market share. They do not generate much money and are often in the decline phase of the product life cycle – they are often discontinued.

Cash cows operate in a slow-growing market with a high market share. They generate lots of money providing money for other areas of the business – this money can be invested in stars or question marks.

Product portfolio – the products that a business sells – can also be called product range

Factors that influence pricing decisions

INTERNAL factors
- **Costs:** Once a business knows what th **fixed** and **variable** costs are, they can decide how to set their prices; unless using a loss leader, the business needs ensure that these are covered
- **Product life cycle:** Depending where product is in its life cycle will depend o ch strategy is the most appropriate mple, penetration pricing or skimm w ld be appropriate for the introduct stage, and competitive pricing is useful for maturity

EXTERNAL factors
- **Costs:** There can be changes in the external environment that can affect th cost of raw materials and so a business must react to this and may change thei pricing strategy accordingly
- **Nature of the market:** If customers a sensitive to price, the loss leader and penetration pricing strategies will work best; how the customer perceives the product
- **Degree of competition:** Depending o how much competition a business has they can either decide to price similar t rivals or they can choose to price highe the market is not saturated

5.4 Part 2: Place and promotion

E-commerce – selling products online

M-commerce – using a handheld device to buy and sell online

Benefits
- ✓ **Access to customers 24/7:** Even when shops are closed, a business can still sell to anyone, anywhere in the world, maximising their sales
- ✓ **Access to customer data:** Selling online gives access to customer purchase history which can tailor future pr[illegible]ional activity

Drawbacks
- × **Growing online com[illegible]** very easy for custome[illegible] search for products and compare information and prices which could lead to the business losing out on sales to their competition
- × **Impersonal:** There is no personal contact with the customer which means it is not suitable for every type of product

Channels of distribution

1. PRODUCER → WHOLESALER → RETAILER → CUSTO[MER]
2. PRODUCER → [RETAILER] → CUSTOMER
3. [PRODUCER] → CUSTOMER

EXAMPLES of selling direct from producer to customer
- E-commerce / m-commerce
- Company-owned retail shops
- Subscription services
- Pop-up shops
- Direct mail
- Crowdfunding
- Door-to-door sales

Inter[mediaries] 'midd[lemen]' produ[...]

Retailer[s]
They sell g[...] services di[...] customers [...]

- ✓ **Elevated customer experience:** Customers can see and touch products before purchasing which makes it more likely for sales to occur
- ✓ **Retailers have expertise:** The appeal of the product can be enhanced through the knowledge and experience of the retailers; they know how to sell, they may offer promotions and they offer after-sales service whether in person or online

- × **More** deal is[...] sell pr[...] can le[...]
- × **Logist[ics]** of sto[...] requir[...] mana[...] aroun[...]

[Promotion] [met]hods

Newspapers — Advertising
Can be **local** or **national**

PROS: customers can be targeted; a printed paper can be kept and referred to over and over; can help engage with local community

CONS: purchase of printed papers is declining with the rise in digital papers; short life of advert if paper is read and thrown out; not very interactive

Television — Advertising
Lots of channels to choose from

PROS: large potential audience; can be affordable if choosing less popular channels

CONS: many people fast-forward adverts and so there is no guarantee that they will be[...] prime-time and main [...] are expensive

Internet — Advertising
Different methods of online advertising available

PROS: can be targeted; can reach customers worldwide; can engage customers

CONS: pop-up adverts may be blocked; competing with millions of other businesses making it hard to stand out

Magazines — Advertising
Can be **glossy**, **trade**, **local** or **national**

PROS: customers can be targeted; they are often shared which extends the reach; quality is usually better than newspapers

CONS: can be expensive; market can be niche which reduces the reach; not very interactive

Billboards — Advertising
Large posters displayed along busy roads and motorways

PROS: easy to see/read; available to view over and over

CONS: can be expensive de[...] location; limited s[...] [con]ten[t] [...] to target cu[stomer]s

Public relations
Advertising through the **media**

PROS: free; increased brand awareness

CONS: cannot control what the media release; positive results are not guaranteed; negative publicity can spread quickly

Sales promotion
Marketing strategies used to increase sales, e.g. point of sale displays, 2 for 1 offers, free gifts, samples, coupons, competitions

PROS: sales are immediately boosted; new customers may be attracted; existing customers are rewarded for their loyalty

CONS: increased sales may be temporary; profit margins will be reduced; customers may not purchase until the next promotion

S[ponsorshi]p
[A c]omp[an]y [pr]ovides financial support in exchange f[or] exposure

PROS: company image and reputation can be enhanced; customer loyalty can be strengthened; specific groups of people can be targeted

CONS: can be expensive; reputation can be damaged if linked with any negativity; the impact will be dependent on the success of the sponsorship 'event'

Social media
Several platforms available for use

PROS: customers can be targeted; can be cheap – a budget can be set; a variety of content can be shown to engage the audience

CONS: open to public scrutiny / negative feedback; adverts can easy be missed as users scroll quickly past; frequently changing algorithms can mean adverts don't always reach the correct audience

6.1 Sources of finance

Sources of finance are the different places that businesses
1. ***To set up*** *– Money is needed for purchasing equipment,*
2. ***For day-to-day costs*** *– Money is needed for regular exp*
3. ***To grow*** *– Money is needed to open up in new locations*

Internal

Internal sources are those where the money comes from **inside** the business
PRO: No interest charges
CON: Limited amounts

Owner's funds

This is where the owner puts their own money into the business

Benefits	Drawbacks
✓ **No debt obligations:** No one else is owed money and there is no need to repay or pay interest, wh... it a cheaper option ✓ **Retained control:** ... have to be shared w... there are no other inv... means the owner retai... control enabling them to maintain their own vision	× **Limited ca...** ...this... only ...ce... own... only have so ... can invest, which could ... ability to grow or take advantage ... economies of scale × **Opportunity cost:** The owner may invest their savings into the business rather than alternative investment opportunities. If the business does not do well, they may have missed out on earnings from other investments.

Retained profit

This is profit made by a business from previous years – it is kept within the business (instead of distributing to owners or shareholders) so that it can be used for future growth opportunities

Benefits	Drawbacks
✓ **No cost of capital:** As the retained profits are generated from inside the business, no interest has to be paid on it ✓ **Avoids dilution of ownership:** This source of finance allows the owner to maintain their ownership (unlike when issuing shares to raise finance) thus keeping their control	× **Shareholder expectations:** Shareholders may expect the profit to be distributed in the form of dividends – if the profit is continually reinvested, some shareholders may be dissatisfied × **Limitations on growth:** Some businesses may not have a huge amount of retained profit and so their ability to grow may be limited to the amount of money that they have

Selling unwanted assets

This is where the business sells something that it owns to gain money ... to pay interest charges – this can be anything from buildings to ...ry – ... businesses will lease the asset back so that they can ... back)

Benefits	Drawbacks
✓ **Money is freed up:** ... able to gain cash al... immediately to addr... financial issues ✓ **Reduced maintenance** ... Some of these assets have regular storage or maintenance costs – by selling them, these costs will either be reduced or eliminated which can lower costs in the long term, thus improving profits	× **L... ...ome potential:** By selling as... that the business is no longer using, they may be missing out on potential income should the asset become worth more money (appreciate) in the future. Without the asset, the business may not be able to respond to changes in market conditions or other opportunities that should arise. × **Reduced business value:** The business will now be valued lower and therefore be worth less without the asset

External

External sources are those where the money ...mes from **outside** the business
... raise large sums
...N: S...e charge high interest

... fr... ...ily and friends

... where the owner borrows money from someone that they know, ...thout interest or strict repayment terms

Benefits	Drawbacks
✓ **More accessible:** Often it is easier (and quicker) to get money from friends and family as no credit checks or extensive paperwork is needed and there will be little to no interest ✓ **More flexible:** Terms and conditions, such as repayment terms, are likely to be more flexible as the method is informal	× **Strain on relationships:** Without any terms or documentation, conflict can there are future disagreements about repayments or if repayment is neede... They also may want a say in the runn... business which may, again, cause co... slow down decision-making. × **Limited access to capital:** Just like w... funds, there is only so much money ... will have to lend to the business

Trade credit

This is where a supplier sells goods to a business but allows them to **buy now and pay later**

Benefits	Drawbacks
✓ **Immediate access to goods and services:** Immediate payment is not required which allows the business to fulfil customer orders even when cash flow is tight ✓ **Flexible payment terms:** A business can negotiate payment terms with the supplier, such as 30, 60 or 90 days	× **Lack of credit history:** New business... struggle to gain trade credit at first ... no history of payment – the supplie... them to pay upfront for the first pay... × **Risk of late payment penalties:** If t... does not meet the payment terms ... suppliers, it may damage their cred... put at risk future trade credit agree...

A new share iss...

As a limited ...mpan... (1.2) ...a...e can be raised throu... selli... ...e of the ... in ex...ge for money

Benefits	Drawbacks
✓ **No debt obligations:** Shareholders do not have their investment repaid (unless the company decides to buy back the shares) ✓ **Diversified ownership:** New shareholders are brought in with different backgrounds and expertise	× **Dilution of ownership:** The ownership stake of existing stakeholders will be reduced which can result in less control and influence in decision-making × **Dividend obligations:** Shareholders are entitled to a share of the profit (dividends) which will reduce the amount of money available for reinvestment

How does a busine... which sources of fi... are appropriate?

A **NEW business** is likely t... fewer choices when decid... finance their business. The... finance used will depend ...

- The amount of finance... to the owner
- The ownership of the ...
- How risky the business...

ESTABLISHED businesses ... have more choices when d... how to finance their busin... source of finance used will...

- How profitable the bu...
- The assets owned by t...
- The ownership of the ...
- The amount of finance...

6.2 Cash flow

What is...?

Cash flow

Cash flow describes the **money** that goes **into** and **out** of a business on a **daily** basis

What is...?

Cash

Cash is the money that a business has to spend to set up and run the business. Cash also includes money in the bank.

Cash I[...]
This [...] to [...]ess
Owner's funds **(6.1)**
Bank loan/s **(6.1)**
Revenue **(1.6)**

Cash OUTFLOW
This is the money going <u>OUT</u> of a business
Stock
Rent
Salaries/wages
Insurance
Advertising

What are the main things that a business spends money o[...]

Stock
Some businesses will pay for their r[...] materials, ingredients or stock strai[...] away and others will have trade cre[...] **(6.1)** from their supplier/s.

Without enough cash, a business w[...] not be able to supply their custom[...] pay outstanding invoices from sup[...]

Cash vs profit
Profit is the money left over after costs have been paid whereas cash is used to pay the costs

What is a[...]

Cas[...] for[...]

Cash in[...]
A business[...] money the[...] **into** the b[...]

Cash ou[...]
A business[...] money the[...] the busine[...]

Net cas[...]
This is the[...] the money[...] money goi[...]

Openin[...]
This is the[...] has at the[...]

The effect of positive cash fl[...]

Debt reduction
If a business has enough cash to run their business day to day, they are less likely to need to use an overdraft or a bank loan, which reduces the amount of debt that they have and they will avoid paying any interest which is an extra cost to the business.

More trustworthy / less risk
If the business decides that they would like a bank loan for expansion, they will be more likely to be accepted if they can show that they have a positive cash flow with the ability to pay their bills.

Growth opportunities
Having more cash available means that a business can invest to encourage expansion which will increase revenue and market share.

