IGCSE Business Studies

Introduction

Hello, this is a summary of IGCSE Business Studies to help you understand the its core concepts more easily. As a student, I would like to share with you my experience since I am studying this subject right now. I am not a professional so please feel free to add comments and suggestions on how I should improve.

This study guide is going to be about IGCSE Business Studies, Third Edition by Karen Borrington and Peter Stimpson. For more information, visit this page. All credit goes to the authors.

I hope you will enjoy this study guide and for me to be of help!

MrSpitfire
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Chapter 1: The purpose of Business Activity

The economics problem: needs and wants.

Basically, all humans have needs and wants. Needs are things we can't live without, while wants are simply our desires that we can live without. We all have unlimited wants, which is true, since all of us want a new PC, a car, new graphics card, etc. that we actually do not need to live. Businesses produce goods and services to satisfy needs and wants.

Although we have unlimited wants, there are not enough resources for everyone. Resources can be split into 4 factors of production, which are:

- **Land**: All natural resources used to make a product or service.
- **Labour**: The effort of workers required to make a product or service.
- **Capital**: Finance, machinery and equipment required to make a product or service.
- **Enterprise**: Skill and risk-taking ability of the entrepreneur.

Entrepreneurs are people who combine these factors of production to make a product.

With these discussed, lets move on to the economic problem. The economic problem results from limited resources and unlimited wants. This situation causes scarcity, when there are not enough goods to satisfy the wants for everybody. Because of this, we will have to choose which wants we will satisfy (that will be of more benefit to us) and which we will not when buying things. For any choice, you will have to would have obtained if you didn't spend that money. For example, you would have got a book if you didn't buy the pen, or you would have a burger if you didn't buy the chips. Basically, item that you didn't buy is the opportunity cost. Make sure that the opportunity cost isn't higher than what you bought!

"Opportunity cost: the next best alternative given up by choosing another item."

Here is a diagram showing the whole economic problem:
**Division of labour/Specialisation**

Because there are limited resources, we need to use them the most efficient way possible. Therefore, we now use production methods that are as fast as possible and as **efficient** (costs less, earns more) as possible. The main production method that we are using nowadays is known as **specialization**, or division of labour.

"**Division of Labour/Specialisation** is when the production process is split up into different tasks and each specialized worker/machine performs one of these tasks."

**Pros:**

- Specialized workers are good at one task and increases efficiency and output.
- Less time is wasted switching jobs by the individual.
- Machinery also helps all jobs and can be operated 24/7.

**Cons**

- Boredom from doing the same job lowers efficiency.
- No flexibility because workers can only do one job and cannot do others well if needed.
- If one worker is absent and no-one can replace him, the production process stops.

**Why is business activity needed? (summary)**

- Provides goods and services from limited resources to satisfy unlimited wants.
- Scarcity results from limited resources and unlimited wants.
- Choice is necessary for scarce resources. This leads to opportunity costs.
- Specialisation is required to make the most out of resources.

**Business activity:**

1. Combine factors of production to create goods and services.
2. Goods and services satisfy peoples wants.
3. Employs people and pays them wages so they can consume other products.
Business Objectives:

All businesses have aims or objectives to achieve. Their aims can vary depending on their type of business or these can change depending on situations. The most common objectives are:

1. **Profit**: Profit is what keeps a company going and is the main aim of most businesses. Normally a business will try to obtain a *satisfactory level of profits* so they do not have to work long hours or pay too much tax.

2. **Increase added value**: Value added is the difference between the price and material costs of a product. E.g. If the price when selling a pen is $3 and it costs $1 in material, the value added would be $2. However, this does not take into account overheads and taxes. Added value could be increased by working on products so that they become more expensive finished products. One easy example of this is a mobile phone with a camera would sell for much more than one without it. Of course, you will need to pay for the extra camera but as long as prices rise more than costs, you get more profit.

3. **Growth**: Growth can only be achieved when customers are satisfied with a business. When businesses grow they create more jobs and make them more secure when a business is larger. The status and salary of managers are increased. Growth also means that a business is able to spread risks by moving to other markets, or it is gaining a larger market share. Bigger businesses also gain cost advantages, called *economies of scale*.

4. **Survival**: If a business do not survive, its owners lose everything. Therefore, businesses need to focus on this objective the most when they are: starting up, competing with other businesses, or in an economic recession.

5. **Service to the community**: This is the primary goal for most government owned businesses. They plan to produce essential products to everybody who need them.

These business objectives can conflict because different people in a business want different things at different times.

**Stakeholders:**

Stakeholders are a person or a group which has interest in a business for various reasons and will be directly affected by its decisions. Stakeholders also have different objectives and these also conflict over time.

There are two 6 types of stakeholders, and these types can be classified into two groups with similar interests.
Group 1: Profit/Money

- Owners:
  1. Profit, return on capital.
  2. Growth, increase in value of business.

- Workers
  1. High salaries.
  2. Job security.

- Managers
  1. High salaries.
  2. Job security.
  3. Growth of business so they get more power, status, and salary.

Group 2: Value

- Customers
  1. Safe products.
  2. High quality.
  3. Value for money.
  4. Reliability of service and maintenance.

- Government
  1. Employment.
  2. Taxes.
  3. National output/GDP increase.

- Community
  1. Employment.
  3. Business does not pollute the environment.
  4. Safe products that are socially responsible.

So... That's the first chapter guys. I realised that doing summaries in this format takes so much time, so the next chapter I will do it more in note form, making this less of a study guide but a revision guide or summary. Chapter two coming out soon!
Chapter 2: Types of business activity

Levels of economic activity

In order for products to be made and sold to the people, it must undergo 3 different production processes. Each process is done by a different business sector and they are:

- **Primary sector**: The natural resources extraction sector. E.g. farming, forestry, mining... (earns the least money)
- **Secondary sector**: The manufacturing sector. E.g. construction, car manufacturing, baking... (earns a medium amount of money)
- **Tertiary sector**: The service sector. E.g banks, transport, insurance... (earns the most money)

Importance of a sector in a country:

- no. of workers employed.
- value of output and sales.

**Industrialisation**: a country is moving from the primary sector to the secondary sector.  
**De-industrialisation**: a country is moving from the secondary sector to the tertiary sector.  
In both cases, these processes both earn the country more revenue.

Types of economies

**Free market economy:**  
All businesses are owned by the private sector. No government intervention.

**Pros:**

- Consumers have a lot of choice
- High motivation for workers
- Competition keeps prices low
- Incentive for other businesses to set up and make profits

**Cons:**

- Not all products will be available for everybody, especially the poor
- No government intervention means uncontrollable economic booms or recessions
- Monopolies could be set up limiting consumer choice and exploiting them
Command/Planned economy:
All businesses are owned by the public sector. Total government intervention. Fixed wages for everyone. Private property is not allowed.

Pros:
- Eliminates any waste from competition between businesses (e.g. advertising the same product)
- Employment for everybody
- All needs are met (although no luxury goods)

Cons:
- Little motivation for workers
- The government might produce things people don't want to buy
- Low incentive for firms (no profit) leads to low efficiency

Mixed economy:
Businesses belong to both the private and public sector. Government controls part of the economy.

Industries under government ownership:
- health
- education
- defence
- public transport
- water & electricity

Privatisation
Privatisation involves the government selling national businesses to the private sector to increase output and efficiency.

Pros:
- New incentive (profit) encourages the business to be more efficient
- Competition lowers prices
- Individuals have more capital than the government
- Business decisions are for efficiency, not government popularity
- Privatisation raises money for the government

Cons:
- Essential businesses making losses will be closed
- Workers could be made redundant for the sake of profit
- Businesses could become monopolies, leading to higher price
Comparing the size of businesses
Businesses vary in size, and there are some ways to measure them. For some people, this information could be very useful:

- Investors - how safe it is to invest in businesses
- Government - tax
- Competitors - compare their firm with other firms
- Workers - job security, how many people they will be working with
- Banks - can they get a loan back from a business.

Ways of measuring the size of a business:

- **Number of employees.** Does not work on capital intensive firms that use machinery.
- **Value of output.** Does not take into account people employed. Does not take into account sales revenue.
- **Value of sales.** Does not take into account people employed.
- **Capital employed.** Does not work on labour intensive firms. High capital but low output means low efficiency.

You cannot measure a business's size by its **profit**, because profit depends on too many factors not just the size of the firm.

Business Growth
All owners want their businesses to expand. They reap these benefits:

- Higher profits
- More status, power and salary for managers
- Low average costs (economies of scale)
- Higher market share

Types of expansion:

- **Internal Growth:** Organic growth. Growth paid for by owners capital or retained profits.
- **External Growth:** Growth by taking over or merging with another business.

Types of Mergers (and main benefits):

- **Horizontal Merger:** merging with a business in the same business sector.
  - Reduces no. of competitors in industry
  - Economies of scale
  - Increase market share

- **Vertical merger:**
  **Forward vertical merger:**
  - Assured outlet for products
  - Profit made by retailer is absorbed by manufacturer
  - Prevent retailer from selling products of other businesses
  - Market research on customers transferred directly to the manufacturer
**Backward vertical merger:**

- Constant supply of raw materials
- Profit from primary sector business is absorbed by manufacturer
- Prevent supplier from supplying other businesses
- Controlled cost of raw materials

**Conglomerate merger:**

- Spreads risks
- Transfer of new ideas from one section of the business to another

**Why some businesses stay small:**

There are some reasons why some businesses stay small. They are:

- **Type of industry the business is in:** Industries offering personal service or specialized products. They cannot grow bigger because they will lose the personal service demanded by customers. E.g. hairdressers, cleaning, convenience store, etc.
- **Market size:** If the size of the market a business is selling to is too small, the business cannot expand. E.g. luxury cars (Lamborghini), expensive fashion clothing, etc.
- **Owners objectives:** Owners might want to keep a personal touch with staff and customers. They do not want the increased stress and worry of running a bigger business.

That's the end of chapter two! Chapter 3 coming soon!
Chapter 3: Forms of business organisation

Almost every country consists of two business sectors, the private sector and the public sector. Private sector businesses are operated and run by individuals, while public sector businesses are operated by the government. The types of businesses present in a sector can vary, so let's take a look at them.

Private Sector

Sole Traders

Sole traders are the most common form of business in the world, and take up as much as 90% of all businesses in a country. The business is owned and run by one person only. Even though he can employ people, he is still the sole proprietor of the business. These businesses are so common since there are so little legal requirements to set up:

- The owner must register with and send annual accounts to the government Tax Office.
- They must register their business names with the Registrar of Business Names.
- They must obey all basic laws for trading and commerce.

There are advantages and disadvantages to everything, and here are ones for sole traders:

Pros:

- There are so few legal formalities are required to operate the business.
- The owner is his own boss, and has total control over the business.
- The owner gets 100% of profits.
- Motivation because he gets all the profits.
- The owner has freedom to change working hours or whom to employ, etc.
- He has personal contact with customers.
- He does not have to share information with anyone but the tax office, thus he enjoys complete secrecy.

Cons:

- Nobody to discuss problems with.
- Unlimited liability.
- Limited finance/capital, business will remain small.
- The owner normally spends long hours working.
- Some parts of the business can be inefficient because of lack of specialists.
- Does not benefit from economies of scale.
- No continuity, no legal identity.

Sole traders are recommended for people who:

- Are setting up a new business.
- Do not require a lot of capital for their business.
- Require direct contact for customer service.
Partnership
A partnership is a group consisting of 2 to 20 people who run and own a business together. They require a **Deed of Partnership** or **Partnership Agreement**, which is a document that states that all partners agree to work with each other, and issues such as who put the most capital into the business or who is entitled to the most profit. Other legal regulations are similar to that of a sole trader.

**Pros:**
- More **capital** than a sole trader.
- **Responsibilities** are **split**.
- Any **losses** are **shared** between partners.

**Cons:**
- **Unlimited liability**.
- No **continuity**, no **legal identity**.
- Partners can **disagree** on decisions, slowing down decision making.
- If one partner is **inefficient** or **dishonest**, everybody loses.
- **Limited capital**, there is a limit of 20 people for any partnership.

Recommended to people who:
- Want to make a bigger business but does not want legal complications.
- Professionals, such as doctors or lawyers, cannot form a company, and can only form a partnership.
- Family, when they want a simple means of getting everybody into a business (Warning: Nepotism is usually not recommended).

Note: In some countries including the UK there can be Limited Partnerships. This business has limited liability but shares cannot be bought or sold. It is abbreviated as LLP.

**Private Limited Companies**
Private Limited Companies have separate legal identities to their owners, and thus their owners have limited liability. The company has continuity, and can sell shares to friends or family, although with the **consent of all shareholders**. This business can now make legal contracts. Abbreviated as Ltd (UK), or Proprietary Limited, (Pty) Ltd.

**Pros:**
- The sale of shares make **raising finance** a lot easier.
- Shareholders have **limited liability**, therefore it is safer for people to invest but creditors must be cautious because if the business fails they will not get their money back.
- Original owners are still able to **keep control** of the business by restricting share distribution.

**Cons:**
- Owners need to deal with many **legal formalities** before forming a private limited company:
The Articles of Association: This contains the rules on how the company will be managed. It states the rights and duties of directors, the rules on the election of directors and holding an official meeting, as well as the issuing of shares.

The Memorandum of Association: This contains very important information about the company and directors. The official name and addresses of the registered offices of the company must be stated. The objectives of the company must be given and also the amount of share capital the owners intend to raise. The number of shares to be bought by each of the directors must also be made clear.

Certificate of Incorporation: the document issued by the Registrar of Companies that will allow the Company to start trading.

- Shares cannot be freely sold without the consent of all shareholders.
- The accounts of the company are less secret than that of sole traders and partnerships. Public information must be provided to the Registrar of Companies.
- Capital is still limited as the company cannot sell shares to the public.

Public Limited Companies

Public limited companies are similar to private limited companies, but they are able to sell shares to the public. A private limited company can be converted into a public limited company by:

1. A statement in the Memorandum of Association must be made so that it says this company is a public limited company.
2. All accounts must be made public.
3. The company has to apply for a listing in the Stock Exchange.

A prospectus must be issued to advertise to customers to buy shares, and it has to state how the capital raised from shares will be spent.

Pros:

- Limited liability.
- Continuity.
- Potential to raise limitless capital.
- No restrictions on transfer of shares.
- High status will attract investors and customers.

Cons:

- Many legal formalities required to form the business.
- Many rules and regulations to protect shareholders, including the publishing of annual accounts.
- Selling shares is expensive, because of the commission paid to banks to aid in selling shares and costs of printing the prospectus.
- Difficult to control since it is so large.
- Owners lose control, when the original owners hold less than 51% of shares.

Control and ownership in a public limited company:

The Annual General Meeting (AGM) is held every year and all shareholders are invited to attend so that they can elect their Board of Directors. Normally, Director are majority
shareholders who has the power to do whatever they want. However, this is not the case for public limited companies since there can be millions of shareholders. Anyway, when directors are elected, they have to power to make important decisions. However, they must hire managers to attend to day to day decisions. Therefore:

- Shareholders own the company
- Directors and managers control the company

This is called the **divorce between ownership and control**.

Because shareholders invested in the company, they expect dividends. The directors could do things other than give shareholders dividends, such as trying to expand the company. However, they might loose their status in the next AGM if shareholders are not happy with what they are doing. All in all, both directors and shareholders have their own objectives.

**Co-operatives**

Cooperatives are a group of people who agree to work together and pool their money together to buy "bulk". Their features are:

- All members have equal rights, no matter how much capital they invested.
- All workload and decision making is equally shared, a manager maybe appointed for bigger cooperatives
- Profits are shared equally.

The most common cooperatives are:

- **producer co-operatives**: just like any other business, but run by workers.
- **retail co-operatives**: provides members with high quality goods or services for a reasonable price.

**Other notable business organizations:**

**Close Corporations:**

This type of business is present in countries such as South Africa. It is like a private limited company but it is much quicker to set up:

- Maximum limit of 10 people.
- You only need a simple **founding statement** which is sent to the Registrar of Companies to start the business.
- All members are managers (no divorce of ownership and control).
- A separate legal unit, has both limited liability and continuity.

**Cons:**

- The size limit is not suitable for a large business.
- Members may disagree just like in a partnership.
Joint ventures

Two businesses agree to start a new project together, sharing capital, risks and profits.

Pros:

- Shared costs are good for tackling expensive projects. (e.g aircraft)
- Pooled knowledge. (e.g foreign and local business)
- Risks are shared.

Cons:

- Profits have to be shared.
- Disagreements might occur.
- The two partners might run the joint venture differently.

Franchising

The franchisor is a business with a successful brand name that recruits franchisees (individual businesses) to sell for them. (e.g. McDonald, Burger King)

Pros for the franchisor:

- The franchisee has to pay to use the brand name.
- Expansion is much faster because the franchisor does not have to finance all new outlets.
- The franchisee manages outlets
- All products sold must be bought from the franchisor.

Cons for the franchisor:

- The failure of one franchise could lead to a bad reputation of the whole business.
- The franchisee keeps the profits.

Pros for the franchisee:

- The chance of failure is much reduced due to the well know brand image.
- The franchisor pays for advertising.
- All supplies can be obtained from the franchisor.
- Many business decisions will be made by the franchisor (prices, store layout, products).
- Training for staff and management is provide by the franchisor.
- Banks are more willing to lend to franchisees because of lower risks.

Cons for the franchisee:

- Less independence
- May be unable to make decisions that would suit the local area.
- Licence fee must be paid annually and a percentage of the turnover must be paid.
Public Sector

Public corporations:

A business owned by the government and run by Directors appointed by the government. These businesses usually include the water supply, electricity supply, etc. The government give the directors a set of objectives that they will have to follow:

- to keep prices low so everybody can afford the service.
- to keep people employed.
- to offer a service to the public everywhere.

These objectives are expensive to follow, and are paid for by government subsidies. However, at one point the government would realise they cannot keep doing this, so they will set different objectives:

- to reduce costs, even if it means making a few people redundant.
- to increase efficiency like a private company.
- to close loss-making services, even if this mean some consumers are no longer provided with the service.

Pros:

- Some businesses are considered too important to be owned by an individual. (electricity, water, airline)
- Other businesses, considered natural monopolies, are controlled by the government. (electricity, water)
- Reduces waste in an industry. (e.g. two railway lines in one city)
- Rescue important businesses when they are failing.
- Provide essential services to the people (e.g. the BBC)

Cons:

- Motivation might not be as high because profit is not an objective.
- Subsidies lead to inefficiency. It is also considered unfair for private businesses.
- There is normally no competition to public corporations, so there is no incentive to improve.
- Businesses could be run for government popularity.

Municipal enterprises

These businesses are run by local government authorities which might be free to the user and financed by local taxes. (e.g. street lighting, schools, local library, rubbish collection). If these businesses make a loss, usually a government subsidy is provided. However, to reduce the burden on taxpayers, many municipal enterprises are being privatised.
Chapter 4: Government and economic influences on business

The impact of business activity on society

All business activity has benefits and undesirable effects on society. These reasons are why governments want to have some control over business activity:

Possible benefits:

- Production of **useful goods** to satisfy customer wants.
- Create **employment**/increases workers **living standards**.
- Introduction of new products or processes that **reduces costs** and **widen product range**.
- **Taxes** help finance public services.
- Business earn **foreign currency** in exports and this could be spent on imports.

Possible undesirable effects:

- Business might **ruin** cheap but **beautiful areas**.
- **Low wages** and **unsafe working** conditions for workers because businesses want to lower costs.
- **Pollution**
- Production of **dangerous** goods.
- **Monopolies**
- Advertising can **mislead** customers.

Governments tend to pass laws that restrict **undesirable** activities while supporting **desirable** activities.

Governments and the economy

Government economic objectives:

Governments all have aims for their country, and this is what they are:

- **Low inflation**.
- **Low unemployment**.
- Economic **growth**.
- **Balance of payments**.

