Content area 1: Entrepreneurship, business organisation and stakeholders

1.1.1 Being an entrepreneur
You will know and understand what it means to be an entrepreneur and what motivates them, including:
Definition of an entrepreneur
Entrepreneurial motivators – financial, personal, social

Business Enterprise
Definition: The formation of a new business or development of a new good or service to be introduced to the market.

1.1.2 Entrepreneurial characteristics and skills
- Confident
- Motivated
- Determined
- Results focused
- Initiative
- Decision making
- Analytical ability
- Communication

Entrepreneur

Famous entrepreneurs such as Richard Branson (Virgin), Bill Gates (Microsoft), Steve Jobs (Apple) and Lord Alan Sugar (Amstrad) are great examples of how one business idea can grow into a huge success with the help of the right entrepreneurial skills and characteristics.

The Motives of Entrepreneurs
Financial
- Generate a profit
- Provide employment for self
- Financial security for self and family

Non-financial
- Self satisfaction/challenge
- Be own boss
- Fill a gap in the market
- Create employment for others

Social/community
- Social enterprises are those whose prime objective is to do good in society rather than to make a profit
- Surplus revenue is used to support a specific cause e.g. a children's charity or community group

Entrepreneur
Definition: A person who sets up a business by taking on the financial risks in the hope of making a profit.
They are responsible for bringing together the other factors of production, land, labour and capital, to create a business.
This involves:
Initiative ➔ Taking action
Innovation ➔ Idea for a new good or service
Identifying opportunities ➔ Spotting a gap in the market
Organising resources ➔ Planning and using a range of resources e.g. raising

Business aims and objectives

Aims and Objectives

Aims: Is the long term objective of the business. Its aim might be to become the biggest business in its sector.

Aims should be SMART:

Objectives: Is a short or medium term target of a business needed to reach its aim. An objective might be to increase sales by 20% in the next 5 years.

Aims of For Profit /Financial :

1. Break even point
2. Profitability
3. Increasing revenue
4. Profit maximisation

Aims of **Not-For Profit/non-financial:**

1. Customer satisfaction
2. Expansion
3. Employee engagement/satisfaction
4. Diversification
5. Ethical/corporate responsibility

Business Legal structures

1.Sole Trader

Definition: Businesses owned by one person who has unlimited liability. Other people can be employed but there is only one owner.

Advantages:

☑ Profit ➔ can keep all profit / no need to share

☑ Making decisions ➔ without consulting others / will be speedy ➔ e.g. of decision

☑ Own boss ➔ free to choose / any example

☑ Independence ➔ can work at own pace etc.

☑ Easy to set up ➔ few formalities ➔ therefore cheaper to set up

☑ Have a job ➔ may not be able to find one elsewhere

Disadvantages:

☒ Unlimited liability ➔ responsible for debts of the business

☒ More responsibility ➔ relies heavily on their own ability to make decisions ➔ may work long hours and have limited holidays, as there is no one to cover them

☒ Limited sources of resources

Unlimited Liability

Definition: Means that the owners of a business are responsible for all of the debts of a business. Personal belongings may need to be given up to pay the debts of the business.

2.Partnership

- This is a business which is owned by **two or more people**. These people all share the profits and responsibility for managing the business.
- When a partnership business is set up, it is a good idea to draw up a **deed of partnership**. This will be a written record of all of the agreed terms of the partnership (who does what, who owns what, etc) and can be very useful to resolve any disputes that may arise.
- Each partner is liable for their own debts as well as any partners' debts. As with sole traders, this liability is **unlimited**, meaning that the partners must take whatever action is required in order to cover the debts (such as selling possessions, using personal savings, etc)

3. Private limited company (Ltd)

It can also restrict what shareholders are able to do with their shares .

Shareholders in a private limited company have **limited liability** should the business fall into debt or fail.

This means that their liability is limited to the value of their investment in the company, and does not extend to their personal assets.

4. A public limited company ('PLC')

It is a company that is able to offer its shares to the public.

Advantages of a PLC

- Better access to capital – i.e. raising money from existing and new investors
- Liquidity – shareholders are able to buy and sell their shares
- 5. How about **Social enterprise and co-operations? How are they formed?**

Organisational structure

Subject Specific Vocabulary

Centralisation – where major decisions are made by one (or a few) senior people in an organisation.

Chain of command – the links between directors and workers in an organisational hierarchy.

Decentralisation – where decision making is shared between different people in an organisation.

Delayering – removal of layers of management in an organisational structure.

Delegation – giving responsibilities to another person, usually more junior in the organisation.

Layers of hierarchy – the different levels of authority in a business.

Line manager – an employee's immediate boss.

Span of control – the number of workers that report to one manager in a hierarchy.

Key Questions for this Topic

Why do businesses have internal organisational structures?

- So people know their job and responsibilities throughout the business
- So people know who does what in the business

What is an organisational structure?

- Shows how employees are organised in a business.
- Businesses have hierarchies – layers of employees with different responsibilities
- Usually shown as an Organisational Chart/Tree
- Directors at the top, then managers, then supervisors and then the workers or operatives
- The chain from top to bottom is called the chain of command and responsibility is delegated passed on to the people below. Organisational structures show how many workers report to each manager – i.e. the span of control.

What are the characteristics of a tall structure?

- Long chain of command – communication can be slow and difficult. Face to face communication is difficult - emails can help when passing on information.
- More layers of management – good for motivation and career progression of employees
- Narrow span of control – employees are monitored closely

What are the characteristics of a flat structure?

- Short chain of command – communications are quicker, fewer layers to pass through
- Managers have wide span of control – can be difficult to manage all workers
- Verbal communications can still be difficult – emails help.

What are the characteristics of centralisation?

- Major decisions made at the top – quick decision making possible but may take time to filter down to employees
- Managers at the top – usually experienced and policies should be the same throughout the business.
- Gives power to the top – may be out of touch/lack expertise and make bad decisions

What are the characteristics of decentralisation?

- Shared out authority or decision making e.g. to regional managers (less pressure on senior managers)
- Regional managers should have expert knowledge in their area (more motivating if authority is delegated)
- Quick decision making as regional managers have authority to make decisions
- Inconsistencies can develop between departments/regions (aims and goals need to be understood by all employees
- Training may be needed for those with decentralised responsibilities

How can businesses decide on the most appropriate structure?

- Size of the business – small businesses may have flat centralised structures
- Cost – taller structures cost more money as there are lots of managers.
- Skills of the workforce – some need less supervision, some need more
- Skills of the managers – some may not be skilled in managing large teams

How can people in businesses communicate?