When discussing cash flow, DO NOT use the words profit and loss – use **surplus** and **deficit**

Consequences of cash flow problems

Inability to pay bills
If a business cannot pay its day-to-day bills, this can lead to them paying late which can damage relationships with suppliers, resulting in them not being able to gain trade credit from them for future purchases. Relationships with employees may also be damaged if they are paid late, leading to them seeking employment elsewhere.

Lack of growth
Issues with cash flow can mean that a business cannot invest in opportunities that could see them increasing their revenue, such as opening new shops, expanding overseas o[...] new market[...]

Ope[...]nal disruption
[...]uppliers are not paid on time, [...]could result in delays on the production line if goods are not delivered when needed. This could lead to customer dissatisfaction if their deliveries are not made on time and could damage the reputation of the company/brand.

Solutions to cash flow problems

Rescheduling payments
A business may be able to negotiate with their **suppliers** to delay payments to them to give them enough chance to gain payment from their customers. Alternatively, the business could try to persuade **customers** to pay sooner (maybe by offering an incentive such as 10% off for payment upfront) to try to ensure they have money available.

Overdrafts (6.1)
Even though the interest charged on an overdraft can be quite high, using this short-term 'loan' can enable a business to pay a bill (or bills) if they have not yet received payment from a customer. As soon as the customer pay[...] their invoice, the money [...] the bank, and a[...] bus[...]ess is no lon[...] the [...]aft, interest will n[...] longer [...]ed.

OVERDRAFT

Red[...]ow
[...] to find **che[...]e[...]pliers** *but* they may [...] lower quality, which could upset customers. They could **employ fewer staff** *but* they may struggle to maintain productivity. They could **hold less stock** *but* they may not be able to fulfil customer demand.

Increasing cash inflow
A business may decide to **increase their selling price** *but* there is no guarantee that customers will pay the new prices. They may decide to increase their **product range** *but*, they may have to spend money to gain more revenue

Finding new sources of finance (6.1)
Depending on what has caused the cash flow problem, the business may decide to take out a **loan**. It could give the business a lump sum of money but they would have to make monthly repayments with interest. They could **sell assets**, which is only useful if they no longer need them, or they could **make changes to their business ownership** to allow a new partner or shareholders (1.2).

6.3 Financial terms and calculations

*The use of these key words is impor[...] **communication** – make sure that yo[...] them so that you can use them in the[...]*

Income → **SALES** (*Can also be called **output***) This is the number of products and/or services that a business sells (*This is expressed as a number*) × **PRICE** This is what a b[...]s charges for th[...] a[...]or service (*[...]is is [...] the customer pays*) = This i[...] from[...]

Expenses → **FIXE[...]** T[...] the cos[...] **do not** [...] how many items [...]e business sells *e.g. rent, salaries* + **VARIABLE COSTS** These are the costs that **change depending on** how many items the business sells *e.g. raw materials, packaging* = This [...]

IN PRACTICE…

Imagine a bakery that sells cupcakes… Flutterbies Bakery…
In the summer holidays, the bakery will sell more cupcakes because there are more customers in the town

Fixed costs will not change – even if the bakery doubles their sales, they will not be charged more for the rent that they pay for their premises or the monthly salary payment for managers

Variable costs WILL change – this is because the more cupcakes that are required to fulfil demand, more ingredients and packaging will be needed – the business will spend more money on their raw materials if they make more cupcakes

This i[...] costs[...]

A los[...]

Break-even

Break-even is **the point** at which total revenue is equal to total costs

Margin of safety

This is the number of items a business can afford to not sell until it makes a loss

Expected sales – BEP

You will not be expected to draw a break-even chart in the exam

IN PRACTICE…

Flutterbies Bakery expects to sell **500 cupcakes**

Based on their current figures, they have calculated that **they will break even at 200 cupcake[...]**

500 – 200 = 300 (Flutterbies' margin of safety is 300)

This means that they are making a profit on 300 cupcakes sold – as this is quite a lot of cupcake[...] compared to what they expect to sell, this tells the business that selling at the festival is low ris[...]

IN PRACTICE…

Flutterbies Bakery are considering selling cupcakes for a two-day festival

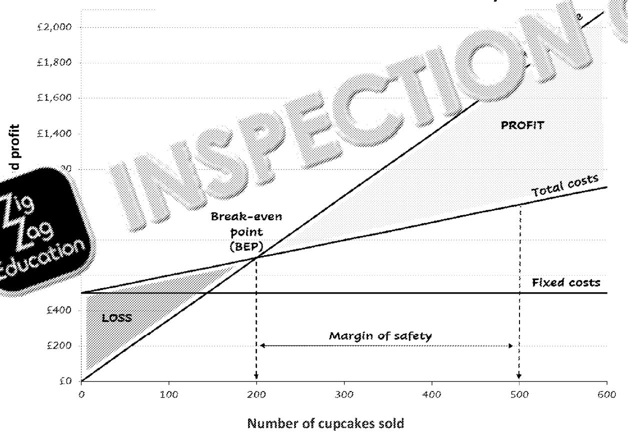
Expected sales: They think that they will be able to sell 500 cupcakes in total

Fixed costs: They are going to hire a caterin[...] van which will cost them £500

Variable costs: Each cupcake will cost £1 to make

Selling price: They are thinking of selling the cupcakes for £3.50 each

A break-even chart for Flutterbies Bakery



[...]k[...]even analysis

[...]ts

- ✓ **Effects of changes in costs and price can be seen:** When producing a chart, different variables can be changed (such as selling price, variable costs and fixed costs) and the impact on the BEP can be seen
- ✓ **Useful for securing finance:** If a bank can see that the business is likely to break even, they may be more likely to approve a bank loan or an overdraft

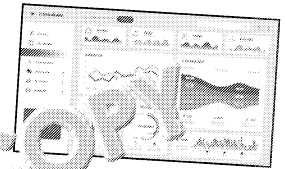
Drawbacks

- × **Costs and price can change:** The BEP calculated is based on particular costs and selling price – if any of these variables change (such as deciding to increase or decrease selling price while at an event) the BEP is instantly incorrect
- × **Sales can change:** The BEP is calculated on a certain number of sales which of course is not likely to be accurate on the actual day of selling

6.4 Analysing the financial performance of a business

Why do businesses prepare financial statements?

It is a legal requirement
Companies must produce these documents by law (under the Companies Act) at least once per year (smaller companies do not have to disclose as much information) – this is to ensure that the company is being transparent to all **stakeholders** in the recording of their finances



To help make business decisions
Both statements allow different **stakeholders** (1.4) to make informed decisions on the financial health of the business; for example, a bank may look at these documents to help them decide ... to give the business a l... **owner**... look at their working ... to re... their current liabilities ...cial year

To assess busin...s perform...
A b... ...ill wan... ...fit f... from ...ar ...r along with other ...ata such as revenue or business worth

Why might net profit increase or decrease?
- **Revenue** has changed
- **Cost of sales** has changed at a different rate to revenue
- **Overheads** have changed at a different rate to revenue

TIP: look at the variables from one year to the next and see what has happened – there can also be hints in the case study

Profit = total revenue – total costs

Income statement

Also known as the **profit and loss account**, this financial statement shows how much profit is made, usually for one year

This financial statement takes the simple formula of calculating profit and breaks it down into more detail to show exactly where the money was spent

This is where **variable costs** are shown

This is where **fixed costs** are shown

Income statement (profit & loss acount) for Flutterbies Bakery

	£	£
Revenue		35,000
Cost of sales		
Opening stock	1,000	
plus purchases	3,000	
	4,000	
minus closing stock	1,500	
		2,500
GROSS PROFIT		**32,500**
Overheads		
Rent	7,200	
Advertising	[illegible]	
Insurance	200	
Salaries	[illegible]	
Ut[illegible]	1,200	
Lo[illegible]	3,600	
Tota[l ove]rheads		25,700
OPERATING PROFIT		**6,800**
Bank loan interest	500	
Overdraft interest	200	
Corporation tax	1,700	
Total interest and tax		2,400
NET PROFIT		**4,400**

Gross profit
Revenue – cost of sales

You will not be given the formulae in the exa...

Operating pr...
Gross profit – over...

Net profit
Operating profit – interest and tax

How to interpret the data on financial staten...

(A) **Shareholders and owners** will be interested in how a b... is doing; seeing **whether more profit has been made th... than last** will help to inform them as to whether their investment was a good idea.

(B) Other stakeholders, such as **shareholders, owners or p... investors** may be more interested in the worth of the b... in other words, the **net assets employed**

(C) It is always a good idea to make comparisons to previou... – there are several ratios you can use to make these comparisons; you only need to learn two:
- **gross profit margin**
- **net profit margin**

(D) Comparing performance against competitors would be ... for a business – **managers** may use the above ratios to ... whether their decisions have been effective – the result... also be used t... ...e decisions for improvements in the... following...

G...ss profit margin

$$\frac{\text{Gross profit}}{\text{revenue}} \times 100$$

Net profit ma...

$$\frac{\text{Net profit}}{\text{revenue}} \times$$

IN PRACTICE…
Using the **gross profit margin**

Year 3 – 93%
Year 2 – 93%
Year 1 – 92%

For each £1 of revenue, in Year 3 there was 93p of gross profit

This is quite **high** – it shows that the cost of sales (or cost of goods sold) is quite **low**

IN PRACTICE…
Using the **net profit ma...**

Year 3 – 13...
Year 2 – 7%
Year 1 – 3%

For each £1 of revenue, ... there was 13p of net pr...

This is quite **low** – it sh... overheads (or expenses... and tax combined are q...

1.1 The purpose and nature of business

A **business** is set up to provide goods and services to customers in return for money. Demand is required for the good or service for the business to gain sales.

Fill in the gaps below to complete the definitions

Goods and services	Goods are ______________ items that we can touch, like a car or a book, whereas services are ______________ items that we cannot touch, like a haircut or window cleaning
Needs and wants	**Needs** are __________ items that we require for __________, like food and clothing, whereas **wants** are items that we __________ or, like designer clothing or the la...
Customers and consumers	A customer is someone who __________ a good or service ... whereas a consumer is the person who __________ the ...
Opportunity cost	This is the ____________ made when ... made. **For example**, if a business decides to spend money on ... rather than spend it on opening another shop, they ... they could have gained from an extra shop.

Identify **three** reasons why someone would want to start a business.

Reasons for starting a business

1.

2.

3.

You will notice that the reasons f... starting a business and the objecti... of entrepreneurs are very simila...

...what the function is responsible for and give **two** ...s of activities that could take place

Finance

Human resources

The functions of a business

Marketing
The Marketing Department is **responsible for increasing awareness and customer engagement.** This could involve activities such as market research, the nature of the product, the price to set, where to sell and how to promote.

Operations
The Operations Department is **responsible for managing the day-to-day activities that enable the production of a good or service.** This could involve activities such as overseeing manufacturing and quality, supply chain management and keeping customers happy.

No matter the size of a business, all businesses will have these functions – in small businesses, these functions are likely to be covered by a couple of people, whereas in a larger organisation, these functions will be more likely to have their own department with a director, manager and assistants.

Factors o... productio...

__________ ... is where the... located, the la... natural resour...

__________ ... is the skill of t... set up the busin... involved in the ... ensuring that th...

__________ ... is all the people who are employed in the business – their skills are also considere...

Dynamic nature of business

The business environment is always changing.
This means that a business must adapt if it wants to remain successful.