Low inflation:
Inflation occurs when prices rise. When prices rise rapidly many bad thing could happen:

- Workers wages **buy less** than before. Therefore their **real income** (how much you can buy with so much money) falls. Workers will be unhappy and demand for higher wages.
- Prices of **local** goods will **rise more** than that of other countries with lower inflation. People may start **buying foreign goods** instead.
- It would **cost more** for businesses to **start** or **expand** and therefore it does not **employ** as many people.
- Some people might be made **redundant** so that the business can cut costs.
- **Standards of living** will **fall**.

This is obviously why governments want to keep inflation as low as possible.
Low levels of unemployment:

When people are unemployed, they want to work but cannot find a job. This causes many problems:

- Unemployed people do not work. Therefore national output will be lower than it should be.
- The government will have to pay for unemployment benefits. This is expensive and money cannot be use for other purposes.

If the level up unemployment is low, it will increase national output and improve standards of living for workers.

Economic growth

A country is said to grow when its GDP (Gross Domestic Product) is increasing. This is the total value of goods produced in one year. The standards of living tends to increase with economic growth. Problems arise when a country's GDP fall:

- The country's output is falling, fewer workers are needed and unemployment occurs.
- Standards of living will fall.
- Businesses will not expand because they have less money to invest.

Economic growth is not achieved every year. There are years where the GDP falls and the trade cycle explains the pattern of rises and falls in national GDP.

The trade cycle has 4 main stages:

- **Growth**: This is when GDP is rising, unemployment is falling, and the country has higher standards of living. Businesses tend to do well in this period.
- **Boom**: Caused by overspending. Prices rise rapidly and there is a shortage of skilled workers. Business costs will be rising and they are uncertain about the future.
- **Recession**: Because overspending caused the boom, people now spend too little. GDP will fall and businesses will lose demand and profits. Workers may lose their jobs.
• **Slump**: A long drawn out recession. Unemployment will peak and prices will fall. Many firms will go out of business.

After all of this happens the economy **recovers** and begins to grow again. Governments want to avoid a **boom** so that it will not lead to a recession and a slump. Currently, the government of China is spending a lot of money so that their economy would continue to grow and avoid a boom.

**Balance of payments**

**Exports** earn **foreign currency**, while **imports** are paid for by foreign currency (or vice versa). The difference between the **value** of exports and imports of a country is called **balance of payments**. Governments try to achieve a balance in imports and exports to avoid a **trade deficit**, when **imports** are higher than **exports**. Of course, the government will lose money and their **reservoir** of foreign currency will **fall**. This results in:

- If the country wants to import more, they will have to **borrow** foreign currency to buy goods.
- The country's **currency** will now worth less compared to others and can buy less goods. This is called **exchange rate depreciation**.

**Government economic policies**

Governments want to influence the national economy so that it would achieve their aforementioned objectives. They have a lot of power over business activity and can pass laws to try to achieve their goals. The main ways in which governments can influence business activity are called **economic policies**. They are:

- **Fiscal Policy**: taxes and public spending.
- **Monetary policy**: controlling the amount of money in the economy through interest rates.
- **Supply side policies**: aimed at increasing efficiency.

**Fiscal policy**

Government spending could benefit some firms such as:

- Construction firms (road building)
- Defense industries (Iraq war)
- Bus manufacturers (public transport)

Governments raise money from **taxes**. There are **Direct taxes** on income and **Indirect taxes** on spending. There are four common taxes:

- Income tax
- Profits tax
- VAT (Value Added Tax)
- Import tariffs
Income tax

Income tax is based on a percentage of your income. Income tax is usually **progressive**, meaning that the percentage of tax you have to pay rises with your income. Effects on business and individuals if there was a rise of income tax:

- People will have less **disposable income**.
- **Sales fall** because people have less money to spend.
- Managers will cut costs for more profit. Workers might be made **redundant**.
- Businesses producing **luxury goods** will lose the most, while others producing **everyday needs** will get less affected.

**Profits tax or corporation tax**

This is a percentage of the profit a business makes. A rise in it would mean:

- Managers will have less **retained profit**, making it **harder** for the business to **expand**.
- Owners will get **less return on capital employed**. Potential owners will be **reluctant** to start their own business if the **profit margin** is too low.

**Indirect taxes**

These taxes are a percentage on the price of goods, making them more expensive. Governments want to **avoid** putting them on **essential goods** such as foods. A rise in it would mean:

- The effect would be almost the same as that of an increase in income tax. People would **buy less** but they would still spend money on **essential goods**.
- Again, **real incomes** fall. Costs will rise when workers demand higher wages.

**Import tariffs and quotas**

Governments put tariffs on imports to make local goods look more competitive and also to reduce imports. When governments put import tariffs on imports:

- Sales of local goods become **cheaper** than imports, leading to **increased sales**.
- Businesses who **import raw materials** will suffer higher costs.
- Other countries will **retaliate** by putting tariffs on the country's **exports**, making it less competitive.

**Quotas** maybe used to limit the amount of imports coming in.

**Monetary policy and interest rates**

Governments usually have the power to change **interest rates** through the central bank. Interest rates affect people who borrow from the bank. When interest rates rise:

- Businesses who owe to the bank will have to **pay more**, resulting in less **retained profit**.
- People are more reluctant to **start** new businesses or **expand**.
- Consumers who took out loans such as **mortgages** will now have less **disposable income**. They will spend less on other goods.
Demand will **fall** for businesses who produces **luxury** or **expensive** goods such as cars because people are **less willing to borrow**. Higher interest rates will **encourage** other countries to deposit money into **local banks** and earn **higher profits**. They will change their money into the local currency, increasing its demand and causing **exchange rate appreciation**.

**Supply side policies**

These policies aim to make the countries economy more efficient so that they can produce more goods and compete in the international economy. In doing so their GDP will rise. Here are some policies:

- **Privatisation**: Its aim is to use profit as an incentive to increase efficiency.
- **Improve training and education**: This obviously increases efficiency. This is crucial to countries with a big computer software industry.
- **Increase competition**: Competition causes companies to be more efficient to survive. Governments need to remove any monopolies.

**Government controls over business activity**

Government also influence major areas of business activity:

- what goods can be produced
- responsibilities to employees and working conditions
- responsibilities to consumers
- responsibilities to the natural environment
- location decisions

Undesirable effects created by business activity make governments want to control business activity:

- Business might ruin cheap but **beautiful areas**.
- **Monopolies**.
- Advertising can **mislead** customers.

**Why government control business activity**

**Production of certain goods and services:**

Governments can pass laws to restrict and ban certain dangerous goods such as:

- Weapons like guns and explosives.
- Drugs
- Goods that harm the environment

**Consumer protection:**

Consumers are easily misled by advertising. It is because consumers lack the technical knowledge and advertising can be very persuasive. In the UK, these laws are passed to protect customers from being exploited by businesses:
- **Weights and Measures Act**: to stop underweight goods being sold to customers.
- **Trade Descriptions Act**: all advertisements must be truthful.
- **Consumer Credit Act**: makes it illegal to not give customers their copy of the credit agreement to check how much money they really have.
- **Sale of Goods Act**: Makes it illegal to sell:
  - Goods which have serious flaws or problems.
  - Products that are not fit for the purpose intended by the consumer.
  - Products that do not function as described on their label or by the retailer.

- **Consumer Protection Act**: Make false pricing claims illegal. Consumers can now sue producers or retailers if their products cause harm to them.

**Competition policy: Control of monopolies**

Monopolies could cause a lot of harm to an economy because there are nobody to compete against them:

- They exploit consumers with high prices.
- They prevent new firms from starting up.
- Monopolies are not encouraged to be efficient because there are no competitors.

In some countries, monopolies are banned and must be broken up into smaller firms. In the UK, monopolies can be investigated by the **Competition Commission**. This government body reports two main types of problems:

- Business decisions that are **against consumer interests**, such as trying to **eliminate all competitors**.
- Proposed **mergers** or **takeovers** that will result in a monopoly.

**Protecting employees:**

Employees need protection in the following areas:

- Unfair discrimination
- Health and safety at work
- Unfair dismissal
- Wage protection

**Protection against unfair discrimination:**

Often workers are discriminated in a job because of various reasons. There are laws that protect the employee from such reasons to be discriminated against:

- **Sex Discrimination Act**: people of different genders must have equal opportunities.
- **Race Relations Act**: people of all races and religions mush have equal opportunities.
- **Disability Discrimination Act**: it must be made suitable for disabled people to work in businesses.
- **Equal Opportunities Policy**: That is what everything is all about.

The UK is currently working on an age discrimination act.
Health and Safety at work:

Laws protect workers from:

- protect workers from **dangerous machinery**.
- provide **safety equipment and clothing**.
- maintain reasonable workplace **temperatures**.
- provide **hygienic** conditions and **washing** facilities.
- do **not** insist on excessively **long shifts** and provide **breaks** in the work timetable.

Managers not only provide safety for their employees only because laws say so. Some **believe** that keeping employees safe and happy improves their **motivation** and keeps them in the business. Others do it because it is present in their **moral code**. They are then considered making an **ethical decision**. However, in many countries, workers are still exploited by employers.

**Protection against unfair dismissal**

Employees need protection from being dismissed unfairly. The following reasons for the employee to be dismissed is unreasonable:

- for joining a **trade union**.
- for being **pregnant**.
- when **no warnings** were given beforehand.

Workers who think they have been dismissed unfairly can take their case to the **Industrial Tribunal** to be judged and he/she might receive compensation if the case is in his/her favour.

**Wage Protection**

Employers must pay employees the same amount that has been stated on the **contract of employment**, which states:

- Hours of work.
- Nature of the job.
- The wage rate to be paid.
- How frequently wages will be paid.
- What deduction will be made from wages, e.g. income tax.

A **minimum wage** rate is present in many Western countries and the USA. There are pros and cons of the minimum wage:

**Pros:**

- Prevents strong employees to exploit unskilled workers who could not easily find work.
- Encourages employers to train unskilled employees to increase efficiency.
- Encourages more people to seek work.
- Low-paid workers can now spend more.
Cons:

- Increases costs, increases prices.
- Owners who cannot afford these wages might make employees redundant instead.
- Higher paid workers want higher wages to keep on the same level difference as the lower paid workers. Costs will rise.

Location of Industry

How governments want to locate businesses:

- They encourage businesses to move to areas with a high level of unemployment, or called development areas.
- They discourage firms from locating in overcrowded cites or sites noted for their natural beauty.

How governments will influence the decisions of firms to locate:

- Businesses will be refused planning permission (permit to build in a place) if they wish to locate in overcrowded cities or beautiful areas. Building in these areas might be banned altogether.
- Governments can provide regional assistance, such as grants and subsidies to encourage firms to locate in undeveloped areas.

Governments can help businesses too

Governments can help businesses to:

- to encourage businesses to locate in poorer regions.
- to encourage enterprise by helping small businesses set up and survive.
- to encourage businesses to export.

Regional Assistance:

- Governments want development to be spread evenly over the whole country.
- Grants and subsidies can be used to attract firms to an area.

Small firms

Small firms are important for and economy because:

- They provide most of the employment because they are usually labour intensive.
- Small firms operate in rural areas where unemployment tends to be high.
- They can grow into very important businesses employing thousands of workers and producing output worth millions of dollars.
- Provides more choice for customers. They compete against bigger companies.
- They are often managed in a very flexible way, and is quicker to adapt to changing demands.
Governments help them by:

- Lower rates of **profits tax**, so they can have more **retained profit**.
- Giving **grants** and **cheap loans**.
- Providing **advice** and **information centres** to small firms.

**Exporting goods and services**

Why governments want businesses to export:

- Exports earn **foreign currency**, which can be use to buy imports.
- More exports means more people needed to produce them, increasing **employment** and **standards of living**.
- Successful exporters earn more money and have to pay more **profits tax**.

Governments can support exporters by:

- Encourage banks to lend to exporting businesses at **lower interest rates**.
- Offering **subsidies** or **lower taxes** to firms. However, other countries would **retaliate** and there would be no overall advantage.
- Trying to keep the **local currency** as **stable** as possible to make it easier for businesses to know how much they are going to make from exports.
- Organising **trade fairs** abroad to encourage foreign businesses to buy the country’s exports.
- Offering **credit facilities**. This means that if a foreign customers refuses to pay for goods, the company could be compensated by the government.

**Businesses in the economic and legal environment**

Businesses could not ignore the power of the government in controlling business activity. **Multinationals** are an exception although normally businesses cannot afford to move to other countries. Government decisions create the **environment** in which businesses will have to **operate** and **adapt** to. The environment created by **legal** and **economic controls** are one of the **constraints** to managers when making decisions.

Whew! What a long chapter! I know there are a lot of redundant stuff but they are necessary for the text. Chapter 5 will be coming out next week!
Chapter 5: Other influences on business

**External constraints and constraints on business activity**

Businesses cannot survive by neglecting the "real world", which includes influences that forces a business to make certain decisions or constraints that limits or controls actions. External constraints are things that businesses cannot control, these are:

- Technological change: New products.
- Technological change: New production processes.
- Increased competition.
- Environmental issues.

Here is a table from the book giving examples and the possible impacts on business activity:

**Technological changes**

Technological change bring about constant changes in consumer products and production processes. By using R&D to develop new products, companies could open up new markets and make huge amounts of money. Such companies include Microsoft, Sony and Apple. However, new products quickly replace old ones just like how machines are replacing workers in production processes.

There are two general things a firm could do when facing technological change:

- **Ignore** the changes and operate in the "traditional and old fashioned way". However, they can only sell to a small and limited market.
- **Compete** by welcoming changes and have an access to huge mass markets.

Here are some pros and cons of technological change:
Pros:

- New products encourage customers to buy more.
- If a business comes up with a new product first, they gain a huge competitive advantage.
- "High-tech" production methods make production more efficient.
- Fewer workers are required.
- New production methods can be adapted very quickly which gives businesses more flexibility in meeting consumer wants.
- E-commerce opens up new markets and the Internet is a medium of advertising.

Cons:

- R&D is expensive, without guaranteed success.
- Businesses that do not develop new products will fail, leaving workers unemployed.
- New production methods and machines are expensive.
- Workers will need retraining which is expensive. They might be reluctant to learn or fear that they will not do well. This could lead to a fall in motivation.
- E-commerce lacks personal customer service.
- Smaller businesses cannot afford these things.

Introducing technological change successfully

Workers and managers may fear change. Workers might think:

- Will I be able to operate the new machines?
- Will I lose my job because the machines are more efficient?

Older workers are especially afraid of losing out to younger and better trained workers. Managers also fear change, since recruiting technology experts will make them look more inferior in some way.

To make these changes work better, workers need to be involved in the changes. Workers might be told why the new machines are necessary and how they will be trained to use them, as well as letting them suggest ways to make work more efficient with the machines. It leads to more opportunities for trained and skilled staff and can lead to new ideas and products.

Competition

Most businesses have competitors. Most business decisions are based on:

- What competitors are doing?
- How they might react?

When you develop a successful product, other businesses will undoubtedly copy you. Therefore, you will need to research and develop even more products, keeping ahead of them. Competition is a major influence on business activity.

Environmental constraints on business activity

There are two general opinions on caring about the environment:

- Opinion A: Keeping the environment clean is too expensive. We want to keep prices low and this is what consumers want too.
- Protecting the environment is too expensive and reduce profits.
- Increased prices mean increased costs.
- Firms could become less competitive compared to others who are not environmentally friendly.
- Governments should pay to clean it up.

- Opinion B: Consumers are now starting to prefer businesses with social responsibility. Cleaner and more efficient machinery benefit the business in the long-run.

  - Environmental issues affect us all and businesses have a social responsibility to deal with them.
  - Using up scarce resources leaves less for future generations and raise prices.
  - Consumers are becoming more socially aware. More now prefer firms that are environmentally friendly which could become an marketing advantage.
  - If a business damages the environment, pressure groups could protest and damage its image and reputation.

Ways to make a business more environmentally friendly
Governments make these business activities illegal:

  - locating in environmentally sensitive areas.
  - dumping waste products into waterways.
  - making products that cannot be easily recycled.

Manufacturers often complain that these laws raise prices. Therefore, some governments usually do not make these laws strict with the hope of increasing output and in turn employment.

Financing penalties, including pollution permits

Pollution permits are licences given to a business to pollute up to a certain level. If "dirty" businesses pollute over the permitted level, they either have to buy permits from "cleaner firms" or pay heavy fines. This encourages firms to be cleaner and sell their permits to dirtier companies for more money. Other penalties include additional taxes.

Consumer action and pressure groups

Consumers are becoming more socially aware, and many of them will stop buying goods from companies which pollute the environment, harming a business' reputation and image. Bad publicity means lower sales. If they want to keep their sales revenue up firms would have to adapt to more environmentally friendly production processes again.

Pressure groups are becoming very powerful nowadays. They can severely damage businesses that are not socially responsible.
These are their powers:

  - Consumer boycotts
  - Protests
  - Blocking waste pipes.

These are times when they are likely to take action:
They have popular **public support** and has a lot of **media coverage**.

The group is **well organised** and **financed**.

These are times when they are less likely to take action:

- What a company is doing is **unpopular** but **not illegal**, (e.g. testing drugs on rats)
- The cost of making the company cleaner is **more** than losses that could be made by losing image and sales.
- The firm supplies other firms and not customers, **public support** will be less effective.

**Environmental issues and cost-benefit analysis**

Governments are increasingly concerned about the **social** and **environmental effects** of business activity. They have started to use a new type of analysis on businesses and government proposals which will not only take into account **financial costs** but also **external costs**.

**Cost-benefit analysis** requires and awareness of **external costs** (costs to the rest of society) and **external benefits** (gains to the rest of society). Here are some examples.

Decision: A new chemical plant will be built.

<table>
<thead>
<tr>
<th><strong>External costs</strong></th>
<th><strong>External benefits</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste products will cause pollution</td>
<td>Jobs will be created</td>
</tr>
<tr>
<td>Smoke and fumes may damage the health of residents</td>
<td>Other firms may move into the area to provide services to the chemical firm</td>
</tr>
<tr>
<td>Parkland cannot now be used by local residents</td>
<td>Important chemicals will be produced to benefit society</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Private costs</strong></th>
<th><strong>Private benefits</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of land</td>
<td>The money made from the sale of the chemical products</td>
</tr>
<tr>
<td>Cost of construction</td>
<td></td>
</tr>
<tr>
<td>Labour costs</td>
<td></td>
</tr>
<tr>
<td>Costs of running the plant when it has been built</td>
<td></td>
</tr>
<tr>
<td>Transport costs of materials and completed products</td>
<td></td>
</tr>
</tbody>
</table>

**Social costs** are worked out from **private costs** and **external costs**.

**Social benefits** are worked out from **private benefits** and **external benefits**.

In other words:

- **Social costs** = **private costs** + **external costs**.
- **Social benefits** = **private benefits** + **external benefits**.

Woohoo! Chapter five finished in one day!

Chapter six coming soon!
Chapter 6: Business costs and revenue

Business costs

All business activity involves some kind of cost. Managers need to think about the because:

- Whether costs are lower than revenues or not. Whether a business will make a profit or not.
- To compare costs at different locations.
- To help set prices.

There are two main types of costs, fixed and variable costs. Here are some types of costs:

- **Fixed costs** = stay the same regardless of the amount of output. They are there regardless of whether a business has made a profit or not. Also known as **overheads**.
- **Variable costs** = varies with the amount of goods produced. They can be classified as **direct costs** (directly related to a product).
- **Total costs** = fixed + variable costs

Break-even charts, comparing costs with revenue

Drawing a break-even chart
Uses of break-even charts

There are other benefits from the break-even chart other than identifying the breakeven point and the maximum profit. However, they are not all reliable so there are some disadvantages as well:

**Pros:**

- The expected profit or loss can be calculated at any level of output.
- The impacts of business decisions can be seen by redrawing the graph.
- The breakeven chart show the **safety margin** which is the amount by which sales exceed the breakeven point.

**Cons:**

- The graph assumes that all goods produced are sold.
- Fixed costs will change if the scale of production is changed.
- Only focuses on the breakeven point. Completely ignores other aspects of production.
- Does not take into account discounts or increased wages, etc. and other things that vary with time.