- Meetings
- Emails
- Video-conferencing
- Intranets
- Telephone calls
- Letters

Remember that people in businesses communicate within the business (up and down and sideways), they communicate with customers, suppliers and other stakeholders too.

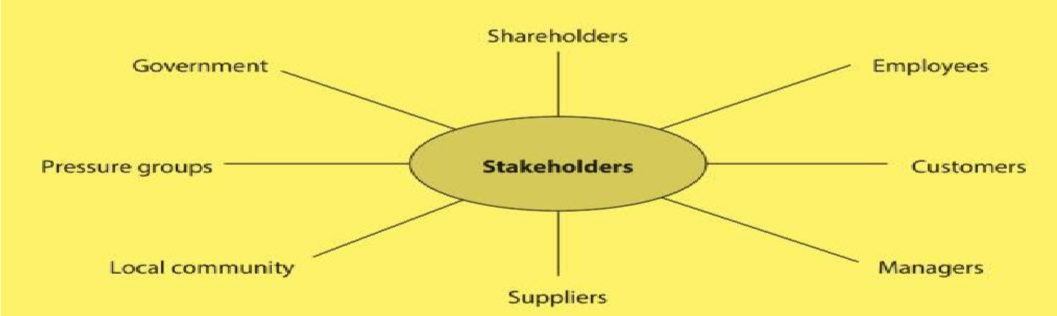


Figure 1.5.1 The eight different types of stakeholder that may influence businesses

Different types of technology used by business

The influence of technology on most businesses is very strong. This is particularly true of businesses that are able to operate worldwide thanks to the internet. There are many different technologies that businesses can use, but the most significant are:

- e-commerce
- social media
- digital communication
- payment systems.

How technology influences business activity

As you have seen, technology has a huge impact on the way in which businesses trade with each other and with customers. There are three main influences that technology has on the activities of a businesses:

- influence on sales
- influence on costs
- influence on the marketing mix.

The purpose of legislation

There are lots of reasons why legislation exists in the UK. However, when thinking about businesses, there are two key purposes of legislation:

- protecting the rights of consumers through consumer law
- protecting the rights of employees and employers through employment law.

Do you know what a stakeholder is? Examples of external/internal?

By working through you should be able to explain:

1. The characteristics, skills and motivations of an entrepreneur
2. Financial and non-financial aims and objectives that a business might have
3. Different legal structures of a business
4. The features of different organisational structures
5. How and why a business may restructure its organisation
6. Internal and external stakeholders of a business
7. The advantages of stakeholder engagement

The impact of legislation on businesses

Each year, lots of new legislation is approved and businesses need to make sure that they follow it. Businesses need to keep up to date with changes in legislation and ensure that the way in which they operate complies with the law. This has two main implications: the cost of adapting the business to comply with the law and the consequences of meeting or not meeting the business's legal obligations.

Stakeholder	Impacts on business activity
Shareholders (owners)	• Set the aims and strategy for the business, including how it behaves. • Provide funding and investment to start up and expand a business.
Employees	• Provide good service, which usually results in higher sales and profits (or have a negative impact on a business's profits and reputation if they do not do their jobs well).
Customers	• Buy products and services. • Make recommendations for how to improve products and services. • Recommend the business to friends and on social media.
Managers	• Manage employees who do the day-to-day work of the business. • Communicate employees' needs to senior management. • Communicate the business's needs to employees.
Suppliers	• Provide the business with the materials it needs for its products or services. • Affect the amount of products or services that can be produced and sold (for example, if a supplier cannot provide raw materials on time, production may be stopped), which can have an impact on the business's sales and reputation.
Local community	• Support their local business by buying its products or services. • Object to the business if it has a negative impact on the local community or local environment.
Pressure groups	• Change the business's practices, such as its delivery times or the packaging it uses. • Improve employees' conditions, such as health and safety in the workplace or fair wages. • Influence customers' opinions of the business and their buying habits.
Government	• Changes the amount of tax that the business has to pay. • Passes new laws relating to the business and its industry. • Promotes different types of business activity by providing special funding for particular activities. For example, the availability of grants for wind farms has increased the number of businesses installing and operating wind farms.

Table 1.5.1 Examples of stakeholders' impact on business activity

Positive consequences	Negative consequences
• The business has a positive reputation. • Customers and other stakeholders, such as employees, feel that they are being treated fairly by the business. • Higher sales due to customers being attracted to buy from the business because of its good reputation. • Better candidates for jobs with the business, because people are attracted to work for the business.	• The business may be taken to court, resulting in fines or even prison sentences for members of staff, including the owners. • Negative media stories about the business, leading to a bad reputation. • A customer or employee is injured, suffers ill-health or is even killed as a result of the business's failure to meet legal obligations. • The business is closed down temporarily or permanently.

Table 1.5.6 The positive and negative consequences of meeting or not meeting legal obligations

Content area 2: Market research, market types and orientation and marketing mix

The marketing mix is made up of **4Ps**. These are:

Price

Product (and service)

Place

Promotion

1. Place

Definition: In the context of the marketing mix, this is where the product is available for the consumer to purchase. Place could include shops, markets,
telephone sales, the internet and so on **Factors to Consider Where to Locate a Store**

- Closeness of shop to market ➔ plenty of customers
- Availability of shop ➔ town centre or out of town
- Suitability of shop ➔ size, facilities
- Cost of shop ➔ to buy or rent
- Ease of access ➔ for customers and for deliveries
- Business area/passing trade ➔ plenty of customers
- Nearness of similar shops ➔ as competition, as attraction
- Planning permission ➔ can the area be developed?

2.Product

Definition: Any good or service offered for sale to customers.

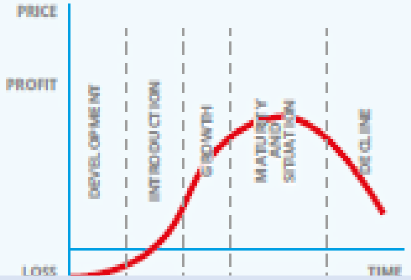
Reasons for a Fall in the Product Life Cycle

- **A fall in sales will generally happen with product life cycle** ➔ people are buying alternatives
- **Same quantity of goods sold** ➔ at lower price so value fallen
- **Goods available from alternative suppliers** ➔ supermarkets etc. ➔ internet
- **Recession** ➔ loss of jobs ➔ fall in purchasing power ➔ all goods fallen in demand
- **Technological change** ➔ e.g. downloading
- **Products already owned** ➔ don't need any more
- **Products last longer** ➔ don't need to buy them as often

Product Life Cycle

Definition: The stages a product passes from its earliest development until it is no longer available on the market.