The changes that affect a business are in four categories – these can also be referred to as **external influences**:

Changes in technology
Technology changes so quickly – Apple are planning their next iPhone before they have released the previous one!

Businesses need to be up to date with advances in technology so that they can compete with their rivals.

Technology is explored further in 2.1

Changes in environmental expectations
Businesses are constantly under pressure to be socially responsible – customers are becoming increasingly interested in how businesses manufacture and where they get their supplies from.

For some customers, these expectations will be the reason whether they purchase or not.

Environmental expectations is explored further in 2.2

1.2 Business ownership

When someone starts a business, they need to decide what as. There are many benefits and drawbacks, and so the ov their circumstances. ***All*** these business structures can emplo

A sole trader is a person who owns the business by themselves – no paperwork is required to set up, they just start trading

Sole traders **CAN** employ other staff

Sole trader

Explain **one** benefit of setting up as a sole trader and **one** benefit of setting up as a partnership [illegible]

Benefits

Drawbacks
- × [illegible] liability
- × Can be difficult to raise finance
- × Limited skills
- × Lack of buying power due to size

Define partnership

Partnership

Benefits

Drawbacks
- × Unlimited liability
- × Shared profits
- × May have disagreements
- × Lack of full control

What should be included in a Deed of Partnership?

Deed of Partnership

With no DoP the business is split 50/50

	Sole trader	Partnership
Benefits	MANAGEMENT and CONTROL **The owner would have full control over all aspects of the business** – this is **because** they are the only person in charge, which would **lead to** them being able to make all decisions. The sole trader would **therefore** do things the way that they want them done.	MANAGEMENT and CONTROL **There would be more than one person with different skills** – this is **because** in a partnership more than two people work together which would **lead to** them being able to work on different aspects of the business. The partners could **therefore** specialise in different things, overall providing a better service.
	DISTRIBUTION OF PROFITS **The owner would keep all the profit to themselves** – this is **because** they are the only person in charge, which would **lead to** them not having to share their reward with anyone else. The sole trader would **therefore** be able to choose what they do with that profit.	MANAGEMENT and CONTROL **Decisions would be made together** – this is **because** there is more than one person who owns the business, which would **lead to** more people being available to discuss issues and identify solutions. The partners could **theref**[illegible] see someone else's point of view and benefit [illegible] different perspective.
Drawbacks	SOURCES OF FINANCE AVAILABLE **It can be difficult to raise finance to get started** – this is **because** there is only one person available to raise money, often having to rely on their own money or lending from family members. This would **lead to** them being limited [illegible] the amount of money available at first, which w[illegible] **therefore** limit their competitiveness	MANAGEMENT and CONTRO[illegible] **The partners may** [illegible] **disag**[illegible] **eme**[illegible] [illegible] **is because** each partr[illegible] [illegible] dire[illegible] in the partnership. Th[illegible] **lead** [illegible] [illegible]ing different ideas as to what [illegible] the business to go in; **therefore** they cou[illegible] conflict.
	LIABILITY **The owner**[illegible] **l pos**[illegible] [illegible] **at risk** – this is **beca**[illegible] hav[illegible] [illegible] liability. This would **lead to** [illegible] f the[illegible] having to sell their own possess[illegible] ld **therefore** give them enough money t[illegible] pay off their debts.	DISTRIBUTION OF PROFITS **The profit would be shared** – this is **because** there is more than one person who owns the business. If the partners have put in a different amount of effort this could **lead to** them not agreeing on a 50/50 split; **therefore** this could put stress on their partnership.

Sole traders and **partnerships** have **UNLIMITED LIABILITY** – this is when the owner's personal possessions are at risk if they find themselves in debt. Should they owe money, they are legally responsible for that debt and therefore may have to sell their personal possessions to pay that money back. This means that there is **more risk** with these types of ownership.

Bene
- ✓ Limited liab
- ✓ Separate le
- ✓ Privately sc means own controlled

Limite invested their pers

State **two** features o as a not-for-profit o

Not-for-profi

1.

2.

When some peopl this does not requ trade immediately

As the business be want to protect th money and theref

Wanting to grow a

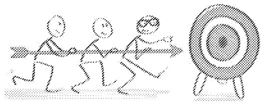
1.3 Setting business aims and objectives

Fill in the gaps

Aims vs objectives

An **aim** is a ______________ that the business wants to achieve whereas an **objective** is a ______________ that a business sets which helps to achieve that aim.

For example, a business may have a general aim of growth… so HOW can they achieve that? Through setting a more specific objective of *'opening three more stores by the end of the year'*



Identify the missing aims/objectives

Main aims / objectives

- ☐ ______________
- ☐ Profit maximisation
- ☑ ______________
- ☑ Market share
- ☑ ______________
- ☑ Social and ethical
- ☑ ______________

What does SMART stand for?

...esses ...e ...ART when writing ...business objectives

S		The objective needs to clearly show **what the business wants to achieve**, e.g. instead of 'open more stores' the business would say, 'open three more stores'
M		The business needs to be able to see **whether the objective has been achieved**, so by adding 'by the end of 2025' to their objective, they can easily assess whether they have done this
A		The objective **needs to be realistic** and so when deciding what it will be, the business will have to be clear that it is achievable, e.g. three more stores by the end of the year may be more attainable than 30
R		The business should be setting objectives that are **in line with their own approach and ethos** as well as matching their own context, e.g. in order to grow, some businesses may choose to release new products rather than open more stores
T		Setting a time by which to achieve the objective **keeps the business on track**; by stating 'by the end of the year', it gives them a point at which to work towards

Why set objectives?

- To give the business direction **so that** everyone knows what the business is trying to achieve
- To motivate employees **so that** they are more engaged in their work
- To enable the business to monitor their progress **so that** they can check whether they are doing well
- To ensure that resources are managed properly **so that** time and money are used on the most important things

Identify **one** example of an objective for a new business and **one** for an established business

Changing objectives

Over time, it is inevitable that the objectives that a business sets themselves will change

New business:

Established business:

Remember, businesses can be faced with **external influences (1.1)** that may make them have to rethink their objectives

Faced with a national downturn in sales, an **established business** may be forced with having to go into **survival** mode while they try to get customers back on board

Why can objectives differ between businesses?

There are three main reasons:

1. The size of the business, **e.g.** a small independent shop vs a multinational
2. The level of competition faced by the business, e.g. a business facing lots of competition needs a USP **(5.4)** and so may choose/change objectives that can achieve this
3. The type of business, **e.g.** a not-for-profit organisation will focus on social objectives

Identify the missing ways that success can be measured

Measuring success

PROFIT is not the only way success can be measured… businesses may also look at:

- Whether ______________ has increased
- Whether ______________ has increased
- How good **relationships** are with customers, employees and suppliers
- The level of ______________ that they have achieved
- The impact that they have on the **environment**
- ______________ that continue to come back (repeat purchase)
- Whether the **shareholder value** has increased

Social objectives are very common for **not-for-profit organisations** where their main objective is NOT about profit but is about helping other people / society, e.g. supporting local communities, promoting fair trade or reducing environmental impact

____

Most likely a main...

To act more ______________ wants to approach... they are thinking o...

For example, ensur... good wage, treatin... customers are all w...

Although this can b... long term, a busine... thus customers, esp... running their busin...

1.4 Stakeholders

Define stakeholder

Stakeholder

Identify the main stakeholders in a business

The main stakeholders of a business

'Ma[illegible] impl[illegible] [illegible] that they are [illegible] in business

Shareholders are also classed as **OWNERS**

OWNERS may want to…
- Maximise the profit [illegible] earn so that [illegible] higher dividen[illegible]
- Ensure that the [illegible] business efficien[illegible] and increase their market share
- ____________________

LOCAL COMMUNITY may be interested in…
- ____________________
- Minimising environmental impact such as air and noise pollution, litter or congestion

EMPLOYEES may want…
- Safe working conditions
- Fair pay and other benefits
- Training and promotion opportunities
- ____________________

Stakeholders' main objectives

Managers are also classed as **EMPLOYEES**

CUSTOMERS may want…
- High-quality products and services that meet their needs
- ____________________
- Excellent customer service (particularly after-sales service)

SUPPLIERS may want…
- Regular business
- ____________________
- Good relationships

Identify **one** more objective for each stakeholder

Impact of business activity on stakeholders

Finish each sentence to show the impact on stakeholders

Owners
T[illegible] business performs impacts directly o[illegible] [illegible] share and the level of dividend [illegible] **means**…
Employees
A business provides employment and wages wh[illegible] **means** the success of the business can affect ho[illegible] secure jobs are as well as income levels.
Customers
A business provides customer service before, during and after a product or service has been purchased **which means**…
Local community
A business contributes to local economies throu[illegible] creating jobs **which means** if businesses do wel[illegible] the local community will gain jobs and have mo[illegible] money to spend in their local area.
Suppliers
A business requires materials to be able to provi[illegible] products and services **which means**…

What key word is being described?

______: Employees collectively stop working to protest for better pay and working conditions

__________: Two groups of people discuss what they want and try to reach an agreement

___________: Employees strictly follow their job description and refuse to do extra tasks

__________: Refusing to buy, us[illegible] [illegible]rt in something to apply pr[illegible]

Impact and influence stakeholders have on a business

EMPLOYEES
- [illegible] **negotiate** for better pay [illegible] conditions
- They may strike if the business does not meet their request for increased pay or better working conditions
- They may work to rule if they don't agree with what the business asks

CUSTOMERS
- They may **complain** if they are not happy with a produc[illegible] or service that has been provided
- They may **boycott** the business if they do not agre[illegible] with the way that they run their business

Conflict betw[een] shareholder[s]

Different stakeholder groups have different priorities and interests – this can often lead to a difference in opinion and can impact the business objectives:

EMPLOYEES vs SHAREHOLDERS
Employees want higher wages, but shareholders want higher profits – both of these are a cost to a business

SUPPLIERS vs OWNERS
Suppliers want to be paid within a reasonable time, but owners want to negotiate longer payment terms

CUSTOMERS vs SHAREHOLDERS
Customers want the highest qualit[y] possible for as low a price as possib[le] but shareholders want higher price[s] to maximise their dividends

1.6 Business planning

You will not be expected to write a business plan

Business plan

Define business plan

Identify the reasons for producing a business plan

Why do b... a business plan?

____________ – thinking ahead enables the business owner to make the right decisions

____________ – a bank or investors would be more likely to lend or invest money if they can see financial forecasts

____________ – enables the business to see whether they are on track for meeting their objectives

____________ – predicting any future problems that are likely to occur means the business can plan how to avoid them

____________ knowing ... otivate owners and ... ieve those goals

Identify **three** benefits and **three** drawbacks

BENEFITS
1.
2.
3.

DRAWBACKS
1.
2.
3.

The main sections of a business plan
SECTION

Common miscon...

- Many students get **sales** and **reven...** expressed in UNITS and revenue is ...
- Many people get **profit** and **revenu...** is left AFTER costs have been taken ...
- Many people get **costs** and **price** m... the BUSINESS pay and price is what ...

The use of these key words is important for **quality of ... communication** – make sure that you know the differe... them so that you can use them in the correct way and ...