**Break-even point: the calculation method**

It is possible to calculate the breakeven point without having to draw the graph. We need two formulas to achieve this:

- Selling Price - Variable Costs = Contribution
- Break-even point = Total fixed costs/Contribution

**Business costs: other definitions**

There are other types of costs to be analysed that is split from fixed and variable costs:

- **Direct costs:** costs that are directly related to the production of a particular product.
- **Marginal costs:** how much costs will increase when a business decides to produce one more unit.
- **Indirect costs:** costs not directly related to the product. They are often termed **overheads**.
- **Average cost per unit:** total cost of production/total output

**Economies and Diseconomies of scale:**

**Economies of scale** are factors that lead to a reduction in average costs that are obtained by growth of a business. There are five economies of scale:

- **Purchasing economies:** Larger capital means you get discounts when buying bulk.
- **Marketing:** More money for advertising and own transportation, cutting costs.
- **Financial:** Easier to borrow money from banks with lower interest rates.
- **Managerial:** Larger businesses can now afford specialist managers in all departments, increasing efficiency.
- **Technical:** They can now buy specialised and latest equipment to cut overall production costs.
However, there are **diseconomies of scale** which increases average costs when a business grows:

- **Poor communication:** It is more difficult to communicate in larger firms since there are so many people a message has to pass through. The managers might lose contact to customers and make wrong decisions.
- **Low morale:** People work in large businesses with thousands of workers do not get much attention. They feel they are not needed this decreases morale and in turn efficiency.
- **Slower decision making:** More people have to agree with a decision and communication difficulties also make decision making slower as well.

**Budgets and forecasts: looking ahead**

Business also needs to think ahead about the problems and opportunities that may arise in the future. There are things to try to **forecast** such as:

- sales or consumer demands.
- exchange rates appreciation or depreciation.
- wage increases.

There are some forecasting methods:

- Past sales could be used to calculate the **trend**, which could then be extended into the future.
- Create a **line of best fit** for past sales and extend it for the future.
- **Panel consensus**: asking a panel of experts for their opinion on what is going to happen in the future.
- **Market research**.

**Budgets**

"Budgets are plans for the future containing numerical and financial targets". Better managers will create many budgets for costs, planned revenue and profit and combine them into one single plan called the **master budget**.

Here are the advantages of budgets:

- They set **objectives** for managers and workers to work towards, increasing their **motivation**.
- They can be used to see how well a business is doing by comparing the budget with the result in the process of **variance analysis**. The **variance** is the difference between the budget and the result.
- If workers get a say in choosing the objectives for a budget, the objectives would be more **realistic** since they are the ones that are going to do it and it also gives them better **motivation**.
- Helps control the business and its **allocation of resources**.

All in all, budgeting in useful for:

- reviewing **past** activities.
- controlling **current** business activity - following objectives.
- planning for the **future**.

Finished! That’ll be all for today!

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Chapter 7: Business Accounting

What are accounts and why are they necessary?

Accounts are financial records of a firm's transactions that is kept up to date by the accountants, who are qualified professionals responsible for keeping accurate accounts and producing the final accounts.

Every end of the year, a final accounts must be produced which gives details of:

- Profits and losses made.
- Current value of the business.
- Other financial results.

Limited companies are bound by law to publish these accounts, but not other businesses.

Financial documents involved in buying and selling

Accountants use various documents that are used for buying and selling over the year for their final accounts. They can help the accountant to:

- keep records of what the firm bought and from which supplier.
- keep records of what the firm sold and to which customer.

These documents are:

- **Purchase orders**: requests for buying products. It contains the quantity, type and total cost of goods. Here is an example.
- **Delivery notes**: These are sent by the firm when it has received its goods. It must be signed when the goods are delivered.
- **Invoices**: These are sent by the supplier to request payment from the firm.
- **Credit notes**: Only issued if a mistake has been made. It states what kind of mistake has been made.
- **Statements of account**: Issued by the supplier to his customers which contains the value of deliveries made each month, value of any credit notes issued and any payments made by the customer. Here is an example.
- **Remittance advice slips**: usually sent with the statement of accounts. It indicates which invoices the firm is paying for so that the supplier will not make a mistake about payments.
- **Receipts**: Issued after an invoice has been paid. It is proof that the firm has paid for their goods.

Methods of making payment

There are several ways goods can be paid for:

- **Cash**: The traditional payment method. However, many businesses do not prefer to use cash for a number of security reasons. When cash is paid, a petty cash voucher is issued by the person in charge of the firm's money who also signs it to authorise the payment. The person making the purchase signs it too to show that the money has been received.
- **Cheque**: It is an instruction to the bank to transfer money from a bank account to a named person. In order to do this the bank needs a cheque guarantee card, saying that they have enough money in their account to support this payment.
- **Credit card**: Lets the consumer obtain their goods now and **pay later**. If the payment is delayed over a set period then the consumer will have to pay **interest**.
- **Debit card**: **Transfers money directly** from user's **account** to that of the seller.

**Recording accounting transactions**
Businesses usually use computers to store their transactions so that they can be easily accessed, calculated and printed quickly.

**Who uses the financial accounts of a business?**
- **Shareholders**: They will want to know about the profit or losses made during the year and whether the business is worth more at the end of the year or not.
- **Creditors**: They want to see whether the company can afford to pay their loans back or not.
- **Government**: Again, they want to check to see if correct taxes are paid. They also want to see how well the business is doing so that it can keep employing people.
- **Other companies**: Other companies want to compare their performance with a business or see if it is a good idea to take it over.

**What do final accounts contain?**

**The trading account**
This account shows how the **gross profit** of a business is calculated. Obviously, it will contain this formula:

\[
\text{Gross profit} = \text{Sales revenue} - \text{Cost of goods sold}
\]

Note that:
- Gross profit does **not** take to account **overheads**.
- **Only** calculate the **cost of goods sold**, and forget the **inventory**.
- In a **manufacturing business**, **direct labour and manufacturing costs** are also deducted to obtain gross profit.

**The profit and loss account**
The profit and loss account shows how **net profit** is calculated. It starts off with gross profit acquired from the trading account and by deducting all other costs it comes up with net profit.

**Depreciation** is the fall in value of a fixed asset over time. It is also counted as an indirect cost to businesses.

As for **limited companies**, there are a few differences with the normal profits and loss account:
- **Profits tax** will be shown.
- It needs to have an **appropriation account** at the end of the profits and loss account. This shows what the company has done with its net profits, in other words, how much **retained profit** has been put back into the company.
- Results form the **previous year** are also included.

**Balance sheet**
The balance sheet shows you a business's assets and liabilities at a particular time. The balance sheet records the **value** of a business at the end of the financial year. This is what it contains:
• **Fixed assets**: land, vehicles, buildings that are likely to be with the business for more than one year. They **depreciate** over time.
• **Current assets**: stocks, inventory, ash and debtors that are only there for a short time.
• **Long-term liabilities**: long-term borrowings that does not have to be paid in one year.
• **Short-term liabilities**: short-term borrowings that has to be paid in less than one year.

If your **total assets** are **higher** than your **total liabilities**, then you are said to own **wealth**. In a normal business, wealth belongs to the **owners**, while in a limited company, it belongs to the **shareholders**. Hence the equation:

\[ \text{Total assets} - \text{total liabilities} = \text{Owners'/Shareholders' wealth} \]

Here are some terms found in balance sheets:

• **Working capital**: is used to pay short-term debts and known as **net current assets**. If a business do not have enough working capital then it might be forced to go out of business. The formula:

\[ \text{Working capital} = \text{Current assets} - \text{Current liabilities} \]

• **Net assets**: Shows the net value of all assets owned by the company. These assets must be paid for or finance by **shareholders' funds** or **long term liabilities**. The formula:

\[ \text{Net assets} = \text{Fixed assets} + \text{Working capital} \]

• **Shareholders' funds**: The total sum invested into the business by its owners. This money is invested in two ways:

  - **Share capital**: Money from newly issued shares.
  - **Profit and loss reserves**: Profit that is owned by shareholders but not distributed to them but kept as part of shareholders' funds.

• **Capital employed**: Long-term and permanent capital of a business that has been used to pay for all the assets. Therefore:

\[ \text{Capital employed} = \text{net assets} \]
\[ \text{Capital employed} = \text{Shareholders' funds} + \text{long-term liabilities} \]

**Analysis of published accounts**

Without analysis, financial accounts tell us next to nothing about the performance and financial strength of a company. In order to do this we need to compare **two figures** with each other. This is called **ratio analysis**.

**Ratio analysis of accounts**

The most common ratios used are for comparing the **performance** and **liquidity** of a business. Here are five of the most commonly used ratios.

**Ratios used for analysing performance:**
• **Return on capital employed:** This result could show the efficiency of a business. If the result rises, the managers are becoming more successful.

\[
\text{Return on capital employed (\%) } = \frac{\text{Operating profit}}{\text{Capital employed}} \times 100
\]

• **Gross profit margin:** If this rises, it could mean that either they are increasing added value or costs have fallen.

\[
\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100
\]

• **Net profit margin:** The higher the result, the more successful the managers are. This could be compared with other businesses too.

\[
\text{Net profit margin} = \frac{\text{Net profit before tax}}{\text{Sales revenue}} \times 100
\]

**Note:** Net profit does **not** include tax.

**Ratios used for analysing liquidity:** This is too see how much cash a business has to pay off all of its short-term debts.

• **Current ratio:** This ratio assumes that all current assets could be converted into cash quickly, but this is not always true since **stock/inventory** could not be all sold in a short time. Generally, a result of 1.5 to 2 would be preferable, so that a business could pay all of its short-term debts and still have half of its money left.

\[
\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}
\]

• **Acid test or liquid ratio:** This type of analysis neglects stocks, but it is similar to the current ratio analysis.

\[
\text{Acid test ratio} = \frac{(\text{Current assets} - \text{Stocks})}{\text{Current liabilities}}
\]

These ratios can be used to:

- Compare with other years.
- Compare with other businesses.

It must be remembered that a ratio on its own will give you nothing, but when it is compared with ratios from the past and other businesses it will tell you a lot of things.

However, there are still some **disadvantages** of ratio analysis:

- Only shows past results, does **not** show anything about the **future**.
- Comparisons between years may be **misleading** because of **inflation**.
- Comparisons between businesses could be **difficult** since each has its **own accounting methods**.

That'll be all for today. Chapter 8 coming very soon!
Chapter 8: Cash flow planning

What is meant by cash flow?

Cash is a liquid asset, meaning that it can be spent on goods and services any time. Many business experience cash flow problems, meaning that they do not have enough cash to do what they want to do. Cash flow means "the flow of money in and out of a business". These are ways cash flow can occur:

Cash inflows:

- Sale of goods for cash.
- Payment from debtors.
- Borrowing from a source (but will inevitably lead to cash outflow in the future).
- Sale of unwanted assets.
- Investment from investors: shareholders and owners.

Cash outflows:

- Purchasing goods for cash.
- Payment of wages, salaries and others in cash.
- Purchasing fixed assets.
- Repaying loans.
- Repaying creditors.

Cash flow cycle

A cash flow cycle explains the stages that are involved in the process of cash out and finally into the business. This is what happens:

The longer it takes for cash to get back to the business, the more they will need working capital to pay off their short-term debts. This cycle also helps us understand the importance of cash flow planning. This is what happens when a company is short on cash:

- Not enough to pay for materials, therefore sales will fall.
- The company will want to insist customers on paying in cash, but they might lose them to competitors who let them pay in credit.
- There could be a liquidity crisis when it does not have enough cash to pay for overheads (bills, rent, etc.) and the business might be forced to close down by its creditors.

Managers need to plan their cash flow so that they do not end up in these positions.
Cash flow is not profit!

First we need to examine the formula for cash flow:

\[
\text{Cash flow} = \text{Cash inflow} - \text{Cash outflow}
\]

However, when calculating profit, we also take into account credit that debtors owe us. Therefore, a company might make $20,000 in profit but only $10,000 is received in cash because half of it is payed by credit card.

This creates something known as insolvency:

- Profitable business could run out of cash because of various reasons. This is called insolvency and it is one main reason why businesses fail.
- This can be because of several reasons:
  - Allowing customers too long to pay back, so that they will not have paid off the debts yet by the time the business has run out of cash.
  - Purchasing too many assets at once.
  - Producing or purchasing too much stock/inventory when expanding too quickly. This is called overtrading.

Here is an example of a cash flow statement:

<table>
<thead>
<tr>
<th></th>
<th>January</th>
<th>February</th>
<th>March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Bank Balance (A)</td>
<td>10,000</td>
<td>15,000</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Cash inflows (B)</td>
<td>35,000</td>
<td>45,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Cash outflows (C)</td>
<td>30,000</td>
<td>65,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Net Cash Flow (D) = B - C</td>
<td>5,000</td>
<td>(20,000)</td>
<td>10,000</td>
</tr>
<tr>
<td>Closing Bank Balance (= A + D)</td>
<td>15,000</td>
<td>(5,000)</td>
<td>5,000</td>
</tr>
</tbody>
</table>

As you can see, the closing bank balance in February is negative, which means that it has become overdrawn.

**Cash flow forecasts**

Because of the aforementioned problems, it is important for the manager to get an idea of how much cash will be available for which months. A cash flow forecast can tell the manager:

- How much cash is available for paying bills, loans and other fixed assets.
- How much the bank might need to lend to avoid insolvency.
- Whether the business has too much cash which could be more useful if used.

**Uses of cash flow forecasts:**

- **Starting up a business:** In the first months of a business, a lot of capital will be needed to set it up properly. The problem is, not everybody realises that the amount of money they needed is much more than they had expected. Therefore, a cash flow forecast will give them a better idea of how much money will be needed.
Keeping the bank manager informed: It needs to be shown to the bank to inform it of the size of the needed loan/overdraft, when it is needed, how long it is needed and when it could be repaid. Only then will the bank give you a chance to get a loan.

Running an existing business: It is important to know the cash flow of a business so that loans could be arranged in advance in order to get the least interest possible. If a firm has cash flow problems and goes to the bank for a loan for the next day, it will charge high interests because it knows that the business has no choice. Also, if a business exceeds the overdraft limit without informing the bank, it could be asked to repay the overdraft immediately and could result in closure of the business.

Managing cash flow: If a business has too much cash, it should put the cash to some good use quickly. Some examples of this is: repaying all loans for less interest, paying creditors immediately to get discounts.

How can cash flow problems be solved?

Here are some steps to solve cash flow problems:

- Arrange for future loans with the bank when you anticipate negative cash flow.
- Reduce or delay planned expenses until cash is available, e.g. ask to pay in credit.
- Increasing forecasted cash inflow, e.g. by getting a part-time job.

For more information on the importance of cash flow visit page 132 in the book. This case study will give you a lot of information. As for the time being, that's the end of chapter 8!
Chapter 9: Financing business activity

Why do businesses need finance?

Businesses need finance, or money, to pay for their overhead costs as well as their day to day and variable expenses. Here are three situations when businesses need finance the most:

- **Starting a business**: Huge amounts of finance is needed to start a business which requires buying fixed assets, paying rent and other overheads as well as producing or buying the first products to sell. The finance required to start up a business is called **start-up capital**.
- **Expanding a business**: When expanding, a lot of capital is needed in order to buy more fixed assets or fund a takeover. Internal growth by developing new products also requires a notable amount of finance for R&D.
- **A business in difficulties**: For example, for loss making businesses money is needed to buy more efficient machinery, or money is needed to cover negative cash flow. However, it is usually difficult for these firms to get loans.

All all cases, businesses need finance for either **capital expenditure** or **revenue expenditure**:

- **Capital expenditure**: Money spent on fixed assets.
- **Revenue expenditure**: Money spent on day-to-day expenses.

Sources of finance

There are many ways to obtain finance, and they can be grouped in these ways:

- **Internal or external**.
- **Short-term, medium-term or long-term**.

Internal finance:

This is finance that can be taken from within the business itself. There are advantages and disadvantages to each of them:

- **Retained profit**: Profit reinvested into a business after part of the net profit has been distributed to its owners.
  - + Retained profit does **not** have to be **repaid** unlike a loan.
  - - New businesses **do not have much** retained profit.
  - - Retained profit from small firms are **not enough** for expansion.
  - - **Reduces payment** to owners/shareholders.
- **Sale of existing assets**: Firms can get rid of their unwanted assets for cash.
  - + Makes better use of capital that is not used for anything.
  - - Takes time to sell all of these assets.
  - - New businesses do not have these assets to sell.
- **Running down stocks**: Sell everything in the current existing inventory.
  - + Reduces **opportunity cost** and **storage costs** of having inventory.
  - - Risks **disappointing** customers if there are not enough stock left.
- **Owners' savings**: Only applies to businesses that do not have limited liability. Since the legal identity of the business and owners are the same, this method is considered to be internal.
External finance:

This is money raised from individuals or organisations outside a business. It is the most common way to raise finance.

- **Issue of shares**: Same as owners' savings, but only available to limited companies.
  - + A permanent source of capital that does not have to be repaid.
  - + No interest paid.
  - - Dividends will have to be paid.
  - - Ownership of the company could change to the majority shareholder.
- **Bank loans**: money borrowed from the bank.
  - + Quick to arrange.
  - + Variable lengths of time.
  - + Lower rates offered if a large company borrows large sums.
  - - Must be repaid with interest.
  - - Collateral is needed to secure a loan and may be lost.
- **Selling debentures**: These are long-term loan certificates issued by limited companies.
  - + These can be used to raise long-term finance, e.g. 25 years.
  - + No collateral is required, just the trustworthiness of a big company.
  - - Must be repaid with interest.
- **Factoring of debts**: Some businesses (debt factors) "buy" debts of a firm's debtors (e.g. customers) and pay the firm cash in return. The firm now does not worry about worrying about whether their customers will pay or not and 100% of all the debts goes to the factor. Factoring debt is very difficult for me to understand and explain, so explore [http://business-debt.cleardebts.co.uk/factoring.html](http://business-debt.cleardebts.co.uk/factoring.html) for more information.
  - + Immediate cash is obtained.
  - + Risk of collecting debt becomes the factor's.
  - - The firm does not receive 100% value of the debt.
- **Grants and subsidies**: can be obtained from outside agencies like the government.
  - + Do not have to be repaid.
  - - They have conditions that you have to fulfill (e.g. locating in poor areas).

Short-term finance:

This is working capital required to pay current liabilities that is needed up to three years. There are three main ways of acquiring short-term finance:

- **Overdrafts**: Allows you do draw more from your bank account than you have.
  - + Overdrafts can vary every month, making it flexible.
  - + Interest only needs to be paid only to the amount overdrawn.
  - + They can turn out cheaper than loans.
  - - Interest rates are variable, and often higher than loans.
  - - The bank can ask for the overdraft back immediately anytime.
- **Trade credits**: Delaying payment to your creditors, which leaves the company with better cash flow for that month.
It is almost a short-term interest free loan.
- The supplier could refuse to give discounts or to supply you at all if your payments are delayed too much.

- **Factoring of debts**

**Medium-term finance:**

Finance available for 3 to 10 years that is used to buy fixed assets such as machinery and vehicles.

- **Bank loans**
- **Hire purchase:** This allows firm to pay for assets over time in monthly payments which has interest.
  - + The firm does not have to come up with a lot of cash quickly.
  - - A deposit has to be paid at the start of the period of payment.
  - - Interest paid can be very high.
- **Leasing:** Hiring something. Businesses could use the asset but will have to pay monthly. The business my choose to buy the asset at the end of the leasing period. Some businesses sell their fixed assets to a leasing company who lease them back so that they could obtain cash. This is called sale and leaseback.
  - + The firm does not have to come up with a lot of cash quickly.
  - + The leasing firm takes care of the assets.
  - - The total leasing costs will be higher than if the business has purchased it.

**Long-term finance:**

This kind of finance is available for more than 10 years. The money is used for long-term fixed assets or the takeover of another company.