Diagram:



Extension Strategy

Definition: Involves a number of methods businesses
might use to prolong the life cycle of their products. These
will be related to marketing mix strategies.
Examples include:

- **New feature** ➔ attract new customers ➔ expensive to design
- **Develop new but similar product** ➔ but production costs and promotion costs may be high
- **Change brand name / packaging** ➔ customers may not recognise product, cost of advertising to let customers know of the change
- **New flavour** ➔ can attract new customer.

Marketing mix continued

Why Might a Business Charge Higher Prices?

- **Higher costs** / better ingredients / higher rent / cost plus
- **Wants more exclusive market** / customers willing to pay higher price
- **May be well known** / quality brand ➔ people willing to pay higher prices
- **High marketing costs** ➔ need to be regained from sale of product

Advantages of using pricing strategies to maintain the sales of their products

- Right strategy will increase sales ➔ increase revenue ➔ profits will rise
- Prices can be applied to specific niche ➔ market segment
- Prices can reflect the market for the product ➔ skimming may work in some markets i.e. high income and penetration in others
- Prices can take into account actions of competitors ➔ stopping switching etc.

Disadvantages of using pricing strategies to maintain the sales of their products

- Competitors may follow pricing strategy ➔ so no effect ➔ no increase in sales
- Competitors may not follow pricing strategy ➔ customers not attracted
- Need for expensive advertising to promote pricing strategy ➔ so profits not as expected
- Some segments may not be happy with pricing strategy ➔ allowing less well off to afford expensive products

Promotion

Definition: Involves information and techniques used by businesses to make consumers aware of products and to persuade them to buy those products now and in the future.

Reasons for promotion:

- Create or increase awareness
- Inform/remind customers about the product
- Create or change the image of the product
- Persuade customers to buy the product

Promotional Mix

Definition: The combination of promotional materials used by a business to communicate with its customers.

Advertising Media

Definition: The various places where advertisements may be found such as television, newspapers, or the internet.

Digital Adverts

Definition: Using internet technologies to provide a range of advertising including using email, social media messages and banner advertisements on mobile phones and websites.

Search Engine Advertising

Definition: A form of online marketing which places advertisements on web pages showing the results from search engine queries.

Pop-up Adverts

Definition: These are a form of online marketing which place new browser windows on computer screens.

Social Media

Definition: Involves websites and applications which allow users to create and share information, ideas and interests with other individuals, communities and networks.

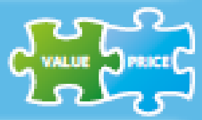
Blogs

Definition: Provides information and allows discussion on the internet with other users producing their own entries or posts.

Purposes of Packaging

- **Protection** → reduce risk of damage → ensure the product is of a high quality
- **Storage** → before sale → in retailers/on shelves/in wholesalers
- **Keep product fresh/clean** → prevent contamination → ensures consumers aren't harmed
- **Information** → name and address of manufacturer → use of product → ingredients → safety → use by dates → legal
- **Identifies product from advertising/ previous purchase** → for its image/quality → enables higher prices → differentiates products from rivals → customers can tell one product from another → so product recognised → so brand loyalty → customers continue to buy → product stands out in display → impulse buying is encouraged

Price



Price

Definition: The amount of money a business wants to receive in order to sell a good or service or the amount of money the consumer is willing to pay to buy that product.

PRICE OFFER
MANUFACTURING COMPETITION
COST
MARKET
CONDITION
PROFITABILITY
PRICING
NEED - DEMAND
PRICE / QUALITY RELATIONSHIP
MARKET PLACE
SHARE RETAIL

Pricing Strategies	Definition	Advantage	Disadvantage
Penetration Pricing	Setting a low price for a new product to encourage sales.	The goods have a low price to attract customers who may then stay with the business	When prices rise people may not be willing to purchase – questions over quality
Price Skimming	Selling a product at a high price in order to earn high initial profits.	Attracts early adopters e.g. new football boots, the latest iPhone	Some customers unable to / unwilling to pay the high prices
Cost Plus Pricing	Involves the producer adding a sum of money (the profit per good) to the cost of producing goods to determine the selling price of the good or service.	Adding profit to cost ensures that a profit is made on each good	May not work in competitive market / depends on margins
Psychological Pricing	The prices appear to be lower than whole pounds e.g. 99p hoping the customer believes the product is cheaper than it is.	Can nudge customers to make a purchase	Some may not be convinced to buy so revenue may not rise / customers may not be attracted to the business
Competitive Pricing / Market Orientated	Involves the producer offering goods for sale at a price at or below that set by competitors.	Ensures that the firm is price competitive	Customers may be used to buying from competitors so revenue might not change / customers may not switch from rivals
Price Discrimination	Charging different prices to different market segments – e.g. discounted pricing to students.	Customers attracted to lower pricing	Some customers excluded and may choose rival retailers (shops)
Loss Leader	Products put on sale, usually in supermarkets, at prices which make no profits and may even make losses in order to attract customers into the shop to buy other goods.	Boost sales of other, more profitable products	Customers may get used to and expect low prices so can only really be used in the short term

The Marketing

Definition: Where there are a number of businesses attempting to persuade consumers to buy their products. Such competition will be based on such factors as price, design and quality.

Functions of Marketing Department

- **Market Research** → carry out market research to find out what customers want
- **Product** → identify and source potentially successful products for the marketplace
- **Price** → setting the right price that the product will be sold at that customers are willing to pay
- **Promotion** → overseeing advertising and promotion campaigns to ensure that the product is promoted in a way which creates maximum customer awareness and persuades potential customers to make the decision to purchase the product
- **Place** → making the product available in the right place at the right time – including choosing appropriate distribution channels
- **Sales Process / Customer Service** → ensuring that the business delivers good customer service and maintains positive public relations

The Market

Mass Markets

Definition: A large market of customers which is undifferentiated and that sells products and services to suit a large number of people.