Identify the key words being described

Income → ____________ This is the number of products and/or services that a business sells *(This is expressed as a number)* × ____________ This is what a bu... charges for their pro... service *...is w... the customer pays* = This is ... from s...

Expenses → ____________ The... costs that do not ... how many items ... business sells + ____________ These are the costs that **change depending on** how many items the business sells *e.g.* = This is ...

Identify **two** examples of these

This is ... costs h...

A loss ...

IN PRACTICE…

Imagine a bakery that s... ...es… Flutterbies Bakery…
In the summer holidays, the bakery will sell more cupcakes because there are more customers in the town.

Fixed costs will not change – even if the bakery doubles their sales, they will not be charged more for the rent that they pay for their premises or the monthly salary payment for managers.

Variable costs WILL change – this is because the more cupcakes that are required to fulfil demand, more ingredients and packaging will be needed – the business will spend more money on their raw materials if they make more cupcakes.

1.7 Expanding a business

BENEFITS
1.

2.

DRAWBACKS
1.

2.

Identify **two** benefi… and tw…

Inorganic (organic) growth … Selling more of its own products

Write a brief definition for each method of expansion

OPENING NEW STORES
Definition:

BENEFITS
- The brand image can be maintained, ensuring that customers have consistency
- Profit gained belongs completely to the business and does not have to be sha…
- The business …in… …ol over their operations

DRAW…
- M…y re… …e needed to open new stores, lea… high costs
- Expansion can be slow due to all the different elements required to open a new store
- Having multiple stores can become complex to organise all different elements

FRANCHISING
Definition:

BENEFITS
- The financial risk of growing is shared between the franchisee and the franchisor
- A business can grow quickly, becoming more recognised
- Franchisees often have a better understanding of their local market

DRAWBACKS
- The franchisor has less control over each store, making consistency challenging
- The reputation of the franchise can be damaged if customers have a bad experience
- The profits **must be shared with the franchisee,** which can **limit** overall profits gained

Define the following:

Franchisor:

Franchisee:

- Franchisee uses the franchisor's brand
- Franchisee pays royalties to franchisor
- Training is provided
- Franchisor orga… …etin…
- Franchisee foll… …rom …isor

OUTSOURCING
Definition:

BENEFITS
- Can often be cheaper than purchasing the equipment and skills to produce yourself
- Allows the business to have experts working on their products which the business cannot otherwise afford
- The business can focus on their main strengths, gaining ideas and improvements from experts

DRAWBACKS
- Control is lost which can lead to inconsistencies and quality issues
- The providers may be in different time zones, and talking a different language can be challenging
- The business is at risk of misuse or theft of intellectual property

E-COMMERCE
Definition:

BENEFITS
- Sales can be increased without the expense of opening a physical store
- It is easier to grow through expanding a product range online than opening more stores
- Customers can be targeted through analysing their past online purchases

DRAWBACKS
- The cost of marketing can be high when trying to get noticed in a competitive market
- Providing high-quality customer service online can be challenging
- The business must invest in a secure payment system to protect customer data

Economies of scale

Identify the **two** types of economies of scale

As a business grows, the unit cost falls; they become **efficient**

As a business grows, they will require more stock or raw materials

It is more likely that if a business is **buying in bulk**, they can gain a discount from the supplier

As a business grows, they will be producing more units

As their output increases, this means that the high fixed costs are spread over more units

This will lead to the **unit cost being lower** – the business can then afford to **lower the selling price** to be more competitive **OR** they can enjoy a **higher profit margin**

Diseconomies of scale

Identify the **three** types of diseconomies of scale

As a business gro…, the unit cost rises; they be… …icient

As a bu… activiti…

This is b… differe… **means**…

This ca… within…

As a business grows, communicati… can become more difficult

This is **because** there are more people to communicate with **which means** delays and misunderstandin… are more likely

This can **lead to** a reduction in efficiency

2.1 Technology

BENEFITS

- ✓ Businesses are able to sell globally – this **expands their market** and **increases the number of customers** massively
- ✓ Running an online shop has lower overheads than a traditional physical shop – this would **lower the costs** and **increase potential profit**
- ✓ Customers have the convenience of being able to shop 24/7 – this would **increase customer satisfaction** thus **increasing sales**

DRAWBACKS

- × The market is saturated with millions of online businesses in the world – this can make it **difficult to compete**, especially for new and small businesses
- × As the business grows, logistics (3.2) can become challenging, especially when dealing with purch... returns and lost parcels – this can add ... the running of the business as well a... **customer satisfaction**
- × Technology ... unreliable – **sales will** ... **may be damaged** if ... website pages or complete ...

E-commerce: The ... and selling of goods ... services online

M-commerce: Using a handheld device to buy and sell online

The impact of the changing use of ICT and how it influences business

Describe **two** more ways that the changing use of ICT can influence business activity

1.

Increased productivity and efficiency

Many routine tasks can be automated, e.g. answering phone calls or manufacturing, which can reduce human errors and costs

2.

Data collection, storage and analysis

Businesses can keep track of customer purchases to identify preferences so that they can personalise their future marketing

DIGITAL COMMUNICATION

Businesses exchange information electronically using diff...

Identify the ...

Methods of digital communication

Identify different ways that stakeholders can communicate

Communicating with stakeholders

OWNERS/SHAREHOLDERS: Emails, video conferencing, intranet

EMPLOYEES:

CUSTOMERS:

SUPPLIERS:

Ethical a...

Advertising products sh... without any false claims...

Customers will trust the... future marketing messa...

The ways in which the business c... compete with rivals should be fa... should be no unfair trade practic... false advertising, price fixing, mis... packaging or selling counterfeit g...

There should be robust security... that customer data is protected...

Giving customer's control over ... data and preferences will reduc... data breach thus increasing the... customer has in the business

TRADE-OFFS

Ethics vs profit

Sustainability vs profit

Behaving ethically or manufacturing sustainably can be expensive so in t... short term, a business may have to forego some of its profits in order to meet their social objectives

Sustainability: Being able to continue to pr... in the ...ture without harming the environm...

Impact on t...
Businesses ca... work from ho... share progra... **Customers** ca...

Recy...
Busine...

Custo...

Disp...
Busi...
Cust...
crea...

2.3 The economic climate on businesses

What happens as interest rates rise?

Interest rates are the cost of borrowing money, given as a percentage

Interest rate changes are an **ECONOMIC** change

As interest rates **fall**, borrowing becomes **cheaper** and saving becomes **less appealing**

You do not need to know how/why interest rates change

How are businesses affected if interest rates fall? The first stage has been completed for you.

How businesses are affected by changes in the rate of interest

Interest rates RISE	Interest rates FALL
Customers with loans have less disposable income	Customers with loans have **more** disposable income
Customers spend less	
The business sells **fewer** products	
The business receives **less** revenue	
Profits are likely to be **lower**	

How fluctuating interest rates affect…

Fill in the gaps

… CONSUMER SPENDING

HIGHER interest rates	LOWER interest rates
Borrowing becomes ________________: taking out a loan for big purchases such as houses and cars is more expensive to pay back which means people will either purchase cheaper items or they will not buy at all **Saving becomes** ________________: the more you save, the more interest will be earned, which means you are less likely to spend and more likely to save	**Borrowing becomes** ____________: bigger purchases are encouraged as the monthly repayments would not be as high **Saving becomes** ________ ________: less interest will be earned on money saved which means you are more likely to spend

… BUSINESS SPENDING

HIGHER interest rates	LOWER interest rates
Borrowing becomes ______________: this means it is more expensive for a business to take out loans for assets such as machinery, equipment or vehicles, which could lead to the business not being able to expand **Consumer spending is reduced:** this means that a business may have to reduce its production levels due to a lack in demand	**Borrowing becomes** ______________: this means businesses are more likely to take out loans to buy assets which will help the business to expand

Economic climate

This refers to how well an economy is performing, e.g. if a country is selling lots of products and services, it is said to be strong or improving

Describe the difference between essential and non-essential products

STRONG economic climate	WEAK economic climate
____________	Low employment
Motivated employees	Employees more likely to move jobs with better pay and/or conditions
Secure jobs	____________
Increased demand	____________
____________	
Higher profits	Lower profits

Fill in the blanks above

Income elastic

The sales of these products will change as incomes change, e.g. when people earn more, they are more likely to purchase more of these types of products; when they earn less, the opposite will happen

Consumer spending

Levels of employment

High employment
→ more money in the household
→ buy more products

Low employment
→ less money in the household
→ buy fewer products

How unemployment can affect a business

Identify three ways that unemployment can affect a business

1.
2.
3.

What does SPICED stand for?

S	
P	
I	
C	
E	
D	

The pound … (or ap…

£1
£1
£1

The pound … (or de…

BE…
1.
2.
3.

Be…
Cust… bett… be …
OR
Sim… whi… cust… bett…

2.5 Legislation

Legislation: The process of making laws which are a set of rules for different countries to abide by

Equality Act 2010

Identify the **three** missing protected characteristics

Protects employees from discrimination

It is illegal to discriminate against one of the nine **protected characteristics**

1. age
2. ____________________
3. being married or in a civil partnership
4. being pregnant or on maternity leave
5. ____________________
6. race, including colour, nationality, ethnic or national origin
7. ____________________
8. sex
9. sexual orientation

Key points

Identify **three** key points

A business must:

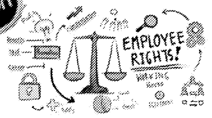
-
-
-

Health and Safety at Work Act 1974

Ensures that all employers provide a safe working environment and look out for the health of their employees

Protects the wellbeing of permanent, casual, self-employed and temporary workers, as well as visiting members of the public

Employment law



Health and safety law

Failed to follow the law?

- Fines
- Negative publicity
- Bad reputation
- Loss of customers
- Staff may leave
- Decreased productivity

Consumer law

Consumer law protects consumers from poor-quality products and poor business operations

Describe the main parts of consumer law

-
-
-
-

Identify **two** other pieces of legislation that protect consumers

There are different pieces of legislation that protect consumers:

- ____________________
- ____________________
- Trade Descriptions Act 1968

National Minimum Wage / Living Wage

- The minimum wage a worker is entitled to in the UK depending on their age
- Hourly rate set by the government
- Hourly rate is updated each year

How can H&S affect the profit of a business?

- Workers need to be trained on safety protocol
- Protective clothing needs to be purchased
- Safety equipment needs to be installed
- Insurance needs to be purchased to cover potential risk

Trade Descriptions Act 1968

The main points of the law:

Identify **two** key points of this Act

-
-

	Employment law	Health and safety law	Consumer law
Positive impact	**Legal issues are avoided:** This is **because** the business has clear guidelines on how employees should be treated **which means** mistreatment is less likely **Lower labour turnover:** This is **because** employees are more likely to be satisfied with their job **which means** they are less likely to leave **Easier to attract potential applicants:** Explain why	**Fines, compensation and negative publicity are avoided:** This is **because** working conditions are safer **which means** there are fewer accidents in the workplace **Staff are happier and more productive in the workplace:** This is **because** workers have a safe environment **which means** they feel protected and valued by the business	**Customers are more likely to be loyal:** This is **because** customers can see that the business is protecting them, enabling them to make informed decisions before purchasing **which means** they are likely to buy from that business again **Competition is fair:** Explain why
Negative impact	**It can be costly:** This is **because** it may need legal advice and work may be needed **which** means meeting the requirements can increase the costs for a business **It can be confusing, especially for small businesses:** This is **because** the amount of details within the law **which means** it may not be fully understood by a business that cannot afford its own Human Resources Manager or team **Risk of negative publicity:** Explain why	**It can be costly:** This is **because** safety measures would have to be implemented and maintained **which means** time and money would need to be spent on training, purchasing equipment and regular inspections **Risk of negative publicity:** This is **because** if a business does not comply with the health and safety law, they can be reported as well as gain a fine **which means** it is likely that their non-compliance will be known locally and sometimes nationally	**It can be costly:** Explain why **Innovation can be reduced:** This is **because** there are constraints on the way that products can be promoted or sold **which means** the business may lack the flexibility to use any means possible to increase their sales

3.1 Production processes

Production involves turning **raw materials** (primary sector) into **products** through manufacturing (secondary sector). Products can be made using job or flow production.