- **Issue of shares:** Shares are sometimes called equities, therefore issuing shares is called equity finance. New issues, or shares sold by public limited companies can raise near limitless finance. However, a business will want to give the right issue of shares so that the amount bought by shareholders will not upset the balance of ownership.
  - + A permanent source of capital that does not have to be repaid.
  - + No interests paid.
  - - Dividends will have to be paid. And they have to be paid after tax (so taxes become higher), while interest on loans are paid before taxes.
  - - Ownership of the company could change hands to the majority shareholder.
- **Long-term loans or debt finance:** Loans from a bank, and this is how they are different from issuing shares:
  - Interest is paid before taxes, it is counted as an expense.
  - Interest has to be paid every year but dividends only need to be paid if the firm has maid profit.
  - They are not permanent capital.
  - They need collateral.

**Debentures**

**How the choice of finance is made in a business**

These are the factors that managers consider when choosing the type of finance they need.
Purpose and time period: Managers need to match the source of finance to its purpose. It is quite simple, short-term finance is used to buy current assets and things like that, while long-term finance for fixed assets and similar things.

Amount needed: Different types of finance depends on how much is needed.

Status and size: Bigger companies have more choices of finance. They pay less interest to banks.

Control: owners lose control if they own less than 51% of shares in their company.

Risk and gearing: loans raise the gearing of a business, meaning that their risk is increased. Gearing is can be obtained by calculating the percentage of long-term loans compared to total capital. If long-term loans take up more than 50% of total capital, then the business would be called highly geared. This is very risky because the business will have to pay back a lot of its loans and has to succeed to do so. Banks are less willing to lend to these businesses, so they will have to find other types of finance.

Will banks lend and will shareholders invest?

Loans will be available to businesses but information about the business is required:

- The firms's trading records.
- Forecasts about the future.
- Forecasts have to show that the firms are solvent, i.e. able to repay the loan and the interest back.

Banks will also consider:

- Experience of the people running a business.
- Gearing ratio of a business.

This is what shareholders will consider if they want to invest:

- The future prospects of the company.
- How much dividends are given out compared to other companies.
- Trend of share prices.
- Gearing ratio.

Business plans

Banks will want to see a business plan if they are to lend to most businesses, especially a newly created one. A business plan contains:

- Objectives.
- How the business will be operated.
- How the business will be financed.

By creating a business plan owners will have to think carefully ahead about their business to ensure the best plan possible. These are things they will need to consider:

- Target market and consumers.
- Profits, costs and break-even point.
- Location of the business.
- Machinery and workers required.
Without a **detailed** plan which **works**, bank managers will be reluctant to lend any money to businesses because their owners have not shown that they are serious enough about their business.

Here is an example of a business plan from the book, it shows the things you need to put in a business plan:

As a little reminder, this business plan is not mine, and all credit goes to the book and its author. Thank you

That's the end of chapter 9! If you want to view this page in 5 different dynamic view, click **here**.
Chapter 10: Organisational Structure

What is organisational structure?

Organisational structure refers to the levels of management and division of responsibilities within a business, which could be presented in an organisational chart.

For simpler businesses in which the owner employs only himself, there is no need for an organisational structure. However, if the business expands and employs other people, an organisational structure is needed. When employing people, everybody needs a job description. These are its main advantages:

- People who apply can see what they are expected to do.
- People who are already employed will know exactly what to do.

Here is an example of a Job Description taken from the book:

![Job Description]

When there are more than one person in a small business and they all do different things, it means that they are specialising in different jobs.

Delegation

Delegation refers to giving a subordinate the responsibility and authority to do a given task. However, the final responsibility still lies with the person who delegated the job to the subordinate. Here are the advantages of delegation for managers and employees, as well as why some managers choose not to delegate.

Pros for the manager:

- By letting subordinate do smaller tasks, managers have more time to do more important tasks.
- Managers are less likely to make mistakes if tasks are done by specialist employees.
- Managers can measure the success of their task more easily.
Pros for the subordinates:

- Work becomes more interesting and rewarding.
- Employees feel important and trusted.
- Helps train workers, giving them better career opportunities.

Why some managers don't want to delegate:

- Managers are afraid that their employees will fail.
- Managers want total control.
- Managers are scared that the subordinate will do tasks better than them, making them feel insecure.

Delegation must mean:

- A reduction in direct control by managers or supervisors.
- An increase in trust of workers by managers or supervisors.

Organisational charts

Eventually, when a business grows larger and employs many people, they will have to create an organisational chart to work out a clear structure for their company. Here is another example of an organisational chart from the book:

Here are the most important features of the chart:

- It is a hierarchy. There are different levels in the business which has different degrees of authority. People on the same level have the same degree of authority.
- It is organised into departments, which has their own function.
- It shows the chain of command, which is how power and authority is passed down from the top of the hierarchy, and span of control, meaning how many subordinates one person controls, of the business.

Advantages of an organisational chart:

- The charts shows how everybody is linked together. Makes employees aware of the communication channel that will be used for messages to reach them.
- Employees can see their position and power, and who they take orders from.
- It shows the **relationship** between departments.
- Gives people a sense of **belonging** since they are always in one particular department.

**Chain of command and span of control:**

Here are two organisations, one having a long chain of command and the other a wide span of control. Therefore, the longer the chain of command, the taller the business hierarchy and the narrower the span of control. When it is short, the business will have a wider span of control.

In recent years, people have began to prefer to have their business have a wider span of control and shorter chain of command. In some cases, whole levels of management were removed. This is called **de-layering**. This is because short chains of commands have these advantages:

- **Communication** is **faster** and more **accurate**. The message has to pass through less people.
- **Managers** are **closer** to all employees so that they can understand the business better.
- **Spans of control** will be wider, meaning that the manager would have to take care of more subordinates, this makes:
  - The manager **delegate** more, and we already know the advantages of delegation.
  - Workers gain more **job satisfaction** and **feel trusted** because of delegation.

However, if the span of control is too wide, managers could **lose control**. If the subordinates are poorly trained, many mistakes would be made.

**Functional departments**

Here is an example of an organisational chart from a larger business from the book:
Here are the key features of this graph:

- The business is divided into **functional departments**. They use **specialists** for each job and this creates more **efficiency**. However, workers are more **loyal** to their department than to the organisation as a whole. Therefore, **conflict** can occur between different departments. Managers working in these departments are called **line managers**, who have direct authority and the power to put their decisions into effect over their department.
- Not only are there departments, there are also other **regional divisions** that take care of outlets that are situated in other countries. They use the local knowledge to their advantage.
- There are some departments which do not have a distinctive function but still employ **specialists** and report directly to the **CEO/Board of Directors**. These departments are the **IT department**, and the **Economic Forecasting department**. Some say the **HR** department fits in this category. These departments give **specialist advice** and **support** to the board of Directors and **line managers**, and the managers of these departments are called **staff managers**. They are often very highly qualified personnel who specialise in only their area.

Here are the pros and cons of employing **staff managers**:

**Pros:**

- Staff managers **help** and **provide advice** for line managers on things such as computer systems.
- Helps line managers **concentrate** on their **main tasks**.

**Cons:**

- There may be **conflict** between the two groups on important decisions and views.
- Line employees may be **confused** and do not know who to take orders from, line or staff managers.
Decentralisation

Decentralisation refers to a business delegating important decisions to lower divisions in the business. In a centralised structure important decisions are taken at the centre, or higher levels of management.

Advantages of a decentralised structure:

- Decisions are made by managers who are "closer to the action".
- Managers feel more trusted and get more job satisfaction due to delegation.
- Decisions can be made much more quickly.
- The business can adapt to change much more quickly.

Decentralisation means that:

- Less central control.
- More delegation.
- Decisions taken "lower down" in the organisation.
- Authority given to departments/regions

Different forms of decentralisation:

- **Functional decentralisation**: Specialist departments are given the authority to make decisions. The most common of these are:
  - Human Resources.
  - Marketing.
  - Finance.
  - Production.
- **Federal decentralisation**: Authority is divided between different product lines. e.g separate truck/car/bus divisions.
- **Regional decentralisation**: In multinationals, each base in each country has authority to make its own decisions.
- **Decentralisation by project means**: For a certain project, decision-making authority is given to a team chosen from all functional departments.

Is complete decentralisation a good idea?

It is dangerous to let the lower-level management make all the decisions. Therefore, it is wise for the central management to decide on major issues, long-term decisions, growth and business objectives. If these issues are not centralised then there would be a lack of purpose or direction in the business.

That's all folks! It's Pi Mai on Friday! Have fun water fights!
Chapter 11: Managing a business

What do managers do?
All organizations have managers. They can come by the name of director, headmaster, etc... but they all perform similar tasks. These tasks are:

Planning:
Planning for the future involves setting goals for a business. These goals give the business a sense of direction and purpose. Now the whole business will have something to work towards. Managers also need to plan for resources which will be needed. These are only two strategies managers use to keep the business running.

Organising:
A manager cannot do everything by himself. Therefore, jobs must be delegated to employees. Employees need sufficient resources to complete their job, so managers need to organise people and resources effectively.

Co-ordinating:
Managers need to bring people together in a business for it to succeed. This is called co-ordination. If different functional departments do not co-ordinate, they could be doing completely different things which does not follow any common plan. Managers could co-ordinate the departments by holding regular meetings or setting up a project team with different members from different departments.

Commanding:
Commanding refers to guiding, leading and guiding subordinates which is very important in any organisation. Managers need to make sure that all subordinates are following targets and deadlines. It is the responsibility of the manager to ensure that all tasks are completed and therefore instruction and guidance must be provided to employees so that they can do so.

Controlling:
Controlling means evaluating the performance of subordinates, so that corrective action can be carried out if the subordinates are not sticking to goals.

To sum up, this is what management gives to any organisation:

- a sense of control and direction.
- co-ordination between departments, preventing wastage of efforts.
- control of employees.
- making the most out of resources (organisation)

What makes a good manager?

There are different views of why some managers are better than others. Some say that managers are born that way, while others say good managers are trained. However, good managers do have these distinct characteristics:

- intelligence: to understand difficult ideas and deal with different issues.
- initiative: to be able to think of solutions and take control of situations.
- **self-confidence**: to be willing to lead others and be a model image.
- **assertiveness and determination**: to be able to take command of others and take ideas and solutions to the end.
- **communication skills**: to be able to inform subordinates in a clear way so that they will respond positively.
- **energy and enthusiasm**: to work with high effort and involvement so that others will follow.

**Styles of leadership:**
Different managers use different styles of leadership, and each one makes subordinates react in a certain way. It is important for the managers to choose the appropriate leadership style for the right situation. These styles will be discussed in Chapter 13: Motivation at work.

**Management involves taking risks:**
All managers need to make decisions in what they do, whether it is planning, organising, coordinating, etc. All as you know, all decisions involve some sort of risk.

**Are all decisions as important as each other?**
There are three types of decisions which has their type of importance and the length of time that is going to affect the business. They are:

- **Strategic**: These are very important decisions that will affect the overall success of an organisation. They are long-term decisions such as company goals or growth. They are usually taken by the top management.
- **Tactical**: These are decisions that are less important decisions that are taken more frequently. They can include: new ways to train staff, new transportation routes used, advertising methods, etc... They are usually taken by the middle management.
- **Operational**: They are day-to-day decisions taken by the lower management. They tend to be repetitive and previous experience could be used to help making these decisions. They can be: inventory/stock levels, ordering goods, dealing with customers.

All of these decisions involve risk. Since they all cost **time, money** and **opportunity** cost one should think well before making a decision.

In business, decisions need to be made and the risks need to be accepted. People like sole traders who have unlimited liability risk loosing all that they own by setting up a business are called **entrepreneurs**. As we already know they are the **managers** and **risk-takers** of a company. Managers in a limited company are not "real" entrepreneurs, because they are not risking their assets but the capital of the shareholders.

**How can managers reduce risks when taking decisions?**
Risks are the **results of failure**. Risks cannot be eliminated, but they can be reduced by the process of making decisions. Here are the steps:

- **Set goals**: It is impossible to make decisions if the aims are not clear.
- **Identify and analyse the problem**: Managers all make decisions to solve a problem. This problem might be how to use your salary in the most efficient way possible, how to spend the rest of your life, etc... It is imperative that you must understand the problem before finding a solution for it. Otherwise, you might make the wrong decision.
- **Collect data on all possible alternative solutions:** It is always important to analyse all possible solutions to find which one is the best. The data collected should also contain **constraints** and **limitations** on the possible decisions (e.g. the law).
- **Make the final decisions and put it into effect:** This is called **implementing the decision.** This means that the manager must see to it that the decision is carried out and is working to plan.
- **Review and evaluation of decision:** This is looking back at the decision to identify pros and cons of a decision so that the experience can be used in the future. This is often hard to do especially when the wrong decision is made. It is nevertheless necessary.

Here is a decision-making flow chart from the book that will help you visualise the process:

![Decision-Making Flow Chart](image)

**Management responsibilities in departments:**

**Human resources department:**

- **Forecasting** staffing needs.
- **Recruiting** staff.
- Preparing the **job descriptions** and **job specifications**.
- Planning and implementing staff **training** programmes.
- **Interviewing** and **selecting** staff.
- **Negotiating** with worker representatives, such as union leaders, on **wages** and **working conditions**.
- Keeping **staff records**.
- **Disciplining** staff

The role of this department is becoming more and more important as the cost of hiring staff rises, so that it is crucial for the HR department to manage people firmly and fairly. An unsuccessful HR department results in a high **staff turnover** (people leaving the business early). The department must also make sure that the business and staff comply with all employment laws.

**Marketing department:**

- Market research for:
  - New **products**.
  - New **markets**.
  - New **opportunities**.
- **Planning** the release of new products, often working with the Production and R&D departments.
- Decide on the best **marketing mix** (discussed later) for a product and implementing it.
- Keeping track of products so **extension strategies** can be used or to take the product off the market.
The marketing department is crucial for the business to keep in touch with its customers. No business can survive without this kind of function.

**Accounting and finance department:**
- Recording all **financial transactions**.
- Collecting all the data and presenting it as the **regular accounts**.
- Preparing all **budgets**.
- Analysing the **profitability** of new projects.
- Deciding on which **source of finance** to use.
- Keeping control over business **cash flow**.

**Production department/Operations management:**
- Ordering **stock/inventory** of **materials** and **resources** used for producing goods.
- **Developing** and designing new products.
- **Locating** in the most cost-effective place possible.
- Deciding on the **methods of production** and **machinery**. Purchase of new machinery will involve the Finance department.
- Controlling production to maintain high levels of **efficiency**.
- Maintaining the **efficiency** of **machines**.
- Keeping the **quality** high to meet the **standards** of the consumers. All staff will need to co-operate because poor quality is normally blamed on bad staff.

**Administration department:**
The responsibilities of the Administration department varies with the business it is in. For example, in smaller businesses, the administration department would be the same as the Accounts and Finance department. A larger business will have more specialized administrative department. These are what the department does:

- **Clerical and office support services**: Ensure the smooth running of all other departments.
  - **Sorting** of incoming mail and sorting and franking of outgoing mail.
  - **Reception** will greet visitors, answer calls, and schedule rooms for meetings.
  - **Office** tasks will include filing all records. e.g. visitors and calls.
  - **Information** and data processing.
- **Responsibility for the IT system**:
  - The **IT** department is part of the Administration department.
  - Allows **information** to be delivered between departments **accurately**.
  - Provides managers with **data** to help in decision making.
- **Cleaning, maintenance and security**:
  - Vital for **safe** and **healthy working conditions**.
  - Failure to maintain **equipment** and the **building** (e.g. air conditioner) will result in reduced **efficiency**.

The widespread use of **computers** means that many workers in all departments can do some of these tasks by themselves (clerical and support services), reducing the function of the Administration department and make them less common in businesses.

That's all for today! Next chapter coming tomorrow!

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Chapter 12: Communication in business

What is effective communication and why is it necessary?

Communication is when a message transferred from one person to another and is understood by the latter. We communicate everyday (by talking, by chatting, by texting, etc.) but we need to learn how to communicate effectively. Effective communication means that: "The information or message being sent is received, understood and acted upon in the way intended."

In business, ineffective communication or communication failure could result in serious problems.

Why do people within business need to communicate with each other?

In business, if we do not communicate, we would be working as individuals with no co-ordination with anybody else in the business. The management, whose tasks are guiding, instructing and commanding subordinates could not be done because they cannot communicate with them. Here are some common messages found in the workplace:

- No Smoking (sign)
- You are fired because you are always late (letter)
- Do not touch (sign)
- There will be a fire drill 11:00 today (noticeboard)

There are many more things that are communicated. Consequences would be severe if these matters are not communicated effectively.

The process of effective communication:

Effective communication involves four features:

- The transmitter/sender who sends the message. He has to choose the next two features carefully for effective communication.
- The medium of communication. It is the method of communication, e.g. noticeboard, letter, etc...
- The receiver who receives the message.
- Feedback means that the receiver has received the message and responds to it. This confirms that the message has been understood and acted upon if necessary.

One-way and two-way communication

There are two types of communication. One-way communication is when there is no feedback required for the message, or the receiver is not allowed to reply. This might be the sign that says "No smoking", or your boss saying: "give me a biscuit". The other is two-way communication, when feedback is required. Therefore, both people are now involved in the communication process. This could lead to better and clearer information.

Pros of two-way communication:

- The sender can now know whether the receiver has understood and acted upon the message or not. If they have not, the message might have to be sent again or made
Effective communication takes place only if the message is understood by the receiver.

- Both people are involved in the communication process. This makes the receiver feel more important which might motivate them to make better contributions to the topic discussed.

**Internal and external communication**

**Internal** communication is messages sent between people inside a business. For example:

- The boss talking to his subordinates.
- A report sent to the CEO.

**External** communication refers to messages sent to people or organisations outside the business. For example:

- Orders for goods from suppliers.
- Talking to customers.
- Advertising to the public.

Both types of communication is almost the same, the only difference is who is being communicated with.

**Why external communication has to work well**

External communication can greatly affect the efficiency and image of a business. Imagine if the wrong information is sent to a supplier and a customer. The supplier would send wrong materials while the customer might buy products from another company. Here are some cases which ineffective external communication might turn out to be very dangerous:

- The Finance Manager writes to the tax office inquiring about the amount of tax that must be paid this year.
- The Sales Manager receives an order of 330 goods to be delivered on Wednesday.
- The business must contact thousands of customers because a product turned out to be dangerous. An add must be put into the newspaper so that customers can return the product for a refund.

**Different ways of communicating: the communication media**

Information can be transmitted in several ways:

- **Verbal:** Involves the sender speaking to the receiver.
- **Written:** The message is written to the receiver.
- **Visual:** Using charts, videos, images or diagrams to communicate a message.

There is no best method of communication, so the appropriate medium of communication must be selected depending on the situation. First the sender also has to analyse the advantages and disadvantages of each type of communication.
Verbal communication

Verbal/Oral communication might be:

- One-to-one talks.
- Telephone conversations.
- Video conferencing.
- Meetings.

Pros:

- Information is transferred **quickly**. This is an efficient way to communicate in meeting to lots of people.
- There is opportunity for **immediate feedback** which results in **two-way** communication.
- The message might be **enforced** by seeing the speaker. Here the **body language** and **facial expression** could make the message easily understood.