Niche Markets

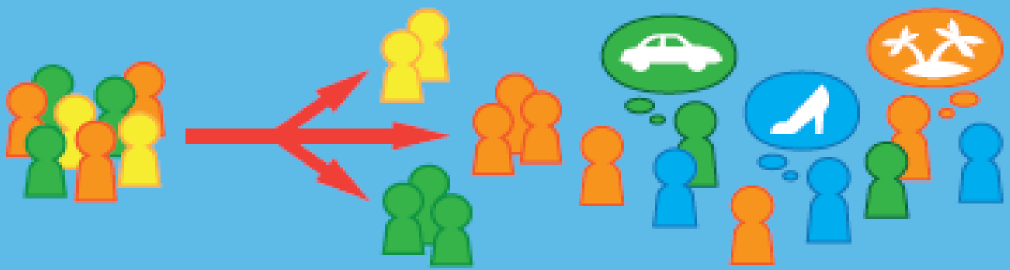
Definition: A smaller part of a large market, with products tailored to specific customer needs.

Market Growth

Definition: Measures the percentage of increase in the sales volume or value.

Sales Value → measures the revenue generated

Sales Volume → measures the number of items sold



Market Segmentation

Definition: Involves dividing the market (target / niche markets) into parts which have specific characteristics e.g. age / gender / income / socio-economic group.

- **Socio-economic** → people in different jobs → with different lifestyles → related to affordability
- **Location** → where people live / residential areas → work
- **Income/cost** → how much can be afforded → e.g. it may be cheaper to have one item over another
- **Lifestyle** → e.g. increase in leisure → increase in demand of item
- **Time/purpose/use/interests/hobbies**
- **Ethnic and cultural** → are some groups more likely to use a product than others?
- **Skill/proficiency** → based on ability/experience
- **Gender** → a good/service may be more appealing to females than males

Marketing Mix

Definition: The combination of factors which help a business to sell its products. It is usually considered to involve the 4Ps of product, price, promotion and place.

Market Research

Market Research

Definition: The way in which information and data is gathered about consumers, competitors and market trends.

Focus Groups

Definition: Where consumers are brought together by businesses to discuss their reactions to products before they are launched.

Consumer Panels

Definition: Recruited by research companies to represent the views of consumers in a particular sector. They will be asked to comment on such things as product design and taste, or on the branding and advertising of products.

Primary Research

Definition: (field research) ➔ collecting primary data ➔ collecting information that does not already exist ➔ it is collected for a specific purpose.

Examples:

Questionnaires, focus groups, personal interviews, IT based research such as email surveys, telephone interviews, postal surveys, observation, consumer panels, test marketing

Advantages:

Up-to-date ➔ gathered first-hand ➔ collected by the researcher (yourself)

Specific to a business' own needs / accurate

Provides answers to exact questions that a firm may be interested in

Disadvantages:

Can be very expensive to collect ➔ could the money have been better utilised using secondary research?

Can be very time consuming to collect so that by the time it has been collected and analysed the market may have changed

Can have problems of bias

Secondary Research

Definition: (desk research) ➔ involves using information which already exists ➔ this can be collected internally or externally.

Examples:

Newspapers/magazines

Trade journals

Internal data e.g. company reports/ business records/financial data

Census data

Published research/internet

Advantages:

It is inexpensive to collect and quick to obtain

Enables cost-effective analysis of several data sources

Disadvantages:

Often out of date

Might not be available

Little control over quality

Problems of interpretation

Qualitative Data

Definition: Involves collection of data about attitudes, beliefs and intentions. *Focus groups, participant observation and interviews are common methods used to collect qualitative data.*

Researcher may only know roughly in advance what he/she is looking for.

Recommended during earlier phases of research projects.

Can be time consuming to collect and may be difficult to draw general conclusions.

Information gathered is often open to high degree of interpretation (subjective) and so there are often disagreements within business about the significance and importance of qualitative data.

Data is in the form of words, pictures or objects.

Quantitative Data

Definition: Involves the collection of data that can be measured. This means the collection of statistical data such as sales figures and market share. *Surveys and the use of government publications/existing statistics are common methods of collecting quantitative research data.*

Researcher uses tools, such as questionnaires and surveys to collect numerical data.

Researcher knows clearly in advance what he/she is looking for.

Recommended during latter phases of research projects.

Is usually regarded to be less open to interpretation than qualitative data (objective).

Data is in the form of numbers and statistics.

Data is in the form of numbers and statistics.

Content area 3: Human resource requirements for business and enterprise

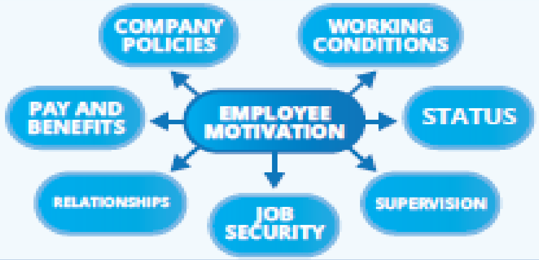
Motivation

Motivation

Definition: The range of factors that influence people to behave in certain ways.

Absenteeism

Definition: Occurs when an employee is not present at his or her place of work.



Benefits to Businesses of Having a Well Motivated Workforce

- **Increase productivity** / workers produce more per hour worked / improve performance of workers → could lead to greater profits
- **Less staff turnover** / less workers leaving the business → workers will be happy in their work and will stay loyal → reduce recruitment / training costs
- **Lower absenteeism** → workers are happy → improves productivity
- **Loyal / committed workers** → experienced and likely to be more efficient
- **Improved employer / employee relations** → industrial action less likely
- **Improved quality of products**
- **Good customer service**
- **Improved business reputation** → easier to recruit the best workers

Financial Rewards

Definition: The use of money as a method of motivation.

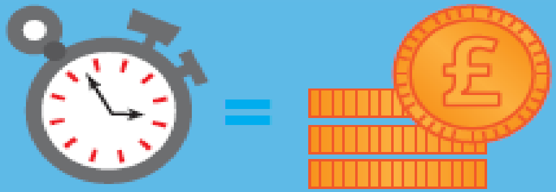
Examples:
- Salaries / Wages
- Time Rate
- Piece Rate
- Overtime
- Profit Sharing
- Fringe Benefits

Salaries

Definition: Generally paid to administrative and management workers. The salary is based on their work for the year.

Wages

Definition: Generally paid to shop and factory floor workers based on time rates and / or piece rates.



Time Rates

Definition: Paid to workers based on the number of hours worked.

Piece Rates

Definition: Paid to workers based on the number of goods which are produced.

Financial/rewards motivation

Overtime

Definition: A higher hourly rate that is paid to employees for any additional hours worked.

Performance Related Pay

Definition: An additional payment to an employee for achieving an agreed target.

Bonus

Definition: An additional payment to an employee for achieving an agreed target.

Commission

Definition: A payment to an employee based on achieving a certain level of sales.

Profit Sharing

Definition: An additional reward paid to workers to reflect the profits earned by the business.