Fill in the gaps below

Benefits
- ✓ Products can be ________________ to meet customer needs
- ✓ Usually ________________ due to the time and attention that is given by skilled employees
- ✓ ________________ can be charged due to the high quality of the product
- ✓ Employees are likely to be ____________ due to the job satisfaction gained by having a varied job

Drawbacks
- × Can be ________ [illegible] materials are not [illegible]
- × It can ___________ [illegible]ce due to the customisation – this [illegible] customer satisfaction
- × It can be __________ due to the customisation of each product being different – this can lead to reduced productivity and increased costs

Job production

Describe job production

Identify **four** examples of items that can be made by job production

Examples…

1.

2.

3.

4.

Job is best when…
- ❖ Products need customising
- ❖ Smaller quantities are required
- ❖ Customers are happy to wait
- ❖ You have little to no production budget
- ❖ You have access to a skilled workforce

TRANSPORTATION (T)
If there is too much movement needed to get materials from one part of the production line to another, time is being wasted

INVENTORY (I)
Stock that is not being used and is just sitting in the warehouse is taking up space and therefore is costing money

MOTION (M)
Employees moving around too much could mean the workplace is not designed effectively and results in loss of productivity

WAITING (W)
Having to wait to use machinery or for materials to arrive wastes time and decreases productivity

OVE[illegible]
If too[illegible] stock[illegible] throw[illegible] to se[illegible]

TIMWOOD will not be examined

What is reducing waste known as?

________________ focuses on reducing waste

TIMWOOD (developed by Toyota) helps you to remember seven areas where a business could improve efficiency in the manufacturing process

If a business can eliminate these kinds of waste through becoming **'leaner'** the business will be **more efficient** – reducing w[illegible] that **costs are lowered** whic[illegible] the business can be **more comp**[illegible] lower costs means that **lower prices** can [illegible] char[illegible] **more profit** can be made.

Lean production

Kaizen

Efficiency

Describe kaizen

Efficiency describes how well a business uses its resources such as materials, money and employees

Efficient = low cost per unit
Inefficient = higher cost per unit

How efficient a business is depends on:
- ❖ **How well the employees are managed** – if they are motivated then they should produce more, which means the unit cost would be lower
- ❖ **How well technology is used** – using up-to-date software, machinery and systems will h[illegible] improve productivity [illegible] phy[illegible]
- ❖ **How good the rel**[illegible] **h sup**[illegible] – supplies arriving o[illegible] quality and good communication wil[illegible] costs low **(more in 3.2)**
- ❖ **How often processes are reviewed** – continuously ensuring that there is little to no waste and implementing changes to streamline production processes will help to keep costs low

Reducing waste in a business is known as LEAN PRODUCTION

3.2 The role of procurement

Businesses hold **stock (3.1)**, some more than others. This means that for some businesses the process of stock control is extremely important. There are two approaches to stock control that a business can use.

Describe the difference between JIT and JIC

Just in time (JIT)

Benefits

- ✓ **Costs are reduced** as not as much storage is needed – this means that the existing storage can either be used for something else or it can be sold
- ✓ **Not as much money is tied up in stock** which means that money can be used on other things such as expansion or marketing
- ✓ **Less likely** that the business will have **damaged or out-of-date stock**

Describe **three** drawbacks of using JIT

Drawbacks

1.

2.

3.

JIT is best if…

- ❖ The business must respond often to changes in what customers want, i.e. trends, fashion
- ❖ The business has a wider **product portfolio (5.4)**

VS

Just in case (JIC)

Draw[backs]

- × Car… for…
- × The… me… inv…
- × It g… red…

JIC is best if…

- ❖ It is important that the business benefits from economies of scale to keep the unit cost down
- ❖ The business does not have a wide product portfolio

Remember

Reduced costs are great… BUT…
Following the principles of JIT will mean more deliveries and lost purchasing economies of scale

Having spare stock to satisfy demand is great… BUT…
It does come with the costs of storage as well as other costs associated with holding stock, e.g. insurance

Factors affecting choice of suppliers

Describe these **three** factors affecting the choice of suppliers

Price

Reliability

Contract terms

Quality
To ensure that the business **maintains its reputation** and **customer satisfaction**, it … ensure that the supplier … is **consistent** in the quality … they are providing

Long-term relationship potential
It is important to maintain strong relationships with suppliers as it can lead to **better prices** and **priority access to materials** if there is a shortage of resources

Define the following

Supply chain

Procurement

Logistics

The value of effective supply chain management

Fill in the gaps

Working with suppliers to ensure that key processes are running efficiently and cost-effectively

- ✓ Orders will arrive ____________
- ✓ Businesses will not run out of _____
- ✓ Customer needs will be __________
- ✓ Customers will be happy to purchase __________ and ______________ to others
- ✓ Sales should remain ___________

Getting goods and services for the be[st] price and value

- ✓ ____________ will be carried out … the best suppliers
- ✓ Price AND quality will be research[ed] into
- ✓ ____________ will be carried out … the best deal
- ✓ Businesses should achieve the bes[t] price for the expected ______
- ✓ Lower ______________ will help t[o] … prices competitive

3.3 The concept of quality

Identify the **five** ways that businesses can measure and identify quality problems

By keeping an eye on **how many items are being returned** faulty can indicate whether there are issues in quality. Higher returns could indicate a problem.

Customers will be ask[illegible] they think about produ[illegible] services to help them to[illegible] **areas for improvement**.

An easy way of measuring is to see **how many units in a batch are faulty**. The less that are faulty, the higher the quality.

The business would **inspect a random sample** from a batch and based on their findings they would decide whether to **accept or reject the whole batch**.

Where a business **offers a service**, delivery of that service can be monitored to see whether the work is being carried out or items are being delivered **on time**. On time shows **efficiency and reliability** which contributes to a quality product/service.

For example…
A drinks manufacture[illegible] ps o[illegible] bottles to check that t[illegible] ough. They will even check how much fizz is in there!

Methods of maintaining consistent quality

Define TQM

Quality control vs quality assurance
Both are structured processes used to ensure that products are meeting customer requirements and quality standards

The aim of **QUALITY CONTROL (QC)** is to identify and correct faults in the finished products whereas the aim of **QUALITY ASSURANCE (QA)** is to prevent the faults from happening in the first place

QC is a REACTIVE process whereas QA is a PROACTIVE process

Key features of TQM
1.
2.
3.

Identify **three** key features of TQM

We can a[illegible] own expe[illegible] or service[illegible] can be di[illegible] what the [illegible]

	Benefits
Total Quality Management (TQM)	Describe **two** benefits of TQM 2.
Quality control	✓ It can lead to **cost savings** as faults are identified and corrected while the need for after-sales repairs or refunds is reduced ✓ **Customer satisfaction is more likely** if faults have been identified before the products hit the shelves
Quality assurance	✓ Being proactive and identifying issues before they can occur will **minimise the likelihood of something going wrong in production** Describe **one** more benefit of QA ✓

To maintain their quality, a business should…

Quality control processes should be clear and evident through the whole of the production life cycle

Regular inspections should take place to identify and address potential issues

From the point at which jobs are advertised and new staff recruited, ethos of prioritising quality and continuous improvement should b[illegible] evident

The business should make it easy [illegible] to report quality concerns and sug[illegible] improvements to the processes us[illegible] production to reduce human error [illegible] ensure improved consistency when checking quality

Identi[illegible] should[illegible] consis[illegible]

Employees should be trained in qual[illegible] standards and processes

Staff are more [illegible] on [illegible] cially where ch[illegible] if it is c[illegible] ated to [illegible] HOW and WHY [illegible] can [illegible] powered to identify and address qua[illegible] issues thus improving motivation (3.3)

The business should introduce a programme that highlights preventative measures and continuous improvement

Regular monitoring of quality processes should reduce the number of faults

The business should ensure that their chosen suppliers meet their quality standards

Any materials or finished products that are supplied should be good enough quality to meet the requirements of the customers

The business should regularly inspect the supplier's performance

3.4 Good customer service

What is this process called?

Before the sale
Product knowledge
Having **detailed knowledge** about the company's products or services enables employees to provide accurate information to customers.

During the sale
Customer engagem
Clearly and concisely **communicating** inforn instructions, or solution customers in a **polite and professional manner** is essential for building a **positive relationship** and creating a positive experience.

After the sale
Post-sales service
This is the **support provided** to customers **after** they have made a purchase and started using the product or service. The aim is to **maintain the relationship** through addressing issues and/or concerns.

Identify **three** examples of post-sales service

Examples of post-sales service
1.
2.
3.

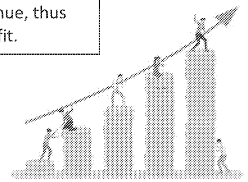
Customer service

Define customer service

INCREASE IN CUSTOMER SATISFACTIO
Customers will be satisfied – this is **because** ... re good customer service which would **lead t** ... hem b ... likely to leave positive reviews. ... uld ... e encourage other customers to ...

... TA... Y
T... ness should benefit from increased profitability – this is **because** customers are satisfied with the product/service they have received which would **lead to** them being loyal and more likely to recommend to others. This would **therefore** increase the number of sales and revenue, thus resulting in an increase in profit.

Benefits of GOOD customer service



Explain this benefit of good cus service (try to use 'This is becau lead to... and therefore...')

CUSTOMER LOYAL
Customers are likely to st to the brand – this is **beca**

INCREASED SPEND
Customers are likely to spend more money with the business – this is **because** they are satisfied with their product/service which would **lead to** them being more confident to try other products/services. This would **therefore** mean that the revenue of the business increases.

The ways in which advances in ICT have allowed customer services to develop

Websites

... mme... d ... l media

A website can offe ... r service by:
- ❖ Offering **product ... ge** about what the business sells or services that they provide through written information, frequently asked questions (FAQs), pictures and videos
- ❖ Allowing **customers to engage** with the business through live chat or sharing of contact information such as email address, postal address and phone number
- ❖ Giving advice on **post sales** either through sharing 'troubleshooting' solutions, ways to contact the business for help, or information on how to make a complaint

E-commerce

E-commerce can offer good customer service by:
- ❖ Allowing customers the convenience of shopping when it is best them 24/7 and 365 days a year
- ❖ Storing customers' personal and payment details so that they ca purchase and pay for items at the click of a button
- ❖ Offering competitive prices
- ❖ Making suggestions of other, similar or matching products that a personalised to the customer
- ❖ Offering order tracking
- ❖ Showing other customers' reviews of products that the business
- ❖ Offering simple **post-sales service** for refunds and returns

4.1 Organisational structures

It is important that businesses have a structure. This way, each employee knows who their **line manager** is and who they have responsibility for.