Cons:

- In big meetings, we do not know if everybody is **listening** or has **understood** the message.
- It can take **longer** for **verbal feedback** to occur than **written feedback**.
- Verbal communication is **inappropriate** for storing **accurate** and **permanent** information if a message. (e.g. warning to a worker)

Written communication including electronic communication

Here are some written forms of communication:

- **Letters**: Used for both external and internal communication. Follows a set structure.
- **Memos**: Used only for internal communication.
- **Reports**: Detailed documents about any problem. They are done by specialists who send them to managers to analyse before meetings. These reports are often so detailed that they cannot be understood by all employees.
- **Notices**: Pinned to noticeboards that offer information to everyone. However, there is no certainty on whether they are read or not.
- **Faxes**: Written messages sent to other offices via telephone lines.
- **E-mails**: Messages sent between people with the same **computing facilities**. The message is printed if a **hard copy** is needed.
  - **Intranet**: A network inside a business which lets all employees with a computer message each other.
  - **Internet**: The global network for messaging anyone. (e.g. customers, suppliers)

Pros:

- There is **hard evidence** of the message which can be referred to and help solve **disputes** in the **future** over the content of the message.
- It is needed when **detailed** information is transferred: it could be easily **misunderstood**. Some countries the law states that businesses need to put safety notices up because people could **forget** them.
- The written message can be **copied** and sent to **many people**.
- **Electronic communication** is a **quick** and **cheap** way to get to many people.
Cons:

- **Direct** feedback is not always possible, unless electronic communication is used. However, this could result in too many emails sent (**information overload**). Direct feedback via other means of written communication is hard.
- It is not as easy to **check** whether the message has been **understood** or **acted upon**.
- The **language** used might be **difficult** to **understand**. The message might be **too long** and **disinterested** the reader.
- There is no opportunity for **body language** to be used to **enforce** the message.

Visual communication

Here are some forms of visual communication:

- **Films**, **videos**, and **PowerPoint displays**: often to help train new staff or inform sales people about new products.
- **Posters**: can be used to explain a simple but important message. (e.g. propaganda poster)
- **Charts** and **diagrams**: Can be used in letters or reports to **simplify** and **classify** complicated data. Computer technology could help in the design of these charts or diagrams. A printed copy might be needed for **hard** data to add to reports and documents.

Pros:

- Present information in an **appealing** and **attractive** way that **encourages** people to look at it.
- They can be used to make a written message **clearer** by adding a picture or a chart to illustrate the point being made.

Cons:

- **No feedback** is possible. People need to checked via verbal or written communication to check that they have understood the message.
- Charts and graphs might be **difficult** for some people to **understand**. The message might be misunderstood if the receiver does not know how to interpret a **technical diagram**.

Formal and informal communication

**Formal communication** is the channel of communication that is **recognised** by the business, such as notices on boards, emails and memos. Formal means of communication is important. It shows that the information given is true.

**Informal communication** might be communication between friends and co-workers. There is no set structure and the information transferred is not **recognised** by the business. This channel of communication could be used by the manager to **try out new ideas**, before publicly announcing it to the rest of a company. However, informal communication can result in **gossip** can **rumour**, and managers have no way to remove these informal links from people.
**Communication nets**

There are many groups of people in any organisation, and each of them communicate in different ways. People have connections with each other, and these links form communication nets. There are three standard types of communication nets:

**Chain network:**

- Can be used to transfer important messages from higher management levels to lower levels.
- This often leads to one way communication.
- The message could become altered as it passes through different management levels.

**Wheel network:**

- The central management can pass messages to all departments quickly.
- The departments cannot communicate directly between themselves.

**Connected network:**

- This is used to create or discuss new ideas.
- It specialises in two-way communication.
- Can be **time-consuming**.
- There is no **clear leader** or **sender** of messages.

**Which network works best?**

There is again, no best network. A company is likely to use different network at **different times** or for **different groups**.

- The **chain network** is for communicating **important business policies**.
- The **wheel network** is used for sending different messages to different **departments**.
- The **connected network** is used to generate new **ideas** or **solutions** to problems where **group discussion** is the most effective.

**The direction of communications**

Here is an organisation chart from the book explaining the direction of communications within the business. The arrows are labeled A, B and C which shows the direction of communication:

- **Arrow A (downwards communication):**
  - Used by managers to send **important messages** to **subordinates**.
  - Does **not** allow **feedback**.
  - The message might be **altered** after passing different levels.
- **Arrow B (upwards communication):**
  - Used by subordinate send **feedback** to **managers**.
  - Feedback from subordinates ensures that there is **effective communication**.
  - Feedback results in higher **morale** and new **ideas** contributed to the business.
- **Arrow C (horizontal/lateral communication):**
  - People at the **same level** of management communicate with each other.
  - Information and ideas can be exchanged both **formally** and **informally**.
  - Can cause **conflict** between departments. (e.g. Production department asks the Finance department for a budget to hire new staff but is rejected)

**Barriers to effective communication**

As we already know, the four parts of effective communication includes the **sender**, **medium**, **receiver** and **feedback**. However, communication may fail if there are problems with one of these four features. If one part fails, it becomes a **barrier to effective communication** which might cause a **breakdown in communication** resulting in serious
consequences to the business. Here are some common barriers to effective communication and how to overcome them.

**Problems with sender:**

- **Problem:** Language is too difficult to understand. Technical **jargon** may not be understood.
  **Solution:** The sender should ensure that the receiver can **understand** the message.
- **Problem:** There are problems with **verbal** means of communication. (e.g. speaking too quickly)
  **Solution:** The sender should make the message as **clear** as possible and ask for **feedback**.
- **Problem:** The sender sends the **wrong message** to the **wrong receiver**.
  **Solution:** The sender must ensure that the **right person** is receiving the **right message**.
- **Problem:** The message is **too long** with too much **detail** which prevents the **main points** from being understood.
  **Solution:** The message should be **brief** so that the **main points** are understood.

**Problems with the medium:**

- **Problem:** The message may be **lost**.
  **Solution:** Check for **feedback**. Send the message again!
- **Problem:** The **wrong channel** has been used.
  **Solution:** Ensure the **appropriate channel** is selected.
- **Problem:** Message could be **distorted** after moving down a long chain of command.
  **Solution:** The **shortest channel** should be used to avoid this problem.
- **Problem:** No **feedback** is received.
  **Solution:** Ask for it! Use **different methods** of communication (e.g. meeting)
- **Problem:** Breakdown of the medium.
  **Solution:** Use other forms of communication.

**Problems with the receiver:**

- **Problem:** They might not be **listening** or **paying attention**.
  **Solution:** The importance of the message should be **emphasised**. Request **feedback**.
- **Problem:** The receiver might not like or **trust** the sender, and may be **unwilling** to **act upon** the message.
  **Solution:** Trust is needed for effective communication. Use another sender to communicate the message.

**Problems with the feedback:**

- **Problem:** There is **no feedback**.
  **Solution:** Ask for feedback. Use a different **method** of communication which **allows feedback**.
- **Problem:** The feedback is received **too slowly** and may be **distorted**.
  **Solution:** Direct lines of communication should be available between the subordinate and the manager.

**Note:** The **forms** of communication are: verbal, written and visual.

The **methods** of communication can be: telephone, e-mail, meeting, etc...

Finished! Enjoy your Pi Mai holidays and have fun! Next chapter coming tomorrow!

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Chapter 13: Motivation at work

Motivation

People work for a number of reasons. Most people work because they need to earn money to survive, while others work voluntarily for other reasons. Motivation is the reason why people work, and it drives them to work better. Therefore, managers try to find out what motivate workers and use them to encourage workers to work more efficiently. This results in higher productivity, increased output, and ultimately higher profits.

- Nowadays, machinery is more common in businesses which results in increased productivity as well. However, the amount that a well motivated workforce can produce must still be recognised, since employees are a firms greatest assets!

Motivation theories

People work very hard when they are working for themselves. When they work for other people, less so. Managers have been looking into what makes employees contribute their fullest to the company and these studies have resulted four main theories of motivation.

F.W.Taylor

Theory:

- **Money** is the main motivator.
- If employees are **paid more**, they **work more**.
- Work is broken down into simple processes, and **more money** is paid which will increase the **level of productivity** an employee will achieve.
- The **extra pay** is **less** than the **increased productivity**.

Cons:

- Workers are seen rather like **machines**, and this theory does not take into account **non-financial motivators**.
- Even if you pay more, there is **no guarantee** of a productivity rise.
- It is **difficult** to **measure** an employees output.

Maslow

Maslow created what is know as the **hierarchy of needs**.

In this diagram, there are 5 different types of motivation:

- **Physiological needs**: basic requirements for survival.
- **Security needs**: the need to by physically safe.
- **Social needs**: the need to belong and have good relationships with co-workers.
- **Esteem needs**: the need for self-respect and to be respected by others.
- **Self-actualisation needs**: the need to reach your full potential and be promoted.

Businesses realise that the more **levels of motivation** are available to workers, the harder they will work. Maslow also suggest that each level of motivation **must** be **achieved before** going to
the next level. Once one level of motivation is met, more of that will no longer motivate the employee.

Cons:

- Some levels are not present in some jobs.
- Some rewards belong to more than one level on others.
- Managers need to identify the levels of motivation in any job before using it to motivate employees.

**Herzberg**

To Herzberg, humans have hygiene factors, or basic animal needs of humans. We also have motivational factors/motivators, that are required for the human to grow psychologically.

**Hygiene factors:**

- Status.
- Security.
- Working conditions.
- Company policies and administration.
- Relationship with supervisor.
- Relationship with subordinates.
- Salary.

**Motivational factors:**

- Achievement.
- Recognition.
- Personal growth/development.
- Advancement/promotion.
- Job satisfaction.

To Herzberg, if the hygiene factors are not satisfied, they will act as demotivators. They are not motivators, since the motivating effect quickly wears off after they have been satisfied. True motivators are are Herzberg's motivational factors.

**McGregor**

McGregor splits his theory into what managers believe. One type believes in theory X, while the other type believes in theory Y. Here is the table:

Here are some differences in how a X manager will work and how an Y manager will work:

- X managers believe that people are naturally lazy, and has to be pushed with external factors to work harder. (e.g. higher pay).
- Y managers believe that people want to do a good days work but need a good environment to do the work. A better environment is an internal factor.
- X managers will try to provide incentives and supervision for employees to work hard.
- Y managers will try to provide a favourable environment so that employees can enjoy their work.
Theory's like Taylor's theory are X theories, while others like McGregor's theory are Y theories. People may say that money is the main motivator, but studies have shown that many people leave jobs because other motivational factors are not available to them.

**Why do people work?**

Here is a summary of why people work:

- **Money**: to satisfy needs and wants.
- **Security**: knowing that you are physically safe and have job security.
- **Social needs**: to belong to a group, making friends at work.
- **Esteem needs** (self importance): feeling important, feeling the job you do is important.
- **Job satisfaction**: enjoyment from the feeling of having done a good job.

**Motivating factors - financial motivators**

There are three ways to motivate a workforce:

- financial motivators
- non-financial motivators
- ways to increase job satisfaction

**Financial rewards**

Pay may be the basic reason why people work, but different kinds of pay can motivate people differently. Here are the most common methods of payment:

**Wages**

Wages are paid **every week**, in **cash** or straight into the bank account, so that the employee does not have to wait long for his/her money. People tend to pay wages to manual workers. Since wages are paid weekly, they must be calculated every week which takes time and money. Wages clerks are paid to do this task. Workers get **extra pay** for the **overtime** that they do. There are some ways that wages could be calculated:

**Time rate**: Time rate is payment according to how many **hours** an employee has worked. It is used in businesses where it is difficult to measure the output of a worker.

- Easy to calculate the wage of the employee. A **time-sheet** must be filled out by the Accounts department to calculate the wage.
- Both good and bad workers get paid the same wages. Therefore, more **supervisors** are needed to maintain good productivity. a **clocking-in system** is needed to know how many hours an employee has done.
Here is an example of a wage slip and time-sheet:

<table>
<thead>
<tr>
<th>Payments</th>
<th>Deductions</th>
<th>To date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic wage 450.00</td>
<td>Income tax 110.00</td>
<td>Tax code 489L</td>
</tr>
<tr>
<td>Overtime 50.00</td>
<td>National Insurance 45.00</td>
<td>Tax week 3</td>
</tr>
<tr>
<td></td>
<td>Pension 30.00</td>
<td>Tax</td>
</tr>
<tr>
<td></td>
<td>Trade Union fees 10.00</td>
<td></td>
</tr>
<tr>
<td>Total 500.00</td>
<td>Total 215.00</td>
<td>Net pay £285.00</td>
</tr>
</tbody>
</table>

They show:

- **Basic pay + Overtime = Gross Pay**
- **Gross pay - Deductions = Net Pay**

**Deductions** include:

- Taxes
- Pension
- Union fees
- National insurance: entitles the payee to short-term **unemployment benefits, sickness benefits** and **state pension**.

**Piece rate**: Piece rates are paid depending on **how many units** they have produced. There is usually a base pay (**minimum wage**) and the piece rate is calculated as a bonus on how many units were created. Piece rates are found in businesses where it is possible to measure a workers productivity.

- + Encourages workers to work **faster** and produce **more goods**.
- - Workers will often **neglect quality**, and businesses will need a **quality control system** which is **expensive**.
- - Workers who **focus** on **quality** will **earn less**. Tension is caused when some workers **earn more** than others.
- - If **machinery breaks down**, employees earn less. That is why there is a guaranteed **minimum pay**.
Salaries

Salaries are paid monthly, and normally straight into the bank account. They are usually for white collar workers. A salary is counted as an amount per year that is divided into 12 monthly accounts. You do not usually receive overtime. Managers only need to pay their workers once a month, and since the amount is transferred by the bank, the manager loses much less time and money calculate salary.

Salaries are usually a standard rate, but other rewards could be given to employees:

- **Commission**: A percentage is paid, usually to sales staff, depending on the value of goods they have sold. Workers are encouraged to sell more. However, they could persuade customers to buy products they don't really want, making the company look bad. Just like the piece rate, in a bad month where there are little sales, worker's pay will fall.
- **Profit sharing**: Employees receive a percentage of the profits made. However, they will get nothing if the business doesn't make a profit. This is often used in the service sector, where it is hard to find an employees contribution to the company.
- **Bonus**: A lump sum paid to employees who have done well. It is usually paid at the end of the year or before holidays. However, this could cause jealousy between workers. Giving bonuses to a team works better.
- **Performance related pay**: Employee pay is linked to the effectiveness of their work. It is often used in organisations where it is hard to measure productivity. It uses the system of appraisal: employees are observed and their colleagues are interviewed to determine their effectiveness. Afterwards, the immediate superior of the employee has a meeting with them to discuss their effectiveness.
- **Share ownership**: Employees receive some shares from the company. They will either benefit from dividends or sell the shares when their price has risen. They will be more motivated because they feel like a part of the company.

Motivating factors - non-financial motivators

There are other factors that motivate people in a business, and they are often called perks or fringe benefits. They may be having free accommodation, free car, etc... However, when you look at it, it is just money in different forms. Here is a list of these motivators:

- Children's education.
- Discounts on company products.
- Free Healthcare.
- Company vehicle.
- Free accommodation.
- Share options.
- Expense accounts.
- Pension.
- Free holidays.
Job satisfaction:

Employees will become more motivated by enjoying the job they do. Job satisfaction can come in different ways. However, there are some factors that demotivate employees if they are not satisfied, and must be satisfied before the motivators can take effect. Here are some things that make workers' jobs satisfying:

- Pay.
- Promotion.
- Working conditions.
- Fringe benefits.
- Management
- Working hours.
- The nature of the work itself.
- Colleagues, etc...

Herzberg and Maslow stresses that things such as responsibility recognition is also crucial to provide job satisfaction. Letting workers contribute to the job would also help, making jobs less boring and more creative. Here are some policies to increase job satisfaction:

Job rotation:

Workers in a production line can now change jobs with each other and making their jobs not so boring. It helps train the employee in different aspects of their jobs so that they can cover for other employees if they do not show up.

Job enlargement:

Adding tasks of a similar level to a worker's job. Job enlargement simply gives more variety to employees' work which makes it more enjoyable.

Job enrichment:

Adding tasks of a higher level to a worker's job. Workers may need training, but they will be taking a step closer to their potential. Workers become more committed to their job which gives them more satisfaction.

Autonomous work groups or teamworking:

This is when group of workers are given total responsibility to organise themselves and perform a task. This makes the employees feel more important, as well as giving them a sense of belonging when they are part of a team. If they organise themselves differently every time, the team could get job enlargement and job enrichment too!

Leadership

Studies have shown that leadership has a great impact on worker's motivation. Good managers have leadership skills that inspire their workers to work better, as well as directing them with a common goal. Managers use many styles of leadership, and they can be summarised into 3 main styles:
Autocratic leadership:

- The manager controls all aspects of their subordinates' work.
- They keep themselves separate from employees.
- Employees are expected to obey every command and cannot contribute to decisions.
- Communication is only top-down.

Laissez-faire leadership:

- Objectives are shown to employees, but the task is completely delegated to them.
- Communication can be difficult since clear instructions are not given.
- The manager has a limited role in this type of leadership.

Democratic leadership:

- The manager discusses tasks with his employees before making decisions.
- Communication will be two-way, both top-down and bottom-up.

Here is a diagram to summarise the leadership styles:

![Leadership Styles Diagram]

The style of leadership used can vary depending on situations where they are the most effective.

**Formal and informal groups**

A formal group is an official group that is formed to do a specific task in an organisation. An informal group is a group of people which are formed independently by themselves. They are not official, but the people in the group have a common interest or cause. Both of these groups are needed in business, and let's see why in this example, e.g. a school might create a football team (formal group) but the players need to bond together to play effectively (informal group).

**Formal groups in business**

Departments within a business are good examples of formal groups. From time to time different groups might be set up to cope with different problems or do different tasks. Sometimes people from different departments could come together in a group to do a team project.
Informal groups in business

There are many informal groups in a business that can increase the motivation of workers because they have a true sense of belonging. e.g. There is a group of factory workers who are interested in basketball, and they form an informal group, as a result, when they get back into their formal group they are likely to co-ordinate better with each other.

There are other scenarios where two departments merge to become one, making them one formal group. However, the people from these former departments still see themselves as separate from each other. These two groups of people will refuse to co-operate until they are also merged into an informal group. Therefore, informal groups should be handled carefully in business to yield the best results.

Regular meetings, free holidays, sporting events and such things could be organised to create informal groups and use them in a more positive way to avoid them getting into the way of business activity.

That's the end of Chapter 13! Now, find a way to motivate yourselves and do some good work!
Chapter 14: Recruitment, Training, and human resources

The work of the Human Resources department

We all know that recruitment and selection is one of the tasks that the HR department fulfills. The other tasks will be discussed below:

- **Recruitment and selection**: Involves selecting and attracting the best workers.
- **Wages and salaries**: Must be enough to motivate or attract workers.
- **Industrial relations**: There must be effective communication between departments.
- **Training programmes**: Must meet the training needs of employees and accomplish business objectives.
- **Health and safety**: Must do things according to the law.
- **Redundancy and dismissal**: Must obey all laws when firing workers.

Recruitment and selection

Workers are needed when a business **starts up, expands** or an existing employee **leaves**. Businesses use the **recruitment process** to successfully employ the right people. This process is usually undertaken by the HR department, but in small business, HR departments do not exist since the businesses employ too little workers for it to be of much use. Here is a diagram summarising the recruitment process:

1. Vacancy arises.
2. A **job analysis** is done, which identifies the responsibilities and tasks of the job.
3. A **job description** lists that responsibilities and tasks to the candidates who apply for the position.
4. A **job specification** outlines the required **qualifications, expertise** and **experience** a candidate needs so that they can be accepted.
5. The job is **advertised** in the **appropriate media**. (e.g. newspapers)
6. Candidates fill out **application forms**, which are **short-listed** so that only the best candidates remain.
7. **Interviews** are held with remaining candidates, and the ones suitable for the job are **selected**.
8. Vacancy filled.

The recruitment process

**Job analysis and description:**

When a new employee is needed, a **job analysis** needs to be taken to identify the tasks and responsibilities of the position. This should be easy for a job that needs replacement, but not so much for a job that has just been created.

Once all the details of the job has been gathered, a **job description** needs to be drawn up. This job description has several functions:

- Given to **candidates** so they will know what the job will involve.
- Allows a **job specification** to be drawn up which will state the **requirements** for the job.
- Shows whether an employee carries out the job **effectively** or not. It helps **solve disputes** between employees and employers about wages, working hours, etc.
The job description for any business will usually contain:

- The **title** of the job.
- The **department** one will work in.
- Who will be **in charge** of the job-holder.
- Who the job-holder will be **in charge for**.
- The **purpose** of the job (job summary).
- The **main duties** of the job.