Fringe Benefits

Definition: Rewards to workers not shown in their traditional pay. Such benefits may include company cars, or discount on company products.

Non-Financial Rewards

Definition: The use of non-monetary means to try and raise employee performance.

Examples:
- Job Enlargement
- Job Rotation
- Job Enrichment
- Empowerment
- Training

Job Enlargement

Definition: Redesigning a worker's job so that it contains more tasks of a similar level of complexity.

This means that the employee's work can become more varied and can help to reduce the monotony associated with an employee's job.

Job Enrichment

Definition: Designing a job to give interesting and challenging tasks.

Some employees may lack motivation because they are bored. Job enrichment can help to correct this by making the jobs more demanding and challenging. It can give employees more diverse duties as well as more authority to take decisions at work.

Empowerment

Definition: Gives employees greater control over their working lives.

This might mean that employees can organise their own work and make some decisions without involving their managers.

Job Rotation

Definition: The regular switching of staff between jobs of a similar degree of complexity. This stops the employee getting bored!

Training

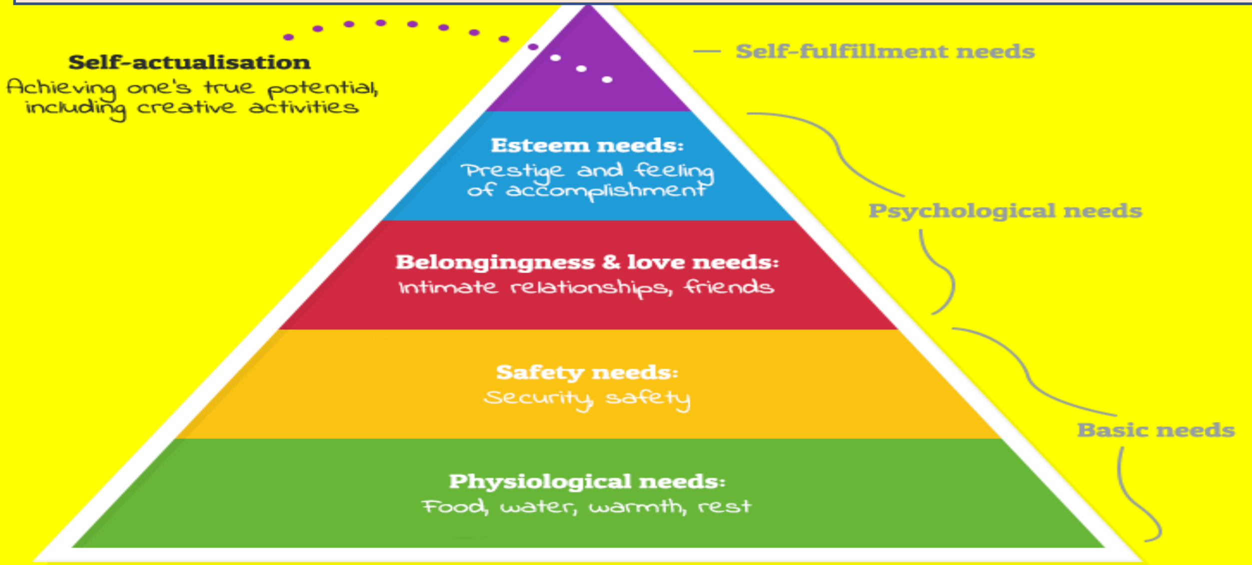
Definition: A range of activities giving employees job-related skills and knowledge.

Ways to Raise Worker Performance

- **Higher Pay**
  - ☑ to encourage workers to work harder → may be short-term benefit
  - ☒ but this will increase the business cost
- **Bonus / Commission**
  - ☑ will relate pay to amount / quality of work
  - ☒ but may be expected by workers, targets to be set → demotivation if not achieved
- **Longer Holidays**
  - ☑ to provide rest / enthusiasm for work
  - ☒ will cost → will mean work not being done → dissatisfied customers
- **Promotion / job title**
  - ☑ gives feeling of importance → reward for work
  - ☒ but only limited availability → envy in the workplace → internal promotions may not be good for dynamic business
- **Health care / insurance**
  - ☑ encourages workers to stay
  - ☒ but cost
- **Working environment**
  - ☑ increased efficiency
  - ☒ cost of production
- **Training / better qualifications**
  - ☑ worker feels better about self → encouraged to work harder
  - ☒ but cost of training → better qualified workers may find jobs elsewhere → increased worker turnover
- **Pension Schemes**
  - ☑ ensure long-term security of worker → more likely to remain
  - ☒ but employee contributions add to costs → able to transfer pension to other employment
- **Ethical Policies**
  - ☑ will involve the way the worker is treated → e.g. good communication / conditions → may not be costly
  - ☒ but employer may be seen as not sufficiently autocratic
- **Rewards for best workers**
  - ☑ e.g. employee of the week → motivate employee to work harder to get the award
  - ☒ but may demotivate others

Motivational theories

1. **Maslow's Hierarchy of Need:** Abraham Maslow states that the needs at the bottom of the hierarchy must be satisfied before an individual can focus on needs at higher levels. The five levels in the hierarchy of needs are:



2. Herzberg's two-factor theory

Professor Frederick Herzberg established a two-factor theory of motivation. The two factors contributing to overall motivation are:

a) Motivators – these are factors that a business can use to directly motivate staff to work harder and more effectively. Job rotation, job enrichment and autonomy are all examples of motivators.

b) Hygiene factors – these are factors that won't actually motivate a member of staff, but if these factors aren't present, then this can contribute to feelings of demotivation amongst staff. Examples of theses factors are safe working conditions, reasonable pay, relationships with colleagues

Internal challenges of growth

One final challenge that a business may face internally is growth. Even though growth is a positive thing, and something most businesses strive for, it can cause problems if it is not anticipated or managed effectively.

•Maintaining customer service levels
•Diseconomies of scale

- Control
- Co-ordination
- Communication

Diseconomies of scale can have the following negative effects on a business:

•The higher cost of production will reduce the profit levels of the business
•Reduced profit levels may force the business to increase its prices, to cover the higher production costs
•Increased prices may make the business less competitive, and customers may move away to cheaper competitors

3.Mayo's motivation theory

Elton Mayo believed that employees could be motivated more as a result of having their social needs met, rather than just using financial/monetary methods of motivation.

Mayo concluded that the following factors were key to motivating employees:

1. Better communication between managers and staff
2. Where possible, staff should work in teams or groups
3. Managers should have greater involvement in the working life of their staff

Keywords:

Economies of scale is where unit costs fall as output increase. However, if a business grows too large or too quickly, then **diseconomies of scale** can occur when the unit cost of production in a business **increases**, as the business grows.