Directors (report to the MD)
Guided by the MD, they set the long-term goals for the business.

Managers (report to the Directors)
They are usually in charge of one of the business functions and aim to meet not only the long-term goals but also short-term goals too.

Supervisors (report to the Managers)
They are responsible for ensuring that day-to-d goals are achieved while man g the

Workers (reports to s)
These can also be ca 'sh floor' workers. They will ca sks.

Hierarchical structure

In this example, we can see that there are more Finance Supervisors than Marketing. There are also more Finance Workers than Marketing. This will be different in different businesses depending on their needs.

This exa the busi could als Human

6. Subordinate

5. Chain of command

Communication methods

Identify the PROS for emails, telephone and written documents

Identify the CONS for business intranet, meetings and videoconferencing

Business intranet	Emails	Meetings	Telephone	Video-conferencing	Written docume
This is a web-based platform that is accessible only to employees **PROS** ✓ Important company documents are available in one place ✓ Easier to collaborate on documents in teams **CONS**	This is one of the most popular methods of communication for businesses to use **PROS** **CONS** × It can be overused making it difficult for some employees to prioritise × Response times may not be quick enough resulting in slower decision-making	These are traditionally done face to face around a boardroom table **PROS** ✓ Allows real-time communication allowing for feedback and discussion time ✓ Face-to-face communication is clearer, resulting in less chance of misunderstandings **CONS**	Usually two people but 'teleconferencing' can allow for conversations with multiple people **PROS** **CONS** × Lack of visu ... langu e w h co ... standings × Conversations are not recorded which could lead to inconsistencies when recalling information	These days, you may know this as Zoom or Teams calls **PROS** ✓ Enables collaboration with stakeholders no matter where they are in the world ✓ Screen can be shared allowing rticipants ... cuments	Most commonly lett contracts, agreemen proposals **PROS** **CONS** × Can be slow to r and respond to, leading to delays information exc × Lack of real-time interaction, mak difficult to enga back-and-forth discussions
Employees may h access to a supplier databas	**mer cus ers as er confirmation**	**The board of directors may meet to discuss the future vision**	**Calls may be made to check on the progress of an order**	**Business owners may meet with new suppliers outside of the UK**	**A contract may be for a new business premi**

Advantages
✓

✓ Cost savings can be made due to **economies of scale**

Centralisation
Describe centralisation

Disadvantages
× The expertise of local employees can be overlooked and lead to the business not fully understanding customer needs

×

Ad
✓

✓

4.2 Recruitment and selection of employees

Recruitment and selection is a process that businesses must go through when they need to employ a new member of staff.

There are many reasons why a business may be looking to recruit:

- they may be **expanding** and therefore need more staff, possibly in specialist roles
- existing staff may be leaving due to **retirement** or **promotion**, or they may have been **offered a job elsewhere**
- existing staff may have to be temporarily replaced due to illness or maternity lea

Recruiting new staff is an extremely important process for businesses which can be costly if not ... correctly – **benefits** of an ... process

... benefits to a business of having an ... recruitment process (try to use 'This is because... lead to... and therefore...')

High productivity – th... **because** the right employees will work hard to produce a high level of products which will **lead to** lower unit costs. This would **therefore** help the business to be more competitive due to being able to lower selling prices.

1.

2.

Internal recruitment

Explain why recruiting internally is **cost-effective**

Benefits
✓ **Cost-effective**

✓ **In... ...ati...**
... employe... more likely to stay with the company and th... ...ee that there are opportunities for advancing th...

Drawbacks
× **New ideas are limite...**
Existing staff may st... it is and therefore ...
× **Gaps in skills**

The recruitment process

All businesses will follow a similar recruitment and selection process

Identify the mis... recruitment and...

A vacancy arises → **Job analysis** is carried out → ______ → **AA** A **person specification** is produced → ______ → Application... are receive...

Job analysis
The job that has become available will be analysed to find out exactly **what is involved in the job** along with the **skills that are required** by a potential candidate

Define job description
Job description

Define person specification
Person specification

Advertising
Depending on whether th... is to be recruited **interna...** **externally**, the advert is li... to include information su... job title, location, hours, ... how to apply and closing ... for applications

Different types of contract

...ms

Job share:

Part ...

Zero hours:

Full time: This is where the employee works the standard number of hours per week – usually 35–40

Identify the missing words

Benefits to employers	Benefits to employees
___________: businesses can change their workforce to match the demand, i.e. seasonal peaks _____________: staff with certain skills can be used without committing to full-time costs	___________: employees can manage their working life around their personal life, leaving time for family, hobbies and other interests ________________: employees can work towards retirement rather than giving up work straight away
___________: staff are always available, leading to better communication and tasks that are performed smoothly ______________: staff are likely to become better at their roles, leading to increased contributions to the business	_______________: employees are able to fulfil their personal financial commitments and have a comfortable standard of living _________________: employees are likely to be able to advance in their career more so working full-time

4.3 Motivating employees

Motivating their workforce is something that most busi… way that they do this will be dependent on the beliefs o… think is best), whether they are new or established, and…

Motivation

Define motivation

Salary

Identify **one** PRO of rewarding an employee with a salary

- Expressed as an **annual** amount
- Usually paid **monthly**
- **No set hours** each week

PRO:

CON: employees may not be motivated to w… harder since they get … ame … matter how many …

Salary and wage are the **main methods of payment** that businesses use – an employee is paid using one … oth…

Busin… … establish… … at … afford it may … one of the other payment methods too

In the UK, there is a **Nat… …imum Wage** and a **National Living Wage** (2.5)
ALL employers must pay their employees a minimum rate of pay
Almost all employees are entitled to the National Minimum Wage, including casual, part-time and temporary workers
Self-employed and company directors are not entitled to the National Minimum Wage

Financial methods of motivation

Profit-sharing

Identify **one** PRO of rewarding an employee with profit-sharing

- Paid **some of t…**
- **Paid a…** … sal… or wage

P…:

CON: some employees may not find it fair if they have worked harder than others

A theorist called **Frederick Taylor** introduced the idea of piecework because he believed that workers would work harder if they could earn more money

Piecework

Identify **one** CON of rewarding an employee with piecework

- Paid based on how many **products they make** or **tasks they complete**
- Usually **paid as well as** the salary or wage

PRO: productivity should rise because employees work harder to earn more money

CON:

A theorist called **Abraham Maslow** thought that money was not as important as Taylor thought it was; however, he did think that money was important to an employee as it would enable them to pay for food and somewhere to live

Wage

Identify **one** CON of rewarding an employee with a wage

- Expressed as an **hourly** rate
- Usually paid **weekly** or **monthly**
- Usually **hours are fixed** each week

PRO: if the business offers overtime, employees may be motivated to work harder knowing that they will receive more money

CON:

Commission and piecework are similar – the difference is that **commission is linked to selling** whereas **piecework is linked to making**

Commission

Identify **one** PRO of rewarding an employee with commission

- Paid a percentage of the value of products/services they have so…
- Usually **paid as well a…** … sa… … w…e

PRO:

CO… … …es may be so focused on …g more money that they forget about customer needs, which could lead to lower customer satisfaction

A theorist called **Frederick Herzberg** wrote the 'Two Factor Theory' in which he showed his belief that to motivate staff you had to ensure that they were satisfied at work through factors such as giving them responsibility or providing opportunities for achievement

Greate… enrich…

- Job…
- Jun… to…

PRO: w… need to…

CON:

Job enrichme…

… …ot be …amined

Benefits of a motivated workforc…

Finish th…

Staff retention

Staff are less likely to le… … **because** employees are happy in their job and enjoy the work that they do which would **lead to** them being loyal to the business. This would **therefore** mean…

High productivity

Staff are likely to be productive – this is **because** they enjoy their jobs and so work hard which would **lead to…**

This would **therefore** mean…

High quality

Staff are likely to produce higher quality work – this is **because…**

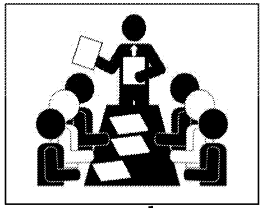
… which would **lead to…**

This would **therefore** mean…

Motivated staff

- ✓ Are punctual and presen…
- ✓ Work efficiently while a…
- ✓ Use their initiative to solve problems
- ✓ Are enthusiastic
- ✓ Want to learn
- ✓ Communicate effectivel…
- ✓ Have a positive influenc…

4.4 Training



Induction training

Define induction training

Benefits

Explain the final benefit of induction training (… this is … lead… …)

- ✓ **Employees are less likely to le**… **ause** they feel supported by their … which would **lead to** them adapting to th… more quickly. Businesses would **therefore** be less likely to have the costly task of recruiting more employees.
- ✓ **Employees are likely to be productive sooner** – this is **because** the induction programme has given them the necessary knowledge and skills that they need to do their job quickly which would **lead to** them feeling confident in their role. Employees would **therefore** carry out their jobs effectively.
- ✓ **Increased employee engagement** –

Identify **three** things that a business would include in their induction of new employees

Induction checklist

1.
2.
3.

On-the-job training

Define on-the-job training

Where hands-on experience is required, **on-the-job** is likely – nursing and … are good examples

Main metho…
- ❖ **Online** … complet…
- ❖ **Job sha**…
- ❖ **Job rot**…
- ❖ **Trainin**… update… of staff…

Benefits

- ✓ … training takes place in the context that the employee will be working in which means it will match the exact needs of the business

Identify **two** more benefits of on-the-job training

1.
2.

Drawbacks

- ✗ Other employees a… to possible loss of p…

Identi…

1.
2.

Off-the-job training

Define off-the-job training

Professions like solicitors and accountants are likely to use off-the-job as they need expertise in their industry

Describe classroom training and conferences

Main methods of <u>off-the-job</u> training:

- ❖ **Classroom training:**
- ❖ **College courses:** paid for by the employer, time given off work to attend 'lessons' or work would be done in the evening – usually working tow… a qualification
- ❖ **Conferences:**
- ❖ **W…k…ops…** … usually numerous sessions … a… … c… choose from and attend led … e…erts

B…
✓ …
1.
2.

Identify **two** m…

Drawbacks

- ✗ Can be expensive due to t…

1.
2.

Benefits of training employees

Increased produ…
Staff will be more pro… because…

… deal with changes in technology
Staff will adapt well to changes in technology – this is **because** employees would have the skills to deal with technology that is constantly being updated. This would **lead to** staff easily adapting to changes in their systems which would **therefore** enable them to remain competitive.

Increased motivation
Staff will be more motivated – this is **because** employees will feel more valued by their employer which will **lead to** them being more committed to their job. Employees would **therefore** be happier in their work, meaning they will be more productive.

Staff retention
Staff will be less likely to leave – this i… **because**…

5.1 Identifying and understanding customers

Needs and wants

Describe the difference between needs and wants

Different types of needs

Choice
Many customers expect different sizes and colours as well as different products within the same range

Quality
No one expects low quality; however, customers will expect that the quality they receive matches what they are being charged

Price
Customers want value for money – they want to pay what they feel matches the quality that they are getting

Convenience
When customers are busy they require products/services that are easier or quicker and are happy to pay more for this

Why is it important for a business to identify customer needs (or wants)?