Job description sometimes contain information about:

- The **conditions of employment** – working hours, wages, pension schemes.
- **Training** that will be offered.
- Opportunities of **promotion**.

**Job specification**

After the job description has been drawn up, the **qualifications** for the job can be identified. They usually include:

- The **level** of **educational qualifications**.
- The **amount** and **type** of **experience**.
- **Special skills, talents** or **knowledge**.
- **Personal characteristics**. (e.g. type of personality)

**Advertising the vacancy**

The next stage is on how to get people to know that you have a job to be filled.

**Internal recruitment**

The vacancy can be filled by an employee already in the business. It might be suitable for employees seeking **promotion**.

**Pros of internal recruitment:**

- Saves **time** and **money**.
- The candidates’ **reliability, ability** and **potential** are **already known**.
- The candidates know the **expectations** and **rules** of the company.
- **Motivates** other employees to work harder to get promoted too.

**Cons of internal recruitment**

- No **new ideas** or **experience** come into the business.
- May create **jealousy** and **rivalry** between existing employees.

**External recruitment**

Most vacancies are filled with **external recruitment**, which always involves advertising the vacancy. Here are some suitable media of advertising:

- **Local newspaper**: Usually for **office** and **manual** workers. These people are plenty since the job does not require too much skill.
- **National newspaper**: Used to find workers for **senior positions** that requires a lot of skills. It can be read by people anywhere in the country or overseas.
**Specialist magazines:** Used for particular technical specialists such as physicists. Can be used to hire people in the home country or abroad.

**Recruitment agencies:** Keeps details of qualified people, and will send the suitable applicants to interviews when a business asks for a worker. Many businesses prefer to use recruitment agencies to find them workers because it is easier. However, it is expensive since their fee is based on a percentage of the workers' pay.

**Government job centres:** Place where businesses can advertise their vacancies. These vacancies are usually for unskilled or semi-skilled workers.

### Possible effects of government legislation on the recruitment process
Many governments pass laws to create equal employee opportunities. They state that all employees should be treated equally in the workplace and receive the same salary for doing the same job. People of any sex and people with disabilities are treated equally. Therefore, businesses need to be careful when advertising and treating their employees because they could be prosecuted and fined.

### Job advertisement
This is what a business needs to decide when drawing up an advertisement:
- **What** should be included.
  - Job description
  - Job specification
- **Where** the ad will be placed.
  - (depends on job)
- Advertising **budget**.
  - (depends on job)

### Applications forms and CVs/résumés
When a person applies for a job, he will have to fill out an application form, or write an application letter with a CV enclosed. CVs are descriptions about one's qualifications and skills in a set format.

Businesses will use application forms and CVs to see whether an applicant matches the job specifications or not. The closest matching applicants are invited to interviews in the selection stage. A short-list is drawn up.

These are what CVs should contain:
- Name
- Address
- Telephone Number
- Date of Birth
- Nationality
- Education and qualifications
- Work experience
- Positions of responsibility
- Interests
- Names and addresses of references.

The letter of application should contain briefly:
- Why the applicant wants the job.
- Why the applicant feels he/she would be suitable.
Applicant forms ask for the same information as the application letter and CV, but may ask for other types of information.

**Interviews**
Applicants who are invited to interviews will have provided the names and addresses of their references. These people can give their opinions on the reliability, honesty and skills of the applicants and they will be likely to tell the truth because the applicants will not know what they have said.

Interviews are the most popular form of selection. However, interviews are not always the most reliable process of selection. They aim to find out these things:

- The applicant's ability to do the job.
- Personal qualities that are advantageous and disadvantageous.
- General characteristics – whether they can "fit in"?

These are the likely questions in an interview:

- Why have you applied for the job?
- What do you know about this company?
- What qualities do you have to offer the company?
- What ambitions do you have?
- What are your hobbies and interests?
- Do you have any questions to ask us?

Interviews can be one-to-one, two-to-one, or a panel of people to interview people which is used to select people for important jobs. Some businesses include tests in their selection.

- **Skill tests:** To test the skills of the candidates.
- **Aptitude tests:** To test how easily candidates can be trained/learn new things.
- **Personality tests:** To test for people who have specific personal qualities which will fit into jobs – e.g. that has a lot of stress; requires you to work with a team.
- **Group situation tests:** To test how well applicants work with other people.

**Rejecting unsuccessful applicants**
When applicants fail to get the job, they should be informed and thanked for applying.

**Training**
Training is often needed to do achieve the needs listed below. These needs can be long-term or short-term.

- Introduce a new process or equipment.
- Improve efficiency.
- Decrease supervision needed.
- Improve the opportunity for internal promotion.
- Decrease the chance of accidents

Employees should know the benefits of training for them to take it seriously. Here are some objectives of training:

- Increase skills.
- Increase knowledge.
- Change attitude, raise awareness.
There are three main types of training:

- **Induction training:**
  - Introducing a new employee to their business/management/co-workers/facilities.
  - Lasts one to several days.

- **On-the-job training:**
  - Employees are trained by watching professionals do a job.
  - Only suitable for unskilled and semi-skilled jobs.
  - Cuts travel costs.
  - The trainee may do some work.
  - The trainer's productiveness is decreased because he has to show things to the trainee.
  - The trainer's bad habits can be passed to the trainee.

- **Off-the-job training:**
  - Workers go to another place for training (e.g. school).
  - Methods are varied and usually more complex.
  - Usually classroom training.
  - Employees still work during the day.
  - Employees can learn many skills.

**Workforce planning**

A business will need to forecast the type and number of employees needed in the future. This depends on the firm's growth and objectives. The forecast can be done by:

- Finding out the skills of all current employees.
- Counting out people who are leaving soon (e.g. retirement).
- Talk to staff about who would want to retrain for new jobs.
- Provide a recruitment plan. (how many new staff are needed, and how they should be recruited, internal or external)

**Dismissal and Redundancy**

There are some situations when businesses need to reduce the number of employees they have. This can be done in two ways:

- **Dismissal:**
  - A worker is fired for unsatisfactory work or behaviour.
  - Fault of the employee.

- **Redundancy:**
  - Employees are no longer needed.
  - Not the fault of the employee.
  - Some reasons are:
    - A business is closing down a factory.
    - A business wants to cut costs by reducing the number of employees.
    - A business has merged/taken over another and there are too many staff in certain departments.
    - New machinery replaces workers.
o Employees are given some **money** to compensate for their lost job.
   - The money is often negotiated with **trade unions**.
   - Some government have **laws** that makes businesses pay for their workers this way.

o If only some employees are to be made redundant, trade unions will agree with the **fairest** way to see who goes. These terms are negotiated with the **HR department**.
   - Sometimes there will be **voluntary redundancy** by members.
     - **Older** workers.
     - There may be some who wants to leave because they have **other ideas**.
Chapter 15: Employee and employer associations

In smaller businesses, if employees have any problems they can talk directly to their employer. However, in larger businesses that employs many people, it becomes extremely hard to do so. It is also hard for the Human Resources department to make decisions when they have about 500 employees (e.g. who will get a pay rise?). It becomes much easier if decisions are negotiated with a trade union, and employee association that represents them. This saves the management a lot of time because they do not have to see individual employees to discuss problems.

Employees might not be treated fairly at work. They may be overworked and underpaid. Trade unions has the role of bargaining with the HR department for better working conditions, conditions of employment and better pay.

Trade Unions

Employees with similar interests (higher pay) form a trade union. Trade unions are a form of pressure group with has the ability to influence business activity. There are four main types of trade unions:

- **Craft union**: For workers skilled at a particular job.
- **General union**: For unskilled and semi-skilled workers from different industries.
- **Industrial union**: For all types of workers in an industry.
- **White-collar union**: For non-manual or office workers.

Why do workers join a trade union?

Unions have a shop steward, who is an unpaid representative of the union. When someone is new to a job they may ask if they may want to join. If the person joins, they will have to pay an annual subscription. This money will be use for employing union officials who will represent the views of the employees.

Advantages of a union

- **Strength in numbers**.
- Improved **conditions of employment**.
- Improved **working conditions**.
- Improved **sickness benefits**, **pensions**, and **retrencment benefits**.
- Improved **job satisfaction** and encourage **training**.
- **Advice/Financial support** if a worker is dismissed unfairly/made redundant or is asked to do something not part of their job.
- Improved **fringe benefits**.
- **Employment** where there is a **closed shop**, which is when all employees in a business must belong to the same union.

Trade unions need to:

- Put forward their views in the **media** to influence **government decisions** on pay, employment, etc…
- Improve **communications** between workers and managers.
Closed shop

A closed shop is when all employees must join one union in order to be employed. It is because its members feel that the union is doing nothing when non-members receive the same pay rises as them. They think it is unfair. Trade unions also gain greater strength if all the employees are members of the union. However, many people think that it is unfair since they are forced to join – they should be able to make their own decisions.

Single union agreement

Some companies have a single union agreement, when a business only agrees to deal with a single union. Any employees who want to join a union can join this union. It is becoming more popular nowadays because many employees are becoming multi-skilled, and do not know which union to join.

Advantages to the employee:

- Discussions are clearer if there is only one union to deal with.
- The union has greater power.
- No disagreements between different unions.
- A better working relationship should develop between the union and the management.
- Disputes are solved more quickly.

Advantages to the employer:

- Discussions are clearer.
- A better working relationship should develop, meaning that there would be less industrial disputes, benefiting both employees and employers.
- Disputes are solved more quickly.
- It is easier to agree to changes.

The structure of a trade union

The structure of different unions vary, but most elect a President or General Secretary to work full-time for and get paid by the union. They work at the union’s headquarters. If the union is large, there will be union officials to take cared of members in different branches. Each branch represents its members in one work site, one factory, or one employer. Each branch has a representative. Unions are usually democratic and their union officers are voted up by the members.

Employer associations

Employers join what are called employer associations/employer federations/trade associations. Like trade unions, employer associations are made up of businesses and employers and who all pay annual fees for their benefits.
Advantages of joining an employer association:

- They negotiate with trade unions on behalf of their members.
- They give advice on employment laws, health and safety, taxation laws etc…
- Strength in numbers, they want to influence government decisions.
- They can share ideas and research facilities.
- They can organise bulk buying for members and get discounts.

Employer associations and the government.

Employer associations represent similar wants of businesses, and will try to influence the governments to give better conditions for businesses to prosper:

- They want the government to control things such as inflation, law and order, health and safety, and education for the workforce.
- Lower taxes.
- More freedom for businesses.
- Fair competition.
- Good transport infrastructure.
- Access to overseas markets.
- Reliable source of power.

Collective bargaining

This is when representatives of different interest groups negotiate and a collective agreement is made. The bargaining can be with businesses or with the government. Collective bargaining in businesses usually means that the representatives of one or more trade unions negotiate with one or more employers or employer associations to come up with a mutually acceptable agreement on conditions of employment.

Why trade unions want wage increases:

- Inflation.
- It is difficult to recruit qualified workers (so pay them more!).
- Pay differentials need to be maintained (everybody's wages should rise when the minimum wage rises).
- Changes in the workplace, e.g. new machinery.
- If there are increased productivity, wages should increase too. There are productivity agreements, when managers and trade unions agree to raise prices for increased productivity.

Often agreements take place and the "middle path" is taken. However, this does not always happen and if the workers and unsatisfied with the agreements, they will use industrial action.

Industrial action

There are various forms of industrial action that try to influence the decisions of employers. Here are some of their most common forms.
Strikes

Strikes are when workers stop working and leave the workplace to protest against things.

- **Token strike:** Stoppage for an hour, a few hours or half a day to show strong feelings.
- **Selective strike:** Only a few workers go on strike. They are chosen by the union to cause as much *disruption* as possible.
- **All out strike:** All union members stop working and wait until a dispute has been settled.

Unions have to pay their members out of *strike funds* as long as the strike has been approved by the union. All members *vote* to see if the strike is favourable or not.

Picketing

This is when workers *stand outside* the factory holding *signs* to *protest* and stop any *people going in* and *out* as well as *goods*. This can halt the production process. The strikers gain *publicity* and gives the firm a *bad image*. This puts *pressure* on the firm to settle the dispute.

Work to rule

This is when workers *stick rigidly* to every *rule* and regulation in the business so that it *slows down* the *production process*. They still get *paid* since they are technically doing nothing wrong, but this still causes a lot of *disruption* in the workplace.

Go slow

All workers deliberately do things very slowly.

Non-cooperative

Workers refuse to work with any *new* rules or follow any new practices they do not approve of.

Overtime ban

Workers refuse to do any *overtime*. This might damage the business if they need to complete some orders quickly.

Possible harmful consequences of industrial action:

- **For employers:**
  - Loss of output.
  - Loss of profit.
  - Loss of customers.
  - Poor reputation.
  - Bad image.
- **For employees:**
  - Loss of wages.
  - They might lose their jobs if the company suffers low profits.
- **For customers:**
  - They need to find another supplier which might cost more (production is stopped)
- Shortage of products.
- Deliveries not made.
- For other businesses:
  - May lose income.
  - May not have materials to produce goods.

**For the economy:**
- Workers have less money to spend.
- Less tax revenue.
- Country gain bad reputation for late deliveries.
- Workers may be made redundant.
- Exports may be lost and imports increased.

**Employer's powers**

However, employers can do something about the situation. Usually, they will sign a **no-strike agreement** with the union which also involves **pay rises**. The pay rises are determined by an **arbitrator**, an independent person who represents both sides and decides on the best decisions possible. Again, he will most likely choose the "**middle path**".

Nevertheless, if strikes do happen, here are some things employers can do:

- **Dismiss all workers**: This leave the company in a very terrible position since they can't produce goods or deliver goods.
- **Lock-out the workers**: Stop workers from coming to work or get paid. Used to counter work to rule and go slow strategies.
- **Institute a pay freeze**: Used if employees are refusing to follow new rules, practices or operate new machinery.

**Worker participation:**

The management needs to let everyone feel that they are part of the business. This means that managers will let **workers participate** in business decisions. There are several ways of doing this:

- **Worker directors**: Some workers become directors, but they are not allowed to attend all board meetings.
- **Works councils**: These are where representatives of employees get together and discuss matters that affect employees with managers. Works councils are called European committees in Europe, and are becoming more common there. Multinationals with more than 1000 workers or 100 workers per branch will have to create a works council and will have to always consult it when making decisions affecting employees.
- **Quality circles**: This is often used in Japanese companies, where workers regularly debate on how to improve quality and efficiency.
- **Using a democratic style of leadership**: Workers are delegated tasks and are consulted in business decisions.

**Advantages of worker participation**

- It increases the flow of **information** and improve **relationships** between the employer and the employee.
- It increases **motivation**.
- It increases **job satisfaction**.
- It benefits the company since it can use **knowledge** from **experienced** workers.
Disadvantages of worker participation

- It is time consuming.
- Workers may lack necessary technical knowledge.
- If representation is done via trade unions, non union members won't be affected.
- There could be conflict of interests.

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Chapter 16: The market and marketing

What is marketing?

A market is where buyers and sellers come together and exchange their products for money. It can be in the streets, on the internet, in shops around the world, etc… Customers and sellers exchange both goods and services for money.

Product-orientated and market-orientated businesses

A product orientated business focuses on the quality and price of the product before finding a market for it to sell in. These type of businesses usually produce basic needs. New technology could be developed this way, and customer wants are created by advertising.

Other big companies cannot afford to produce a product that will not sell, so they have to do market research first to find consumer wants before developing a product. They are called market-orientated businesses. They will need to set up a marketing budget for this, which is a financial plan for marketing of a product, which contains the amount of money the Marketing department may spend on marketing.

What is marketing

Marketing is the management process which identifies consumer wants, predict future wants, create wants and find ways to use these wants to the fullest (most profitably). In other words, businesses try to satisfy wants in the most profitable way possible. Marketing covers a wide range of activities such as: advertising, packaging, promotion, etc…

The Marketing department

Most businesses will have a Marketing department, which will have a Marketing Director. He will be in charge of things such as R&D, distribution and pricing. Here is an organisational chart showing what departments the marketing director controls:

- **Sales department**: Responsible for sale and distribution of products for each region. There may also be an export department.
- **Research and Development department**: Responsible for finding out consumer wants and developing new products. They also need to find ways to improve an existing product.
- **Promotion department**: In charge of advertising and promotion. It will need a marketing budget which limits the amount of money it can spend.
- **Distribution department**: It transports products to their markets.

The objectives of marketing

A successful Marketing department should be able to achieve these objectives for the business:

- To increase sales revenue and profitability.
- To increase market share (percentage of sales a product has in a market).
- To maintain or improve image of a product or company.
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- To increase sales revenue and profitability.
- To increase market share (percentage of sales a product has in a market).
- To maintain or improve image of a product or company.
To target a new market or market segment.
To develop new products or improve existing ones.

**SWOT analysis**

This is a method to evaluate the statistics of a product of business. It assess these things:

- **Strengths** (internal)
- **Weaknesses** (internal)
- **Opportunities** (external)
- **Threats** (external)

Strengths and weaknesses of a product are its **internal factors**, while opportunities and threats are **external factors**.

**Market segments**

**Market segments** are parts of a market which contains people which have similar **preferences** for their products. The Marketing department should know which segment their product fits the most, so that they can advertise and sell their products to it.

There are two ways to **segment** markets. By the **type of product** or the attributes of the **customers** buying it. Here are two types of markets which are segmented based on the product:

- **Mass market**: Where there is a **large** number of sales of a product. (e.g. Pepsi can be bought anywhere)
- **Niche market**: A **small** market for **specialised** products. (e.g. Ferrari cars)

Here is how a market can be segmented regarding people buying the product:

- **Income**
- **Age**
- **Region**
- **Gender**
- **Use of product**
- **Lifestyle**

It is very important to **target** the right market segment since it can **increase sales** by a lot. If a business can analyse all of these market segments, they may find a market segment whose **needs** are **not being met**. This is when the business finds a **gap in the market**, and it could produce goods to take advantage of this gap and again increase sales.

**The marketing mix**

The **marketing mix** is a term that describes how products are **marketed**. You must remember that before marketing can be achieved, **market research** is needed. The rest is summarized into the **four P’s**. Let's look at them briefly first, since they will be covered in other chapters:
- **Product**: Design and quality, competitiveness, packaging, etc…
- **Price**: There are different pricing strategies. Businesses need to use them so that they increase sales.
- **Promotion**: Advertising and promotion. Discounts, TV adverts, sales, packaging, etc…
- **Place**: The location of the **point of sale** (the shop). **Channels of distribution**. Type of shop (wholesaler or retailer?)

A successful product require effective use of the four P’s. However, businesses must be careful to not let each of these factors **counteract each other** (e.g. expensive but low quality goods), else the product will fail.

Thank you all for reading.

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Chapter 17: Market research

Why is market research needed?

Any business should find out what people want to buy and how many people are going to buy that product before producing a product since the chances of failing are very high. Usually, market research try to answer these questions:

- What feature of the product do they like/dislike?
- Are people willing to buy the product?
- What price are people prepared to pay?
- Location of the selling point of the product.
- Type of customer who buys the product.
- Type of promotion that will be effective.
- Competition in the same industry.

Businesses need to know these things as well as consumer wants to be more competitive. There are two main types of information that can be gathered from market research:

- Qualitative information: information where opinion or judgement is necessary.
- Quantitative information: information about the quantity of something.

There are two ways to gather any information for market research:

- Primary research or field research.
- Secondary research or desk research.

Primary research

Primary research is gathering original data which may require direct contact with customers. There are several ways to do primary research:

- Questionnaires
- Interviews
- Consumer panels
- Observation
- Experiments

Note: Questionnaires, interviews and consumer panels are all types of surveys.

The process of primary research

1. Identify the purpose of the market research.
2. Decide on the best method of research. (primary, secondary or both)
3. Decide on the size and type of sample (group of people who will be asked)
4. Carry out the research.
5. Collate data and analyse results.
6. Produce a report. (may include recommendations of action paths to take)
Methods of primary research

Questionnaires

Questionnaires involve asking people questions. Deciding what questions to ask since sometimes questions may mislead people and make them answer what they don't really think.