Content area 3: Human resource requirements for business and enterprise

Subject Specific Vocabulary

CV – Curriculum Vitae which is a summary of a person's personal details, qualifications, skills and interests which may be requested by an employer of a potential employee.

External recruitment – advertising outside of the business for a new employee.

Internal recruitment – advertising a job within the business resulting in employing someone already working for the business.

Job analysis – the manager decides what is needed by the business i.e. the information about the job is collected.

Job description – includes the duties of the job, the purpose of the job, who the person reports to and who reports to them.

Person specification – lists the qualifications, skills, experience needed to do the job.

Recruitment – the process to find the correct employee for a business.

Selection – choosing the right person from all those who have applied for the job.

Shortlisting – the process by which a business decides from all applicants, who they want to interview. This may involve requesting references from previous employers.

Staff retention – holding on to staff. The proportion of staff who remain with the business for over a year is the retention rate.

6 Key Questions for this Topic

Why do businesses need to recruit employees?

- If the entrepreneur in the start-up business does not have all the necessary skills
- If the business needs to grow by increasing its production or moving into a new market i.e. diversification
- If employees leave for a different job, retiring or to care for children or elderly relatives.

Where are jobs advertised?

This depends on whether the recruitment is internal or external and the size of the business. Places may include:

- Notices in the workplace/Shop window
- Recommendation/Word of mouth
- Internal website or external website
- Jobcentre Plus (Dept for Work & Pensions)
- Newspaper or specialised journal
- Social media
- Employment agencies e.g. Reed

KQ3 – What are the benefits and drawbacks of internal recruitment?

Benefits	Drawbacks
Cheaper than external. Post can be filled more quickly. Candidates already know a lot about the firm. Managers already know the candidates. Motivating for employees.	No 'new blood' i.e. no new ideas. Still leaves a vacancy. May break up an established team that the successful person leaves. Could be jealousy from unsuccessful candidates.

What are the benefits and drawbacks of external recruitment?

Benefits	Drawbacks
Advert seen by more people – so new blood and someone really suited may be attracted to apply. Someone with the right skills will hopefully apply – no need for training.	Very expensive e.g. national press (only senior and specialist jobs)

What are the main stages in the recruitment and selection process?

- Job analysis
- Advertising the job (job description and person specification are drawn up).
- Applications via letter, CV or application form (quick to process – the business can ask the questions they want to know the answers to).
- References called to assist shortlisting. These are written by the last line manager (usually), describe the character of the applicant and are confidential. Candidate does not see reference.
- Interviewing (same questions asked of all candidates – so to be fair), can be a panel interview, designed to find out about the candidate's skills and attitude) and testing (skills tests, aptitude tests, personality tests, group tests etc.)
- Job offer to the best candidate

What are the benefits of an effective recruitment process?

The best staff …

- are usually the most productive
- may not need much training
- provide a better quality output and customer service
- are happy in their work and stay. Poor retention rates are costly, reduce productivity, quality and customer service.

Subject Specific Vocabulary

Part-time – a contract that asks for employees to work for part of the normal working week e.g. work Monday to Wednesday or work 10am-2pm every day.

Employer – the business the worker, works for

Employee – the worker

Contract of employment – legal document/agreement which states the hours of work, duties, rates of pay etc. of an employee. Has to be issued to an employee 2 weeks after starting with an employer.

Full-time – a contract that asks employees to work a normal working week which can range from 35 to 40 hours a week.

Zero hours – a contract which enables employers to hire staff without guaranteeing them hours of work.

Job share – when 2 (usually) employees complete the responsibilities of one job. Person 1 may work Monday to Wednesday. Person 2 may work Thursday and Friday. May be problems with communication.

3 Key Questions for this Topic

KQ1 – What are the benefits of full time employment for the employer and the employee?

Benefits for employer	Benefits for employee
Employees likely to have one job and therefore loyal and committed to working for that business. If staff are always there during the working week, communication is easier. Training is easier – only one person to train. Staff may be more skilled as they are at work for all the hours in a week.	Paid for more hours so therefore this can improve living standards. May be necessary for financial commitments. Promotion can be easier. Don't need to find a second job to be financially secure.

KQ2 – What are the benefits of part-time employment for the employer and the employee?

Benefits for employer	Benefits for employee
Employees can be employed when they are needed, say at busy times in the week – customer service should then improve. 2 part-timers bring 2 sets of skills/expertise/ specialist knowledge – employees may not be needed all through the week, but yet the business benefits from both sets of skills. Flexible – part-timers may be prepared to cover for colleagues then they are sick or on holiday.	Work can be fitted around other commitments e.g. caring for elderly relatives or children. May suit people as they approach retirement – some work is a solution to winding down from work.

KQ3 – What are the issues with zero hour contracts?

- Employer does not have to offer any work, nor does the employee have to take the work offered.
- Good for businesses where there are fluctuations in demand e.g. hotels
- Cost efficient for businesses as they don't pay workers when they are not needed.
- Employees cannot rely on getting work. It may suit those that might like to earn extra when they are not busy.
- Employees are sometimes concerned that if they turn down work, it may not be offered again in the future.

Subject Specific Vocabulary

Motivation – need to achieve the best from staff, who feel valued.

Productivity – how much is produced by an employee **Financial/Monetary motivation –** using money to motivate

Non financial/monetary motivation – methods to motivate staff but does not include money.

Job enrichment – making a job more interesting by varying the tasks – making more challenging.

Salary – a fixed monthly payment to get the job done

Wage – payment per hour usually e.g. manual workers

Commission – Extra money paid to staff which is linked to the sales they achieve for the business.

Management style – how line managers treat their staff

Autocratic – decisions made by managers without consulting staff. Usually less motivating.

Democratic – decisions made by managers in consultation with staff. Usually more motivating.

Fringe benefits – a reward which is not part of the worker's income e.g. staff discount, gym membership, free health insurance

Piecework – payment according to numbers produced e.g. paying an employee for every basket of fruit they fill when harvesting a crop. Quality can suffer.

KQ – 3 Key Questions for this Topic

KQ1 – Why are the benefits of a motivated workforce?

- Improved employee retention rates
- Increased productivity
- Increased sales
- Improved recruitment and selection
- Happy staff – customer service improves

KQ2 – What are examples of non-financial motivation?

- Job enrichment
- Management styles – democratic is more motivating than autocratic.
- Fringe benefits
- Training – often coupled with job enrichment as an employee may need more training if they take on a more challenging job.