Identify the ... reasons

What customers ... changes a... bu... need to ... in ... identifying and understanding customers will help a business to offer the right product/service

To provide a product/service that customers will buy
Knowing what customers need/want means that a business is more likely to produce a product/service that they actually want to buy

As the product/service would be in demand this would mean a lower likelihood of wasting time and resources

To select the correct marketing mix (5.4)
Knowing what customers need/want means that a business can ensure that the **product** is right for them at a **price** they are willing to pay or can afford to pay in a **place** where they know they would buy from and **promoted** in a way that would grab their attention

____

Higher demand would be more likely if a business meets the needs and wants of a customer

This in turn would result in more customers purchasing from the business

____

Without knowing for certain exactly what customers need/want, a business may have to make changes to the product (or service), change the advertising, or, at worst, remove the product from their portfolio

Any of these actions can ... ter... ... and reputation

____

Knowing what rivals are o...ing means that a business can make decisions about their products and/or services that are better value for money

As long as the business combines this knowledge with their own customer needs/wants, they are more likely to gain/retain customers

Percentage change

$$\frac{\text{difference}}{\text{original}} \times 100$$

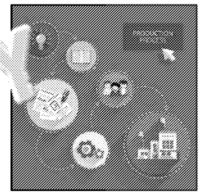
same as...

Market growth

$$\frac{\text{change in market size}}{\text{original market size}} \times 100$$

In practice...
If the market *was* ...th ...100, ...0 and it is no... ...:

Calc... ...owth ... the data above



Describe the difference between sales volume and sales value

The **sales value** will increase as the **sales volume** increases – unless the price goes down, in which case the sales value will not increase at the same rate

Devel... custo...
This is be...
→ whi...
→ this...

Improve...
This is becau... gaps in the m...
→ which v...
→ this wo... to be m... able to...

5.3 The purpose and methods of market research

Why do businesses conduct market research?

Complete the boxes with either the reason or the description

To understand what customers want

To identify market opportunities

To assess who the target audience will be

This allows a business to compare themselves to the **competition**

This allows a business to adopt the best marketing strategies that suit their audience

This allows a business to stay ahead of current trends so that they can adapt

Secondary research

The process of gathering data that already exists

Disadvantages
- × It isn't tailored to the needs of the business and so may not give the required answers
- × The business has no control over how or when the data was collected

Describe **two** advantages of secondary research

1.

2.

Identify **two** benefits of Internet research

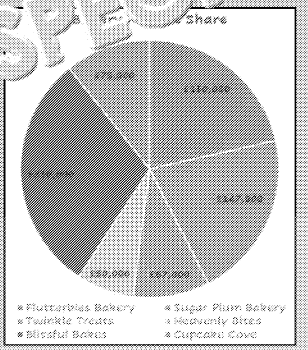
Identify **two** drawbacks of printed press

	Benefits	Drawbacks
Internet research The process of gathering information online either directly through a company or organisation's website or through the use of a search engine	1. 2.	× Not all sources may be reliable and/or may be out of date so the information may be misleading or inaccurate × It can be time-consuming to find exactly the information that the business is looking for
Printed press Gathering information through the use of printed publications such as newspapers, magazines and industry journals	✓ In-depth specific industry information is collected by specialists which may give expert opinions ✓ Local data would be available	1. 2.

Market share

Expressed as a percentage, measures how much of the sales are held by the business

Identify the formula for market share



In practice…
Flutterbies Bakery's market share is 21%

$$\frac{150{,}000}{699{,}000} \times 100 = 21\%$$

Calculate the market share for Heavenly Bites

NOTE! To get the total market revenue, add together the revenue of all the businesses

Disadvantages
- × It can be labou[r intensive] and money
- × Producing effe[ctive ...] be complex an[d ...] and skilled sta[ff]

Describe a questionnaire [as a] method of primary resea[rch]

Questionnaire

Surveys
A way of collecting [and] analysing data – a questionnaire is us[ed] to collect this infor[mation] from respondents

Interviews
Asking questions fr[om] one person or a group of people to gain opinions and/or in-depth responses

Describe a focus gro[up as a] method of primary re[search]

Focus groups

Both qualitati[ve ...] market resear[ch ...] to make impor[tant ...]

5.4 Part 1: Product and price

Fill in the missing stages in developing new products – choose from the following: *create the prototype/s; develop and test the ideas; launch the product; generate ideas*

Developing new products

The stages in developing new products… → ____ → Review and select the best ideas → ____ → Assess viability of the ideas → ____ → ____

Benefits

____________________ – customers are likely to remain loyal to the brand, thus increasing their satisfaction

____________________ – producing more could lead to benefiting from economies of scale, thus reducing c…

______________ – launching somethin… new before competitors could sh… tha… the business is a lead… …try, possibly gainin… …ion

______________ – with more possible …se from, new audiences may be targeted, …aining the business higher sales in their market

M… …ng be…its and d…back… following descriptions: *…are; increased market share; customer retention; risk to existing products; competitive advantage; risk of competitors copying; increased efficiency*

… to launch a n… needed on r… production) … affected if th…

Product differentiation

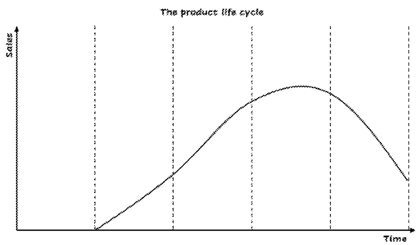
Unique se…

Brand image

The way that a product or business is portrayed or perceived by customers – this can be linked to a name, a logo or colours associated with the business – a strong image will more likely be remembered by customers

Product life c…

This shows the stages that a product goes through from the time a business starts to develop it to when it is taken off the market



Identify the stages in the product life cycle

1. ______________: the product is being developed and tested – there are no sales at this stage
2. ______________: the product is launched; sales are low and costs may be high – the business needs to build product awareness
3. _________: sales increase, profits are growing and there are more competitors – the business should show how they are different from the competition
4. ______________: sales are at their peak and the market is saturated – the business should focus on brand loyalty and introduce product variations
5. __________: sales are decreasing and the product is at risk of becoming obsolete; the business should consider discontinuing the product

In order to stop a product from going into decline, a business can try different things to try to increase sales – these are called **extension strategies**

Identify **two** more examples of extension strategies

For example:

- Updating packaging
- Adding more or different features
- Changing target market

1.

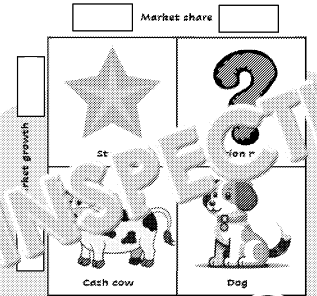
2.

Boston Matrix (Boston Box)

By placing their **product portfolio** into one of the four categories, a business can analyse its … range and make deci… future of each produc…

Ideally, the product po… be balanced across the c…

Product portfolio – the products that a business sells – can also be called product range



Label the Boston Matrix axes

Stars operate in a fast-gro… market with a hig… share. The… need… …ts of m… … imp… …t can gen… …e revenue – as the …et matures, they can become cash cows.

Question marks operate in a fast-growing market with a low market share. It is uncertain whether they will become stars – investment is needed to increase their market share.

Cash cows operate in a slow-growing market with a high market share. They generate lots of money providing money for other areas of the business – this money can be invested in stars or question marks.

Dogs operate in a slow-growing market with a low market share. They do not generate much money and are often in the decline phase of the product life cycle – they are often discontinued.

Factors that influence pricing decisions

INTERNAL factors

- **Costs:** Once a business knows what th… **fixed** and **variable** costs are, they can decide how to set their prices; unless using a loss leader, the business needs … ensure that these are covered
- **Product life cycle:** Describe the produ… life cycle factor

Identify the missing factors

EXTERNAL factors

- __________: There can be changes in t… external environment that can affect th… cost of raw materials and so a business must react to this and may change thei… pricing strategy accordingly
- **Nature of the market:** If customers a… sensitive to price, the loss leader and penetration pricing strategies will wor… best; how the customer perceives the product
- ______________________: Depend… on how much competition a business h… they can either decide to price similar t… rivals or they can choose to price highe… the market is not saturated

5.4 Part 2: Place and promotion

E-commerce – selling products online

M-commerce – using a handheld device to buy and sell online

Identify the benefits and drawbacks

Benefits

✓ ______________________: Even when shops are closed, a business can still sell to anyone, anywhere in the world, maximising their sales

✓ ______________________: Selling online gives access to customer purchase history which can tailor fu... promotional activit...

Drawbacks

× ______________________ is very easy for custome... search for products and compare information and prices which could lead to the business losing out on sales to their competition

× ______________: There is no personal contact with the customer which means it is not suitable for every type of product

Channels of distribution

1 PRODUCER → WHOLESALER → RETAILER → CUSTO...

2 PRODUCER → [ ] → [ ]

3 [ ] → [ ]

Complete the empty boxes

EXAMPLES of selling direct from producer to customer

Identify three examples

1.

2.

3.

Describe this benefit

✓ **Elevated customer experience:**

✓ **Retailers have expertise:** The appeal of the product can be enhanced through the knowledge and experience of the retailers; they know how to sell, they may offer promotions and they offer after-sales service whether in person or online

Inter... 'midd... produ...

Retailer... They sell g... services di... customers...

× **More** ... deal is... sell pr... can le...

× **Logist...**

Advertising

____

Can be **local** or **national**

PROS: customers can be targeted; a printed paper can be kept and referred to over and over; can help engage with local community

CONS: purchase of printed papers is declining with the rise in digital papers; short life of advert if paper is read and thrown out; not very interactive

Advertising

Magazines

Can be **glossy**, **trade**, **local** or **national**

Identify **two** PROS and **two** CONS

PROS:

CONS:

____

Marketing strategies used to increase sales, e.g. point of sale displays, 2 for 1 offers, free gifts, samples, coupons, competitions

PROS: sales are immediately boosted; new customers may be attracted; existing customers are rewarded for their loyalty

CONS: increased sales may be temporary; profit margins will be reduced; customers may not purchase until the next promotion

Advertising

____

Large posters displayed along busy roads and motorways

PROS: easy to see/read; available to view over and over

CONS: can be expensive de... location; limited s... ...ten... ...ea... to target cu...ers

Advertising

Television

Lots of channels to choose from

Identify **two** PROS and **two** CONS

PROS:

CONS:

____

A comp... ...ovides financial support in exchange fo... exposure

PROS: company image and reputation can be enhanced; customer loyalty can be strengthened; specific groups of people can be targeted

CONS: can be expensive; reputation can be damaged if linked with any negativity; the impact will be dependent on the success of the sponsorship 'event'

...on... ...ods

Identify the missing promotional methods

Advertising

____

Different methods of online advertising available

PROS: can be targeted; can reach customers worldwide; can engage customers

CONS: pop-up adverts may be blocked; competing with millions of other businesses making it hard to stand out

____

Advertising through the **media**

PROS: free; increased brand awareness

CONS: cannot control what the media release; positive results are not guaranteed; negative publicity can spread quickly

Social media

Several platforms available for use

Identify **two** PROS and **two** CONS

PROS:

CONS:

6.1 Sources of finance

Sources of finance are the different places that businesses
1.
2.
3.