Pros:

- Detailed qualitative information can be gathered.
- Customers' opinions can be gathered.

Cons:

- If the questions are bad it could mislead customers.
- Takes time and money to collate the results.

Interviews

Interviews are face-to-face conversations with customers where the interviewer has a set of prepared questions.

Pros:

- The interviewer can explain any questions the interviewee does not understand.
- Detailed information about customers' opinions.

Cons:

- Interviewer bias. The interviewer might unconsciously lead the interviewee to answer in a certain way.
- Time consuming and expensive.

Samples

A group of people who are chosen to do market research on. There could be:

- Random sample: A random number of people are selected.
- Quota sample: People are selected for some certain characteristics.

Consumer panels

Consumer panels are groups of people who agree to provide information and spending patterns about a product. They may even test it and give feedback on likes and dislikes.

Pros:

- They provide detailed information about a product.

Cons:

- They can be time consuming, expensive, and biased if opinions of some is influenced by others.
Observation

Observation involves:

- **Recording**: e.g. meters can be fitted to a monitor to see what people are watching.
- **Watching**: e.g. see how many people go into a shop and actually buy something.
- **Audits**: e.g. counting inventory to see what has sold well. (inspecting)

Pros:

- It is inexpensive.

Cons:

- Only provide **basic figures** and not **reasons** why people do things.

Experiments

Experimenting involves giving products to consumers to see what they think about it.

Pros:

- Easy to set up, carry out, and gather consumer opinions.

Cons:

- People might give wrong feelings to avoid offence.
- Representatives of samples may not be asked, just people who shop in an area.
- Many potential customers may not be asked.

Secondary research

Secondary research means taking information that has been already collected by others.

**Internal sources of information**

Data collected from past researches could easily be used again if it is needed. Examples of internal sources of information include:

- Sales department: sales records, pricing data, customer records, sales records.
- Distribution and PR personnel.
- Finance department.
- Customer service department.

**External sources of information**

Data collected from sources outside the business. The data may still be useful but there are many limitations since it has been gathered for other purposes. Sources include:
- **Internet**: gives all sorts of information, but the info must be validated.
- **Trade and employer associations**: gives info about things in an industry.
- **Specialist journals**.
- **Research reports**.
- **Newspapers**: about the economy and disposable income of workers.
- **Government reports and statistics**: contains things such as age groups and culture.
- **Media reports**.
- **Market research agencies' reports**: detailed reports on the economy. Expensive to buy.

Secondary research is often a much cheaper way of obtaining information. It also gains access to data which cannot be gathered by primary research such as government issues or the economy.

**Who carries out market research?**

Normally, research is done by any business who needs it. In smaller businesses, owners use secondary research since they cannot afford to conduct primary research. However, if a business has enough money, it can afford to have a specialist market research agency to do the research for it.

**Accuracy of market research information**

The accuracy of market research depends on how the research was conducted and how carefully samples have been selected. Here are some ways to make information from market research more accurate:

- A sample needs to be truly representative of the total population, hence a quota sample is normally used.
- The larger the sample, the more accurate the results.
- Questionnaires need to be tested on a small group of people to see if there are misinterpretations. The questionnaires will be modified to be as clear as possible.

Concerning secondary research, there are a few problems with it:

- Data collected by others may not be accurate since it was used for other purposes.
- Data can be out of date.

All in all, it must never be assumed that information collected from market research is completely correct.

**How to design and use a questionnaire**

Firstly, you need to ask yourself some questions:

- **What** do I need to find out?
- **Who** do I need to ask?
- **Where** will I carry out my questionnaire?
Writing the questions

- Ask no more than 12 questions. (impatience)
- Make the questions simple. The answers should be simple enough to collate. (e.g. Yes/No answers)
- Use choice of age groups.
- Avoid open-ended questions.
- Avoid misleading the interviewee with questions. (don't want to cause offence)
- The order of the questions should be logical.

Carrying out the questionnaire

First you need to figure out:

- How you will ask the questions.
- How you will collate the results.

Then:

- Where are you going to ask the questions.
- Who are you going to ask?

And finally:

- How many people will be asked?
- When will you ask the questions? (time)

Analysing questionnaires

Analysing the results should be straightforward if you have easily collated the data. It simply involves reading the answers and thinking about what they mean. It takes practice, so open your books to pages 271 and 272 and let's do the case studies!
Chapter 18: Presentation of information

Presentation of data from market research
Presentation of data is important because it converts raw data into a form that is easier to understand. Information can be displayed as:

Table/tally chart:
It is the most suitable method of presenting data when raw data is needed. However, it offers little more than that and the information should be converted into other forms if it needs to be understood or analysed carefully. It is sufficient for info that is brief or does not contain a lot of different things.

Bar chart:
Charts are a more meaningful and attractive way to present data. They are normally used to compare two or more sets of stats with each other.

Pictogram:
It is similar to a bar chart but uses symbols instead of columns. It becomes extremely effective if the data is short and simple.

Pie chart:
Pie charts are ways to show the proportion that each components take up compared to the total figure.

Line graph:
Graphs show the relationship between two variables. It can be drawn in a straight or curved line. It is usually to compare things with time and to identify trends.

Alternative ways of presenting information for coursework

Tables
Tables could be also be used to present data in situations such as when people are interviewed on why they like a product and they are given multiple choices.

Photographs
Photos can be used to help illustrate your points or support your work. However, avoid adding them to your work just to make them more attractive.

Diagrams
Diagrams are used to simplify information. It can be used to show relationships of things which all leads to the same root, which is usually at the centre of the diagram. It can also be used to show variation, e.g. diagram for ways to save water with different ways to do so branching out from the centre of the diagram.

Maps
Maps are usually used to present location or transport routes, etc… They aim to make the information as clear as possible to the reader. This of course, only applies to certain types of information where words and numbers cannot express them.

Wow, such a short chapter! Nevertheless, the information is still extremely important and has more uses to it than just in Business Studies. Good luck spicing up your reports with them!===
Chapter 19: The marketing mix: product and packaging

The role of product in the marketing mix

The product itself is the most important element in the marketing mix. Without it, the other three wouldn't exist. Most companies today are market oriented, and will identify a suitable product for the market before moving on to determine the other 3 elements. Large companies have R&D departments which spends all its time developing new product and analysing the pros and cons of competitors' products.

Types of products:

- **Consumer goods**: Goods that are used up by consumers. (e.g. food, cake)
- **Consumer services**: Services that are produced for people. (e.g. education)
- **Producer goods**: Goods produced for businesses. (e.g. machinery)
- **Producer services**: Services for businesses. (e.g. accounting, insurance)

Each type of product determines the price, promotion and place to sell the product. Here are what make products successful.

- Products need to satisfy consumer wants/needs to be successful.
- The product must be at the right quality so that customers are willing to pay for it.
- Costs should be low enough to make a profit.
- Design of a product is important. This means that its quality and durability should meet expectations and match the price of the product. The design should also enhance the products brand image.
- Products are novelties (newly introduced to the market).
- Products can stimulate new wants.

Product development

Most businesses use a general process to develop any product:
1. **Generate ideas**: Ideas can be generated by:
   - Employees.
   - Customers.
   - Competitor's products.
   - R&D department.
   - Sales department.
2. **Further research**: The best ideas are selected and further research is done to see their pros and cons.
3. **Will there be enough sales?**: To see whether there will be enough sales of the product to break-even (development costs included).
4. **Develop a prototype**: To see how a product could be manufactured and identify its problems.
5. **Test launch**: To see if the product can sell or not.
6. **Full launch**.
The importance of branding

Traditionally, a product’s unique features and quality were explained by the sellers who made the product. However, since products are usually sold in private retail shops nowadays, these points need to be projected differently. Products therefore need to be **branded** with an **unique brand name** and the products features and quality will be projected with advertisement. The price of branded goods are usually higher, since customers are more confident to buy them. Here are things that are involved with branding:

- Unique name.
- Unique packaging.
- Needs advertising to enforce the brand’s qualities.
- Higher price than unbranded products.
- Higher quality than unbranded products.
- Creates a brand image (unique image associated with using the product)
- Creates brand loyalty.
- Consistent quality.

Packaging

Getting the packaging right is very important. Packaging performs several tasks:

- Protecting the product (also includes preserving foods)
- Making it easy to transport.
- Allow the product to be used easily. Container must be able to be opened easily. (e.g. juice in a can)
- Suitable for the product to fit in.

Packaging also helps promote the product:

- Make it eye-catching.
- Carries information about the product.
- Promotes the brand image.

The product life cycle

Product life cycles show the stages that a product goes through from its introduction, to its growth, and then to its decline. Here is a graph to show the product life cycle:
1. **Development:** The product is under development.

2. **Introduction:** The product is introduced. Sales grow slowly and informative advertising start to attract customers. Price skimming could be used if the product is new to the market. The main aim of sales is to breakeven.

3. **Growth:** Prices rise rapidly. Persuasive advertising is used to encourage brand loyalty. Prices may be reduced a little. Sales start to generate profits since costs have been covered.

4. **Maturity:** Sales rise more slowly. Competition forces prices to be lowered and the firm uses competitive pricing. Advertising is used to maintain sales. Profits are at their highest.

5. **Saturation:** Sales reach their limit. There are no new competitors. Sales and advertising becomes stable but profits fall because of lowered prices to be competitive.

6. **Decline:** Product go out of fashion and sales and profits decline. Advertising eventually stops. It is no longer profitable to produce the product.

The length of each stage varies with products. The business needs to identify which stage their products are in so that they can use a suitable marketing strategy for it.

**Extending the product life cycle**

When a product has reached its maturity or saturation stage a business may adopt extension strategies to stop sales from falling which extends the product life cycle. Sales are given a boost by these strategies.

- Introducing new variations of the product.
- Sell into new markets.
- Make small changes to the products design and packaging.
- Sell through additional, different retail outlets.
- Update the product (make it better)
- Use a new advertising campaign.

Extension strategies aim to prolong the maturity stage of a product. Successful extension strategies may result in something like this:

![Graph showing life cycle](image)

Nevertheless, it must be noted that businesses manufacture more than one product. They should have a product in growth stage to counteract an older one which is declining.

=================================================================
Chapter 20: The marketing mix: price

The role of price in the marketing mix

When pricing a product, a business needs to choose one that fits with the rest of the elements in the marketing mix. E.g. high price so that consumers thinks they are buying high quality goods, low price for low quality goods, or competitive prices in a market with a lot of competition.

Price determination in a free market

People think that prices are determined by the seller of the product, but that is not quite so. Prices are driven by market forces called demand and supply.

Demand

Demand is not only that people want to buy a product, but that they want it can are willing to pay for it. Prices can affect how much demand there is for a product. Normally, if the price goes up, demand goes down, and vice versa. This can be shown on the graph below:

![Demand curve for chocolate bars](image)

Supply

Supply also varies with price. However, it is different. If the price goes up, then the owners would want to be supplied with more products to take advantage of the high price, thus the supply goes up (and vice versa). This can be demonstrated on the graph below:

![Supply curve for chocolate bars](image)
The market price

For the market price to be determined, demand and supply must all be put onto the same graph. The place where the two lines (called curves) cross is called the equilibrium, where the same number of goods are demanded and in supply resulting in no leftovers. All the products are demanded and all of them are sold.

Factors that affect demand and supply

The graphs above assume that the demand and supply of goods are fixed. But these things can change, which shifts the demand or supply curve to the left or the right in the graph. Changes in the price affects where you are on the curves. But changes in other factors affect the position of the curve on the graph.

Factors affecting demand

- The popularity of substitute products. (products that can be used instead of the product)
- The popularity of complementary products. (products that require each other or are used together)
- Changes in income.
- Changes in taste and fashion.
- Changes in advertising.

The result is: if demand falls, the market price and sales will fall, and the demand curve will shift to the left. If demand rises, the market price and sales will rise, and the demand curve will shift to the right. It is illustrated on the graphs below.
Elasticity of demand

Elasticity of demand is how easily demand can change when prices change. A product with an elastic demand curve would have a higher change in demand than a change in price (uses percentages). A product with an inelastic demand curve would have a lower change in demand than a change in price. The elasticity of demand of a product is mainly affected by how many substitute products that it has.

Factors affecting supply

- Costs in supplying goods to the market:
  - Price of raw materials.
  - Wage rates.
- Improvements in technology:
  - Makes it cheaper to produce goods.
- Taxes and subsidies:
  - Higher taxes mean higher costs.
- Climate (for agricultural products):
  - Supply of crops depend on weather.

The result is: if supply falls, the market price will rise, sales will fall and the supply curve will shift to the left. If supply rises, the market price will fall, sales will rise and the supply curve will shift to the right. It is illustrated on the graphs below.

Elasticity of supply

Elasticity of supply is how easily and quickly supply can change when prices change. How quickly means how quickly products can be produced and supplied, which is not very quick for products made by agriculture. A product with an elastic supply curve would have a higher % change in supply than a change in price. A product with an inelastic supply curve would have a lower change in supply than a change in price.

Pricing strategies

If a product is easily recognizable from other products, it would probably have a brand name. And if it has one, it would need a suitable pricing strategy to complement the brand name that should improve its brand image. Here are the strategies that are used:
Cost-plus pricing

Cost-plus pricing involves covering all costs and adding a percentage mark-up for profit.

- + Easy to apply.
- - You lose sales if your price is higher than your competitors price.

Penetration pricing

Penetration pricing is used to enter a new market. It should be lower than competitors' prices.

- + Ensures that sales are made when a product enters a market.
- - Prices will be low. Sales revenue will be low.

Pricing skimming

High prices are used when a new product is introduced into a market, partly because it has a novelty factor, and because of the high development costs. High prices could be charged because a product is high quality. One last use of it is to improve the brand image of a product, since people usually associate high price with good products.

- + Skimming can help establish a product as being good quality.
- - It may lose potential customers because of high price.

Competitive pricing

Competitive pricing means setting your price to a similar or lower level than your competitors prices.

- + Sales will be high because your price is at a realistic level (not under/over-priced).
- - You have to research on your competitors prices which costs time and money.

Promotional pricing

Promotional pricing means that you lower the prices of goods for a short time.

- + Help get rid of unwanted stock.
- + Can renew interest in a product.
- - Sales revenue will be lower.

Psychological pricing

Psychological pricing involves setting the price that changes consumers perception of a product. This may be by:

- Using high price to make using the product give the user a status symbol.
- Pricing a product at just below a whole number (e.g. $99) which gives it an impression that it is cheaper.
- Supermarkets charge low prices for products that are bought on a daily basis to give consumers an impression that they are being given good value for money.
Chapter 21: The marketing mix: promotion

The role of promotion in the marketing mix

Promotion informs consumers about the rest of the marketing mix. Without it, consumers do not know about the product, the price, or the place. Promotion is more than just advertising, and it includes several activities. It is crucial when you are selling in a mass market or you have a brand name. Promotion includes:

- **Advertisements**: They can take different forms, e.g. on TV, in newspapers.
- **Promotion**: e.g. Money off coupons.
- **Personal selling**: Sending out sales representatives to talk directly to the consumers.
- **Public relations**: Involves making the public aware of the company, e.g. creating publicity in the media.

The aims of promotion

- To inform people about particular issues.
- To introduce new products to the market.
- To compete with competitors products.
- To improve the company/brand image.
- To increase sales.

Advertising

The advertising process

1. **Set objectives**: A business needs to determine the purpose of advertising.
2. **Decide the advertising budget**: Set a limit on how much the business can spend on advertising. It can be decided based on:
   1. A percentage of predicted sales revenue.
   2. How much competitors are spending.
   3. How much the business can afford.
3. **Create an advertising campaign**: Decide on what advertising campaign to run. Can be determined based on:
   1. Target audience.
   2. Objectives.
4. **Select the media**: Using the suitable media for advertising that is the most cost effective. E.g. TV, newspaper.
5. **Evaluate the effectiveness of the campaign**: Has the advertising met objectives?

Different types of advertising

- **Informative advertising**: Involves giving as much information about the product as possible. (e.g. computer)
- **Persuasive advertising**: Involves persuading consumers that they need the product and should buy it. (e.g. perfume)
## Different media of advertising

<table>
<thead>
<tr>
<th>Media</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Television</td>
<td>Millions of people will see it. The product can be presented in a very attractive way. Easy to reach target audiences.</td>
<td>Expensive</td>
<td>Food Cars Household tools</td>
</tr>
<tr>
<td>Radio</td>
<td>Cheaper than TV. Uses song or tune which makes ads memorable.</td>
<td>Cannot use visual message. Expensive compared to others. The advert has to be remembered. Not as wide audience as TV</td>
<td>Local services Shops</td>
</tr>
<tr>
<td>Newspaper</td>
<td>Can reach many people. Cheap for local newspapers. A lot of info can be put into the ad. Adverts are permanent*.</td>
<td>Not eye-catching if they are in black and white. Does not grab reader’s attention.</td>
<td>Local products Cars Banks</td>
</tr>
<tr>
<td>Magazines</td>
<td>Can use specialist magazines to reach only target audience. Magazine ads are in colour and are more attractive.</td>
<td>They are only published once per month/week. More expensive then newspapers.</td>
<td>Perfume Golf equipment Fashion clothes</td>
</tr>
<tr>
<td>Posters/billboards</td>
<td>Permanent*  Cheap Potentially seen by anyone who passes by them.</td>
<td>Can easily be missed. No detailed info can be included.</td>
<td>Events Products bought by a large section of the population</td>
</tr>
<tr>
<td>Cinemas</td>
<td>Visual image shows product in a positive way. Fairly cheap. Effective if target audience goes to see particular films.</td>
<td>Only seen by people who go to watch films.</td>
<td>Toys for a children’s film.</td>
</tr>
<tr>
<td>Leaflets</td>
<td>Cheap Given to a wide range of people. Delivered to people’s houses.</td>
<td>May not be read.</td>
<td>Local events. Retail stores like Seven-Eleven</td>
</tr>
<tr>
<td>Internet</td>
<td>May contain vouchers to encourage readers to keep the advert.</td>
<td>Can be seen by anybody around the world.</td>
<td>Internet searches may not highlight the website and it could be missed.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Permanent*</td>
<td>Can store lots of info. Orders can instantly be made.</td>
<td>Internet access is limited in some countries. Competition from other websites. Security issues may discourage people from buying online.</td>
<td></td>
</tr>
</tbody>
</table>

| Others (delivery vehicles or sides of bags) | Cheap | May not be seen by everyone. | Shops put their names on plastic bags. Coca cola use neon signs. |

*Permanent: adverts can be kept for future references.

**Design of adverts**

Businesses usually use the AIDA model:

- **Attention:** Informs consumers that the product exists.
- **Interest:** Consumers need to become interested in the product.
- **Desire:** Makes consumers want the product.
- **Action:** Prompts consumers into buying the product.

The AIDA model is most effective on products that are not used regularly. It is less effective on products that are bought on a daily basis because people will know how good the quality really is.

**Promotion**

**Different types of promotion**

Promotion is usually used to support advertising and to encourage new or existing customers to buy the product. Its main function is to boost sales in the short-term, but not in the long term. It is used to attract new customers so that they can try out items with the hope that they will like it and continue to buy it after the promotion has ended. Here are some ways in which promotion is used:

- **Price reductions:** Involves sales or price reduction coupons.
- **Gifts:** Gifts are placed in the packaging of the product to encourage consumers to buy it. (e.g. toys in McDonald's happy meal).
- **Competitions:** A card may be put in the packaging allowing the consumer to enter contests such as the lottery.
- **Point-of-sale displays and demonstrations:** Can be put near the window and displayed attractively. It could also encourage people to buy it if they can see how it works (demonstrated by sales staff)
• **After sales service:** e.g. warranty services. It reassures the customers that if the product has a problem then they can go and fix it for free. This make the product more attractive than others without warranty.
• **Free samples:** Encourages people to try the product. It can be included in other products as well. E.g. washing machine comes with free washing powder.

**The advantages of promotion**

• Can boost sales during the year when sales are traditionally low (encourage off-season purchases)
• Encourages people to try a product.
• Encourages people to buy a product or the product in greater quantities.
• Encourages people to buy a product instead of competitors' products.