KQ3 – What are examples of financial motivation?

- Salaries, wages and piecework – at least the National Minimum Wage/National Living Wage have to be paid.
- Commission – used by sales companies
- Profit sharing e.g. John Lewis and Zara

Subject Specific Vocabulary

Training – gives employees the skills, knowledge and qualifications to complete their jobs.

Induction training – training provided when someone starts in a new post to familiarise themselves with the organisation they work for.

On the job training – provided in the workplace

Off the job training – provided outside the normal place of work

KQ – 6 Key Questions for this Topic

KQ1 – Why is training important?

- Improve productivity as training hopefully improves efficiency and mistakes which in turn reduces waste and hence costs.
- Improved staff motivation as staff feel valued and they can also carry out more challenging tasks so therefore are less likely to be bored.
- Improved employee retention – staff feel loyal if they have been trained and promoted.
- Improvements in quality and customer service

KQ2 – What is the purpose of induction training?

This will involve employees ….

- meeting colleagues and being made to feel welcome
- learning company rules and procedures
- learning how ICT systems work
- learning about their role in the business

This is all designed to ensure the employee feels confident and happy in their team, right from the start.

KQ3 – What types of on the job training exist?

- **Work shadowing –** watching a skilled and experience member of staff at work. Should pass on good habits, but could pass on bad habits and short cuts that impact on customer service and quality.
- **Formal training sessions –** from experienced members of staff or specialist trainers brought in to train the workforce.
- **Computer-based learning** – e learning, completing tasks online

KQ4 – What are the benefits and drawbacks of on the job training?

Benefits	Drawbacks
Cheaper than off the job. Can be targeted to the business training needs. E learning can be delivered cheaply, to a large number of people and at any time.	No new ideas being brought in if the training is being delivered by an employee. Can take employees away from their normal jobs.

KQ5 – What are the benefits and drawbacks of off the job training?

Benefits	Drawbacks
Brings new ideas Motivating as it is expensive – employees feel valued	Very expensive Employees can receive the training and may then leave, meaning the business doesn't benefit. Can take employees away from their normal jobs.

KQ6 - What factors will determine the type of training offered?

- How much money is available to spend on training
- The type of training required. If it is highly specialised, on the job may be more appropriate
- The skills within the business – if the area of expertise does not exist in the business, off the job will be more appropriate.

Contracts of Employment

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Customer service

Customer service is all about the level of help and support that is offered by an organisation to its customers…before, during and after the customer purchases a product or decides to use a service. **High-quality** customer service includes many aspects, such as:

•Great knowledge of products/services

•The ability to keep calm in stressful situations

•Excellent listening and communication skills

•Focusing on customer needs and requirements at all times

•Gathering feedback from customers and using this to implement changes and improvements

Different ways of providing customer service, are face to face, online and over the telephone, and may involve answering customers' questions, offering advice and recommendations etc

How customer service is measured in business

1. Customer satisfaction scores
2. Repeat business data
3. Levels of complaints/compliments
4. Customer surveys
5. Mystery shoppers

How can good customer service be delivered?

- Ensuring the product is safe and reliable
- Engaging with customers to find out what they want – assessing their needs.

Sales person needs to be polite, friendly, genuine, make the customer feel important e.g. offering next-day delivery.

- Providing excellent product knowledge (written info as well as staff knowledge). Confidence in the sales person may encourage customers to make a purchase.
- Providing an after-sales service e.g. user training, helpline or following up with offering
- Operating from well-maintained premises with provision for all e.g. disabled customers.
- Delivering goods on time.
- Allowing different methods of payment.

What are the benefits of good customer service?

- High levels of customer satisfaction
- Therefore loyal customers make repeat purchases
- Positive word of mouth
- Customers may spend more with a company they trust.

Why does poor customer service occur?

- Dissatisfied customers
- Negative word of mouth which spreads quickly, perhaps by social media.
- Poor reputation and falling revenue.

Financial/rewards motivation

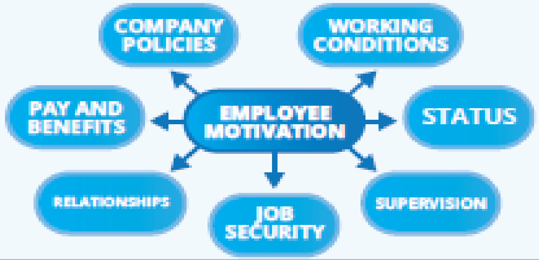
Motivation

Motivation

Definition: The range of factors that influence people to behave in certain ways.

Absenteeism

Definition: Occurs when an employee is not present at his or her place of work.



Benefits to Businesses of Having a Well Motivated Workforce

- **Increase productivity** / workers produce more per hour worked / improve performance of workers → could lead to greater profits
- **Less staff turnover** / less workers leaving the business → workers will be happy in their work and will stay loyal → reduce recruitment / training costs
- **Lower absenteeism** → workers are happy → improves productivity
- **Loyal / committed workers** → experienced and likely to be more efficient
- **Improved employer / employee relations** → industrial action less likely
- **Improved quality of products**
- **Good customer service**
- **Improved business reputation** → easier to recruit the best workers

Financial Rewards

Definition: The use of money as a method of motivation.

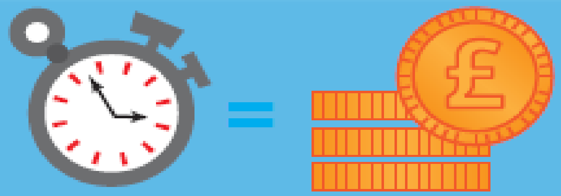
Examples:
- Salaries / Wages
- Time Rate
- Piece Rate
- Overtime
- Profit Sharing
- Fringe Benefits

Salaries

Definition: Generally paid to administrative and management workers. The salary is based on their work for the year.

Wages

Definition: Generally paid to shop and factory floor workers based on time rates and / or piece rates.



Time Rates

Definition: Paid to workers based on the number of hours worked.

Piece Rates

Definition: Paid to workers based on the number of goods which are produced.

Overtime

Definition: A higher hourly rate that is paid to employees for any additional hours worked.

Performance Related Pay

Definition: An additional payment to an employee for achieving an agreed target.

Bonus

Definition: An additional payment to an employee for achieving an agreed target.

Commission

Definition: A payment to an employee based on achieving a certain level of sales.