Internal

Define internal sources of finance

External

External sources are those where the money comes from **outside** the business
raise large sums
e charge high interest

Complete the missing benefits and drawbacks

Owner's funds

This is where the owner puts their own money into the business

Benefits	Drawbacks
✓ **No debt obligations:** No one else is owed money and there is no need to repay or pay interest, wh it a cheaper option ✓	✗ ✗ **Opportunity cost:** The owner may invest their savings into the business rather than alternative investment opportunities. If the business does not do well, they may have missed out on earnings from other investments.

Retained profit

This is profit made by a business from previous years – it is kept within the business (instead of distributing to owners or shareholders) so that it can be used for future growth opportunities

Benefits	Drawbacks
✓ ✓ **Avoids dilution of ownership:** This source of finance allows the owner to maintain their ownership (unlike when issuing shares to raise finance) thus keeping their control	✗ **Shareholder expectations:** Shareholders may expect the profit to be distributed in the form of dividends – if the profit is continually reinvested, some shareholders may be dissatisfied ✗

Selling unwanted assets

This is where the business sells something that it owns to gain money to pay interest charges – this can be anything from buildings to businesses will lease the asset back so that they can

Benefits	Drawbacks
✓ **Money is freed up:** able to gain cash al immediately to addr financial issues ✓	✗ ✗ **Reduced business value:** The business will now be valued lower and therefore be worth less without the asset

Complete the missing benefits and drawbacks

and friends

where the owner borrows money from someone that they know, without interest or strict repayment terms

Benefits	Drawbacks
✓ ✓ **More flexible:** Terms and conditions, such as repayment terms, are likely to be more flexible as the method is informal	✗ **Strain on relationships:** Without any terms or documentation, conflict can there are future disagreements about repayments or if repayment is needed. They also may want a say in the running of the business which may, again, cause conflict and slow down decision-making. ✗

Trade credit

This is where a supplier sells goods to a business but allows them to **buy now and pay later**

Benefits	Drawbacks
✓ **Immediate access to goods and services:** Immediate payment is not required which allows the business to fulfil customer orders even when cash flow is tight ✓	✗ ✗ **Risk of late payment penalties:** If the business does not meet the payment terms of suppliers, it may damage their credit and put at risk future trade credit agree

A new share issue

As a limited company (1.2) can be raised through selling of the in exchange for money

Benefits	Drawbacks
✓ ✓ **Diversified ownership:** New shareholders are brought in with different backgrounds and expertise	✗ **Dilution of ownership:** The ownership stake of existing stakeholders will be reduced which can result in less control and influence in decision-making ✗

Give two factors of the below

How does a business decide which sources of finance are appropriate?

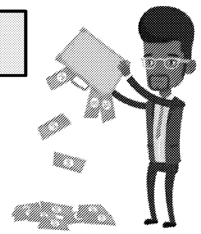
A **NEW business** is likely to have fewer choices when deciding how to finance their business. The source of finance used will depend on
1.

2.

ESTABLISHED businesses have more choices when deciding how to finance their business. The source of finance used will
1.

2.

6.2 Cash flow



What is…?

Cash flow

Cash flow describes the **money** that goes **into** and **out** of a business on a **daily** basis

What is…?

Cash

Cash is the money that a business has to spend to set up and run the business. Cash also includes money in the bank.

Complete the titles

What are the main things that a business spends money on

____

Some businesses will pay for their r materials, ingredients or stock strai away and others will have trade cre **(6.1)** from their supplier/s.

Without enough cash, a business w not be able to supply their custom pay outstanding invoices from sup

Cash vs profit
Profit is the money left over after costs have been paid whereas cash is used to pay the costs

Cash I
This … co … to … ess
Owner's funds **(6.1)**
Bank loan/s **(6.1)**
Revenue **(1.6)**

Cash OUTFLOW
This is the money going OUT of a business

Identify **three** examples of cash outflow that a business may have

1.
2.
3.

Cas… fo…

Describe what i… outflow' and 'op… a cash flow fore…

Cash in…
A business … money the … **into** the b…

Cash ou…

Net cas…
This is the … the money … money goi…

Openin…

The effect of positive cash fl…

Debt reduction
If a business has enough cash to run their business day to day, they are less likely to need to use an overdraft or a bank loan, which reduces the amount of debt that they have and they will avoid paying any interest which is an extra cost to the business.

Describe the below effects of positive cash flow

More trustworthy / less risk

Growth opportunities

When discussing cash flow, DO NOT use the words profit and loss – use **surplus** and **deficit**

Consequences of cash flow problems

Inability to pay bills
If a business cannot pay its day-to-day bills, this can lead to them paying late which can damage relationships with suppliers, resulting in them not being able to gain trade credit from them for future purchases. Relationships with employees may also be damaged if they are paid late, leading to them seeking employment elsewhere.

Identify the below **two** consequences of cash flow problems

____

Issues with cash flow can mean that a business cannot invest in opportunities that could see them increasing their revenue such as opening new … expanding over… new …ts

____

…uppliers are not paid on time, …could result in delays on the production line if goods are not delivered when needed. This could lead to customer dissatisfaction if their deliveries are not made on time and could damage the reputation of the company/brand.

Solutions to cash flow problems

Identify **three** solutions to cash flow probl… and expl… PRO…

1.

2.

3.

6.3 Financial terms and calculations

*The use of these key words is importa… **communication** – make sure that you… them so that you can use them in the …*

Income → ________ This is the number of products and/or services that a business sells *(This is expressed as a number)* × **PRICE** This is what a business charges for their product and/or service *(This is what the customer pays)* = This i… from…

Identify the missing key words

Expenses → **FIXED COSTS** These are the costs that **do not** change depending on how many items the business sells *e.g.* + ________ These are the costs that **change depending on** how many items the business sells *e.g. raw materials, packaging* = This i…

Identify … fixed …

IN PRACTICE…

Imagine a bakery that sells cupcakes… Flutterbies Bakery…
In the summer holidays, the bakery will sell more cupcakes because there are more customers in the town

Fixed costs will not change – even if the bakery doubles their sales, they will not be charged more for the rent that they pay for their premises or the monthly salary payment for managers

Variable costs WILL change – this is because the more cupcakes that are required to fulfil demand, more ingredients and packaging will be needed – the business will spend more money on their raw materials if they make more cupcakes

This i… costs…

A los…

Break-even

Define break-even

Margin of safety

This is the number of items a business can afford to not sell until it makes a loss

Identify the formula

You will not be expected to draw a break-even chart in the exam

IN PRACTICE…

Flutterbies Bakery expects to sell **500 cupcakes**

a)
b)
c)

a) Calculate how many cupcakes Flutterbies need to break even
b) Calculate Flutterbies' margin of safety
c) Explain what the margin of safety figure means fo…

IN PRACTICE…

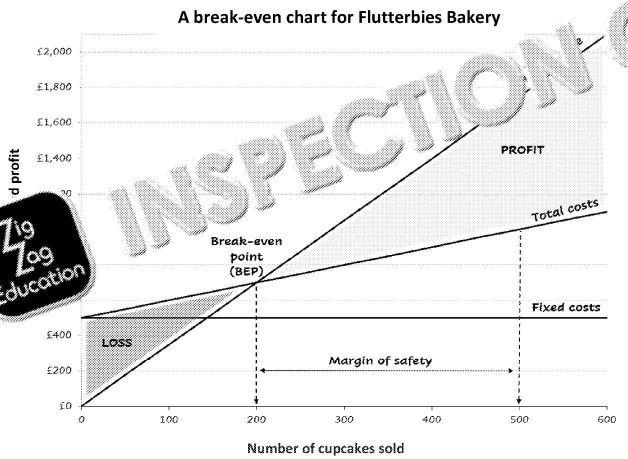
Flutterbies Bakery are considering selling cupcakes for a two-day festival

Expected sales: They think that they will be able to sell 500 cupcakes in total

Fixed costs: They are going to hire a catering van which will cost them £500

Variable costs: Each cupcake will cost £1 to make

Selling price: They are thinking of selling the cupcakes for £3.50 each



Break-even analysis

Fill in the missi… content below

Benefits

✓ ________: When producing a chart, different variables can be changed (such as selling price, variable costs and fixed costs) and the impact on the BEP can be seen

✓ **Useful for securing finance:**

Drawbacks

× ________: The BEP calculated is based on particular costs and selling price – if any of these variables change (such as deciding to increase or decrease selling price while at an event) the BEP is instantly incorrect

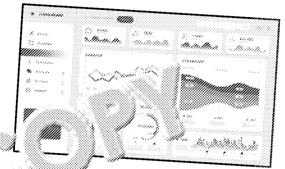
× **Sales can change:**

6.4 Analysing the financial performance of a business

Why do businesses prepare financial statements?

Identify the **three** reasons

Companies must produce these documents by law (under the Companies Act) at least once per year (smaller companies do not have to disclose as much information) – this is to ensure that the company is being transparent to all **stakeholders** in the recording of their finances



Both statements allow different **stakeholders** (1.4) to make informed decisions on the financial health of the business; for example, a bank may look at these documents to help th... decide ... to give the business a ... **owner**... look at their working ... to re... their current liabilities ...cial year

A b...s will wan... ...res from ...ear ...r along with other ...ta such as revenue or business worth

Why might net profit increase or decrease?

- **Revenue** has changed
- **Cost of sales** has changed at a different rate to revenue
- **Overheads** have changed at a different rate to revenue

TIP: look at the variables from one year to the next and see what has happened – there can also be hints in the case study

Income statement

Also known as the **profit and loss account**, this financial statement shows how much profit is made, usually for one year

Profit = total revenue – total costs

This financial statement takes the simple formula of calculating profit and breaks it down into more detail to show exactly where the money was spent

This is where **variable costs** are shown

This is where **fixed costs** are shown

Income statement (profit & loss acount) for Flutterbies Bakery

	£	£
Revenue		35,000
Cost of sales		
Opening stock	1,000	
plus purchases	3,000	
	4,000	
minus closing stock	1,500	
		2,500
GROSS PROFIT		**32,500**
Overheads		
Rent	7,200	
Advertising		
Insurance	200	
Salaries		
Ut...	1,200	
Lo...	3,600	
Tota... ...rheads		25,700
OPERATING PROFIT		**6,800**
Bank loan interest	500	
Overdraft interest	200	
Corporation tax	1,700	
Total interest and tax		2,400
NET PROFIT		**4,400**

Gross profit

Give the formula

You will not be given the formulae in the exa...

Operating pr...

Gross profit – over...

Net profit

Give the formula

How to interpret the data on financial staten...

(A) **Shareholders and owners** will be interested in how a b... is doing; seeing **whether more profit has been made th... than last** will help to inform them as to whether their investment was a good idea.

Describe **two** more ways that data may be interpreted on a financial statement

(B)

(C)

G...ss profit margin

$$\frac{\text{Gross profit}}{\text{revenue}} \times 100$$

Net profit ma...

Give the formula

IN PRACTICE…

Using the **gross profit margin**

Year 3 – 93%
Year 2 – 93%
Year 1 – 92%

For each £1 of revenue, in Year 3 there was 93p of gross profit

This is quite **high** – it shows that the cost of sales (or cost of goods sold) is quite **low**

IN PRACTICE…

Using the **net profit ma...**

Year 3 – 13...
Year 2 – 7%
Year 1 – 3%

For each £1 of revenue, ... there was 13p of net pr...

This is quite **low** – it sho... overheads (or expenses... and tax combined are q...