**Which type of promotion should be used?**

When deciding on what type of promotion should be used, these points should be considered:

• **The stage of the product life cycle:** e.g. use informative advertisement in the introduction stage of the life cycle.
• **The nature of the product itself:** e.g. consumer goods use coupons but producer goods use discounts on bulk buying.
• **The advertising budget:** obviously the type of promotion depends on how much you can spend.
• **The cultural issues involved in international marketing:** businesses need to consider whether their type of advertising might offend the local people. They should also take into account things such as how many people own TV, literacy level, etc…
• **The nature of the target market:** Different markets require different media for advertising.

**Personal selling**

• Used when the nature of the product varies. e.g. housing
  - Price varies.
  - Quality varies.
  - Customer requirements vary.
• When customers need advice on what type of product is the most appropriate for their situation.
• When selling expensive products such as cars.
• When negotiation about price or products is needed. This is common for businesses that sell to other businesses. (e.g. discounts on bulk buying)
• When a business has a stand at a trade fair.

**Public relations**

• Good for improving the brand/company's image.
• These activities raise public awareness of the company.
• Includes:
  - Sponsoring events such as football matches.
  - Giving products to charity.
  - Employees take part in an activity for a good cause.
Customer service

It is far more expensive to attract customers than to keep old customers, so one key objective for any business is to retain their old ones. In the international business environment, there are many competitors, so businesses need to raise the value of their products with customer service. Good customer service is not only producing a good product but also means:

- **Giving advice about the product**: It is always good to give as much information about a product as possible so that the customers can be sure that they have purchased the product that meets their requirements.
- **Delivering goods for customers**: It becomes convenient for the customer which encourages the customer to buy products from the business since they do not have to go anywhere.
- **Providing credit facilities**: This means letting customers pay later or in monthly installments. This make products look cheaper and more affordable encouraging customers to buy them. Credit facilities are usually offered when people buy expensive products. You usually get interest as a result, but you could charge no interest for promotional purposes.
- **Providing product information**: This means giving information on how to use the product and offering help on customer service helplines.
- **After-sales service**: The aim is to show that you care about customers' satisfaction. Examples of after-sales service include:
  - Warranties.
  - Regular product checks.
  - Giving refunds for faulty products.
  - Exchanging unsatisfactory goods.
Chapter 22: The marketing mix: place

The role of place in the marketing mix

After the product, price, and promotion has been decided, the product/service has to be available to the consumer **where and when they want to buy**. Consumers should be able to get to the product easily, and the product has to be in the right place (e.g. expensive chocolate shouldn't be in a small grocery store) to sell well.

Channels of distribution

Businesses need to know how to get the product to the consumer. They may use a variety of channels of distribution:

- **Channel 1**: The manufacturer sells **directly** to the **customer**, e.g. agricultural goods are sold straight from the farm, businesses buy raw materials from another…
- **Channel 2**: Involves selling to **retailers**. Common when the retailer is large or the product is expensive.
- **Channel 3**: Involves the product going through **wholesalers** as well. Wholesalers **break bulk** so that retailers can buy them in smaller quantities. This is common for perishable items such as foods.
- **Channel 4**: Involve selling the product overseas through an **agent**, who sells them to wholesalers on behalf of the company. This may be because he/she has better knowledge of the local conditions.

Methods of distribution

Methods of distribution for different channels of distribution can include:

- **Department stores**: Usually in the centre of town that sells a wide range of goods from many producers.
- **Chain stores**: Two or more which has the same name/characteristics.
- **Discount stores**: Offers a wide range of products, including branded products, at discount prices. Often all the products are similar.
- **Superstores**: Very large out-of-town stores.
- **Supermarkets**: Very large retail stores with all kinds of goods. (usually daily needs, foods)
- **Direct sales**: Goods are sold directly to the consumer.
- **Mail order**: Customers order via the post by looking at the catalogue
- **Internet/e-commerce**: Customers order via the internet by looking at the website.

**E-commerce**

The use of the internet to carry out business transactions. Businesses could communicate via email as well. Producers as well as retailers can use the internet to sell to customers.

**Advantages and disadvantages of a wholesaler**

**Pros**
- Breaks bulk.
- Reduces storage costs for retailers and producers.
- Fewer transactions are needed for the producers. (only a few wholesalers) they no longer need to do as many deliveries.
- Gives credit to small retailers.
- May deliver to small retailers reducing their transport costs.
- Promotion carried out by wholesaler instead of producer.
- They give advice to retailers/producers on what is selling well.

**Cons**
- More expensive for small retailers.
- May not have the full range of products to sell.
- Takes longer for perishable products to reach the retailer.
- Wholesaler may be far from small shops.
Selecting the channel of distribution to use

When selecting the channel of distribution to use producers need to consider a few things:

- **Type of product?**: Is it sold to other producers or customers?
- **Is the product very technical?**: Will you need to explain how to use the product? If yes, Channel 1 should be selected (e.g. airplanes)
- **How often is the product purchased?**: If it is bought every day, it should be available in many retail outlets, otherwise people might not bother to buy it at all.
- **How expensive is the product?**: If it is expensive and has an image of being expensive, then it will be sold in a limited number of retail outlets.
- **How perishable is it?**: If it is very perishable, it should reach the customers quickly or be available in many outlets so it can be sold quickly.
- **Location of customers?**: Channel 4 might be used for customers overseas. E-commerce would be viable anywhere apart from the countryside.
- **Where do competitors sell their products?**: Usually producers will sell their product in retail stores where their competitors sell too so that they can compete directly for consumers.

Methods for transporting goods

This is what kind of vehicles are used to transport the products. They should be fast enough for the product to reach its destination in time. However, they must also be cost efficient and safe. These factors a taken into account when deciding which method of transportation is used.

- **Road haulage**:
  - Cheap and fast.
  - Require no rail links.
  - Can advertise on side of lorries.
  - Not cost effective if lorries are not used often, may need to hire a specialist transport business instead.

- **Railways**:
  - Even cheaper and faster than road haulage.
  - Useful for long distances.
  - Goods need to be transported to retail stores by road haulage at the end of the destination.

- **Canal and river**:
  - Slow but cheap.
  - Good for products far too big/heavy to be transported by road/train.
  - Need canals and rivers.

- **Sea freight**:
  - Used mainly for international trade.
  - Can carry a lot of products.
  - Products are stored in containers, which can be easily loaded onto lorries. Makes it cheap to load and unload the ships.

- **Air freight**:
  - Extremely fast but expensive.
  - Used for small, expensive, or perishable products.

- **Pipelines**:
  - Used to transport liquids or gases over long distances.
  - Cheaper than using road haulage for liquids. Roads are not always available.
Drawing up a marketing plan

Finally, after all the four P’s of the marketing mix have been decided, the Marketing department will put them together into one marketing plan. It will also consider how the 4 P’s will be modified or adapted to fit the overall image of the product. If this is successful, sales and profits will be likely to increase.

Note: a detailed drawing of the product must be included in the marketing plan.
Chapter 23: Factors affecting production

What is meant by production?

Production is the provision of a product to satisfy wants and needs. The process involves businesses adding value to their products. E.g. The production process of matches involves cutting wood into matchsticks, putting phosphorus ends on them and packaging them to sell.

Productivity

Productivity is the outputs measured against the inputs used to create it. This is measured by: 
\[
\frac{\text{Output (over a given period of time)}}{\text{Number of employees}}
\]
If a worker makes more products in the same amount of time, his productivity increases. Firms aim to be productively efficient to be able to make more profits and compete against their competitors.

Methods of production

Job production

- Goods are made individually, by one person.
- Goods are usually specialized, no two goods are the same.
- Usually made to order.

Pros

- The product meets exact requirements of the customer.
- The workers have more varied jobs.
- More job satisfaction for workers.

Cons

- Skilled labour is needed.
- Slower and more expensive than other methods of production.
- Usually labour intensive.

Batch production

- Products are made in batches according to order.

Pros

- It is flexible. You can easily change from making one product to another.
- Still gives some variety to workers jobs.
- Production is not too affected by machinery breakdown.

Cons

- Expensive to move products around the workplace.
- Storage space will be needed to store raw materials. Expensive.
Flow production

- Large quantities of a product are produced in a continuous process.
- Uses specialization.
- Benefits from economies of scale.
- Is capital intensive.

Pros

- Low costs. Low prices. High sales.
- Increased efficiency.
- Little training is needed.
- Goods are produced quickly and cheaply.
- Goods do not need to be moved around like batch production. Saves time.
- Quality is high and standardized (courtesy to Muhammad Hassaan Ayyub)

Cons

- Boring for the workers. Little job satisfaction.
- Needs a lot of capital to set up.
- If one machine breaks down then the whole production process stops.

Which type of production should be used?

The type of production that should be used varies with how the product is demanded:

- **Job production**: Unique and individual service is required.
- **Batch production**: Demand is higher but products will not be sold in large quantities. Batches are made to orders.
- **Flow production**: Demand for the product is high and steady.

Stock control

Stock control is important so that a business will not run out of stock and be unable to satisfy demands. When stock levels get to a certain point, more goods need to be reordered for the stock level to reach its maximum again. If more goods are not reordered, stocks could run out because of an unexpected surge in demand. However, keeping a lot of stock costs money, so the level of stock in a company should always be balanced. The following graph demonstrates how stock can be controlled:
Lean production

- Focuses on cutting down waste, increasing efficiency.
- It tries to reduce the time taken to produce a product and transport it to the selling point.
- Includes the following methods:
  - Kaizen.
  - JIT production.
  - Cell production.
  - Kanban.

Kaizen

- Continuous improvement through the elimination of waste.
  - Ideas of workers.
  - Regular meetings of workers to discuss how to increase efficiency.
- The advantages of Kaizen:
  - Increased productivity.
  - Reduced amount of space needed for the production process.
  - Work-in-progress is reduced.
  - Improved layout of the factory floor may combine jobs of some employees, freeing others to do other things.

Just in time production

- Eliminating the need to hold stocks.
- Goods are delivered to the selling point just when they are needed.
- JIT production needs:
  - Reliable suppliers.
  - Efficient system of ordering raw materials.

Cell production

- Production line is divided into cells.
- Each cell makes an identifiable part of the finished product.
- Boosts morale.
Kanban

- A system of **ordering** used with JIT production.
- Operates with **two component bins**.
  - When one is emptied, production begins to fill it.
  - The other one is then left to be emptied.
  - The first one is filled up when the second one is emptied.

**Improvements in technology**

Here are some things that technology does in the production process:

- **Automation**: Equipment in the production process is controlled by a computer.
- **Mechanisation**: Tasks are done by machines **operated by people**.
- **CAD (computer aided design)**: Used for designing 3-D objects.
- **CAM (computer aided manufacture)**: Computers control machines in the production process.
- **CIM (computer integrated manufacture)**: CAD and CAM are used together. The computer that uses CAD is directly linked with the one that controls the production process.

Here are some things that technology does in shops:

- **EPOS (electronic point of sale)**: When products' bar codes are scanned and the information is printed out on a receipt. Data is also sent to a computer to keep track of **stocks**.
- **EFTPOS (electronic fund transfer at point of sale)**: When the cash register is connected to the retailer's **main computer** and **banks**. The customer's **credit/debit card** is swiped and the money is **debited** from the customer's bank account. A receipt is printed out to confirm the transaction.

**The advantages of new technology**

- Increased **productivity**.
- **Boring jobs** done by machines. Boosts **motivation**.
- **Training** is needed to operate new machines. Workers become more **skilled**.
- Better **quality**.
- Better **stock control**.
- Quicker **communication** and reduced **paperwork**.
- **Info** is available **faster**, resulting in **faster decision making** (for managers).

**The disadvantages of new technology**

- **Unemployment**
- **Expensive**
  - To invest in new technology.
  - To replace outdated technology.
- Employees are **unhappy** with **changes** in the workplace.
Quality control

There are three ways to control quality:

**Quality control**

- Involves checking and removing faulty products at the **end** of the production process.
- **Wastes** a lot of money.

**Quality assurance**

- Involves inspecting **during** and at the **end** of production.
- Aim to
  - Stop faults from happening.
  - Set a quality standard that all products have to achieve.
- Need teamworking and responsibility.

**Total quality management**

- Encourages **everyone** to **concentrate** on quality.
- Quality is the **main aim** for all staff.
- Products need to satisfy all **customer needs**.

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Chapter 24: Factors affecting location

Location of industry

The location of a business is considered when it starts-up or when its present location is unsatisfactory. The business's objectives as well as the conditions of the environment change, so the business may need to look for a new location once in a while. There are many factors that affect the location of businesses, and these factors are different for each business sector. We'll take a look at them below.

Factors affecting the location of a manufacturing business

Production methods and location decisions

- **Small**
  - scale: transport and location of suppliers are less important.
- **Large**
  - scale: transport and location of suppliers are more important.

Market

- Need to be near to transport perishable goods.
- Need to be near to cut transportation expenses.

Raw materials/components

- Need to be near to transport perishable goods.
- Need to be near to cut transportation expenses.

External economies of scale

- How good nearby businesses are.
  - For maintenance of equipments.
  - For training workers, etc…

Availability of labour

- Wages of the labourers.
- How skilled they are.

Government influence

- Grants/subsidies.
- Restrictions on dumping, etc…

Transport and communication

- To be able to transport product easily.

Power

- Need a reliable source of power to operate effectively.
Water supply

- A lot of water is needed in the production process (e.g. cooling, cleaning)
- Cost of water.

Personal preferences of the owners

- May locate in areas that:
  - They come from.
  - They like.
  - Pleasant weather, etc…

Climate

- E.g. to reduce heating costs in a warmer climate.
- Some climates are required to produce certain items.

Factors affecting the location of a retailing business

Shoppers

- Do shoppers go there?
- What kind of shoppers go there?

Nearby shops

- Competitors.
- Mass market.
- Gap in the market.

Customer parking available/nearby

- Convenience for the customer.

Availability of suitable vacant premises

- Goods sites (e.g. in shopping centres) are in short supply.

Rent/taxes

- The more popular the site, the more expensive.

Access for delivery vehicles

- For delivering goods.

Security

- If the area is insecure
  - Goods will be stolen.
  - Insurance will be reluctant to insure the shop.
Legislation

- Laws restricting the trade of goods in certain areas.

Factors that influence a business to relocate either at home or abroad

- **The present site is not large enough for expansion.**
  - If a business simply prefers to expand elsewhere, the factors affecting location will have to be considered.
- **Raw materials run out.**
  - One alternative is to import raw materials from elsewhere.
  - Important for mining industries.
- **Difficulties with the labour force**
  - Wages are too high.
  - Need skilled labour.
- **Rents/taxes rising.**
- **New markets open up overseas.**
  - Cuts transport costs.
  - Bypass trade barriers.
- **Government grants**
  - To attract businesses to locate in development areas.
  - To attract foreign investment.
- **To bypass trade barriers**
  - Tariffs
  - Quotas

Factors affecting the location of a service sector business

Customers

- Whether customers require:
  - Direct contact.
    - Is it convenient for customers to go the business?
    - Will the service arrive at customers' houses in time?
  - No direct contact needed.
    - Mail
    - Internet

Personal preference of owners

- Near their homes.

Technology

- Technology allows businesses to locate in cheaper sites.
  - Telephone.
  - Internet.
  - Transport.
- No need to be near customers.
Availability of labour

- Need to locate to sites where skilled labourers live.
  - Labourers may relocate to be near the business.

Climate

- Important for tourism.

Near to other businesses

- Businesses that supply or repair machinery to others need to be near them to respond quickly.
- Post office/banks need to be in busy areas for the convenience of customers. That is, being near malls, shops, etc…

Rent/taxes

- If the business does not need direct contact with the customer, then it could locate in cheaper areas.
Chapter 25: Business in the international community

The international dimension

In business, no manager can operate without being affected by the international community.

Exchange rates

Exchange rates is the value of one currency compared to another.

How are exchange rates determined?

There are two type so currencies:

- **Floating rates:** The exchange rate of the currency is allowed to change freely depending on market forces, i.e. supply and demand of the currency.
- **Fixed rates:** The exchange rate of the currency is set by the country's central bank.

When the exchange rate rises, it is called appreciation. When it falls, it is called depreciation.

How are businesses affected by changing exchange rates?

- **Appreciation:**
  - Import prices fall.
  - Export prices rise.
- **Depreciation:**
  - Import prices rise.
  - Export prices fall.

These exchange rate movements can cause serious damage to businesses, making business endeavours that would have been profitable make losses because of changes in the currencies. The EU, for example, wants to limit these bad effects, and hence established a common currency, the Euro.

International economic organisations

- **Economic and political unions.** (e.g. the EU)
- **Free trade agreements.** (e.g. NAFTA)
- Organisations working for free trade between countries. (WTO)

The European Union

- Consists of 25 European countries.
- Creates a single market in the EU.
  - To tariffs, quotas or any trade boundaries.
  - This results in:
    - A huge market benefiting from economies of scale.
    - Increased competition resulting in better products.
- **Common currency.**
  - Issue of Euros are controlled by the European Central Bank.
  - Interest rates for the Euro become the same.
- The social charter:
The EU wants to improve working conditions and make finding jobs equal in the EU.

The main conditions include:
- Workers can look for work anywhere in the EU.
- Workers must be consulted on important issues.
- Equal treatment of full/half time workers.
- Limits on maximum working hours.
- Improved health and safety rules at work.

Advantages for the UK to join the EU
- Lower costs because:
  - One price list throughout Europe can be used.
  - No more charge through currency conversion.
- Easier to:
  - Trade with EU countries.
  - Compare costs of supplies with EU countries.
- No risk of losing out on exchange rate changes.

Disadvantages for the UK to join the EU
- More competition from non-UK firms.
- Consumers might buy cheaper products from other EU countries.
- The rate of interest might no longer suit UK firms.

Free trade unions

Eliminates all trade barriers. Businesses within the free trade union are affected in the following ways:
- More competition from foreign firms.
  - Consumers have more choice and prices are lower.
- No ‘protection’ by governments.
- More opportunities for exporting.
  - Efficient firms will be more successful.

The long-term aim of the free trade union is to encourage trade between the member countries, ultimately improving living conditions for the people.

Globalisation

Globalisation is the word used to describe the increased worldwide competition and business activity. Goods and services that once can only be found in one country has spread all around the world. There are several reasons for this:

- Free trade agreements encourage international trade.
- Improved travel links and communication.
- Countries that have been undeveloped before start to develop and export their own goods, leading to more international competition.
Globalisation results in:

- **More choices** and **lower prices** for the consumer.
- Businesses look into more ways to become more **efficient**.
  - Why many businesses merge to become **multinationals**.
- **Inefficient** businesses **go out of business**.
- **Free trade** results in:
  - More workers losing jobs, since governments can no longer **protect** them from foreign competition.

**Multinational businesses**

**Multinationals** are businesses that have **factories**, **services**, or **operations** in **more than one country**. It is important to note that, for a business to become multinationals, they must **produce goods** in more than one country.

**Why do firms become multinationals**

- **To cut costs**:
  - Labour costs.
  - Raw material costs.
- **To extract raw materials not found elsewhere**.
- **To produce goods nearer to the market**.
- **To bypass trade barriers**.
- **To expand and spread risks**.

**Advantages of multinationals operating in a country**

- **Jobs** are created.
- New investment increases **national output**.
- **Imports** are reduced since there are more goods in the country. More **exports**.
- More **taxes** are paid to the government.

**Disadvantages of multinationals operating in a country**

- Jobs created are usually **unskilled jobs**.
- **Local firms** are forced **out of business** since they can't compete with multinationals.
- **Profits** flow **out** of the country.
- Multinationals use up **scarce resources**.
- May **influence** the **government**.

That's all folks! This is the end of the book IGCSE Business Studies by Borrington Stimpson. I'm sorry if you are not satisfied with the presentation or layout of the blog, and I would really appreciate ideas and suggestions. I hope this summary helped with your studies. Good luck on your IGCSE exams! Thank you!