Profit Sharing

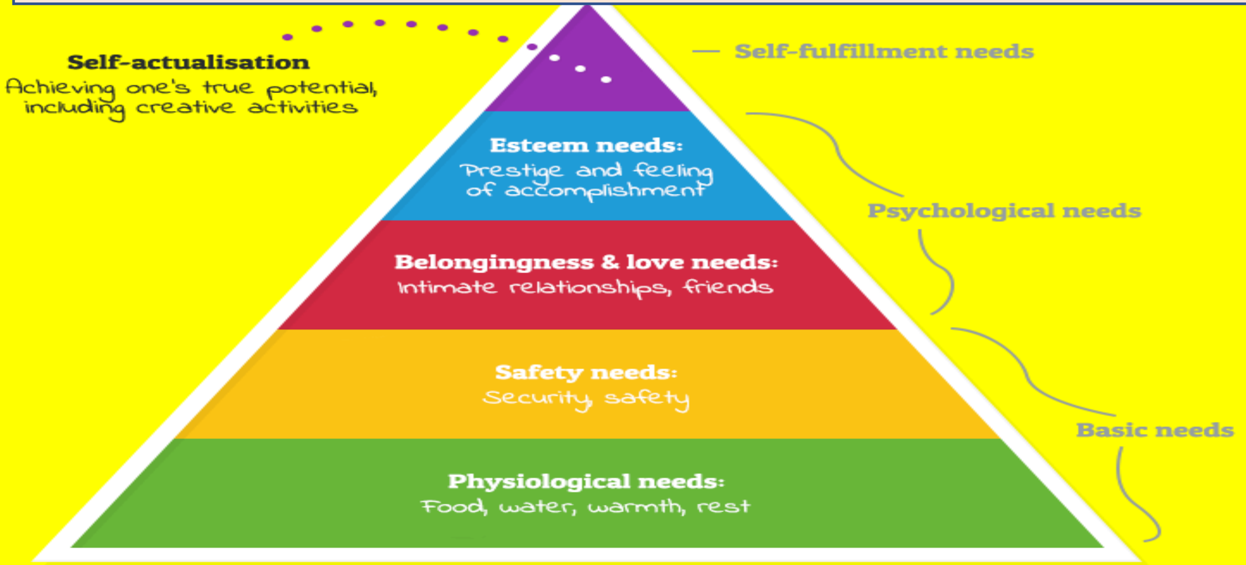
Definition: An additional reward paid to workers to reflect the profits earned by the business.

Fringe Benefits

Definition: Rewards to workers not shown in their traditional pay. Such benefits may include company cars, or discount on company products.

Motivational theories

1. **Maslow's Hierarchy of Need:** Abraham Maslow states that the needs at the bottom of the hierarchy must be satisfied before an individual can focus on needs at higher levels. The five levels in the hierarchy of needs are:



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    - Control
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Keywords:

Economies of scale is where unit costs fall as output increase. However, if a business grows too large or too quickly, then **diseconomies of scale** can occur when the unit cost of production in a business **increases**, as the business grows.

Non-Financial Rewards

Definition: The use of non-monetary means to try and raise employee performance.

Examples:

- Job Enlargement
- Job Rotation
- Job Enrichment
- Empowerment
- Training

Job Enlargement

Definition: Redesigning a worker's job so that it contains more tasks of a similar level of complexity.

This means that the employee's work can become more varied and can help to reduce the monotony associated with an employee's job.

Job Enrichment

Definition: Designing a job to give interesting and challenging tasks.

Some employees may lack motivation because they are bored. Job enrichment can help to correct this by making the jobs more demanding and challenging. It can give employees more diverse duties as well as more authority to take decisions at work.

Empowerment

Definition: Gives employees greater control over their working lives.

This might mean that employees can organise their own work and make some decisions without involving their managers.

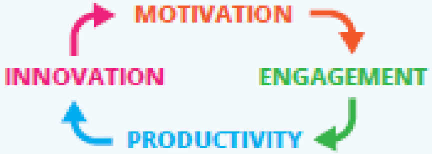
Job Rotation

Definition: The regular switching of staff between jobs of a similar degree of complexity. This stops the employee getting bored!

Training

Definition: A range of activities giving employees job-related skills and knowledge.

Ways to Raise Worker Performance



- **Higher Pay**
  - ☑ to encourage workers to work harder → may be short-term benefit
  - ☒ but this will increase the business cost
- **Bonus / Commission**
  - ☑ will relate pay to amount / quality of work
  - ☒ but may be expected by workers, targets to be set → demotivation if not achieved
- **Longer Holidays**
  - ☑ to provide rest / enthusiasm for work
  - ☒ will cost → will mean work not being done → dissatisfied customers
- **Promotion / job title**
  - ☑ gives feeling of importance → reward for work
  - ☒ but only limited availability → envy in the workplace → internal promotions may not be good for dynamic business
- **Health care / insurance**
  - ☑ encourages workers to stay
  - ☒ but cost
- **Working environment**
  - ☑ increased efficiency
  - ☒ cost of production
- **Training / better qualifications**
  - ☑ worker feels better about self → encouraged to work harder
  - ☒ but cost of training → better qualified workers may find jobs elsewhere → increased worker turnover
- **Pension Schemes**
  - ☑ ensure long-term security of worker → more likely to remain
  - ☒ but employee contributions add to costs → able to transfer pension to other employment
- **Ethical Policies**
  - ☑ will involve the way the worker is treated → e.g. good communication / conditions → may not be costly
  - ☒ but employer may be seen as not sufficiently autocratic
- **Rewards for best workers**
  - ☑ e.g. employee of the week → motivate employee to work harder to get the award
  - ☒ but may demotivate others

Learning Outcome 5: Understand External influences on Business

External influences/factors that can affect a business

1. GDP
2. Interest rates
3. Changes in living wage
4. Changes in fashions and trends
5. Changes in the competitive environment
6. Level of employment
7. Availability of skills locally
8. Changes to legislation
9. Changes in tax rates
    - VAT
    - Income tax
    - Corporation tax

Changes in **living wage**. The national living wage is set by the Government for all worker 25 and older. This is the minimum that any employer can pay workers of this age. If you are 24 or under you will receive the national minimum wage, which is also set by the government. It is an offence to be paid less than this. The rates are reviewed and changed regularly. Find out the lasts information at www.gov.uk/national-minimum-wage-rates

Changes in the competitive environment. If more companies offer the same goods at different prices, or a wider range of the product, this can influence the market. If a large competitor using its economics of scale to undercut existing suppliers then this can impact on the profits of others. If raw material prices increase or transport or rent costs increase or decrease this can affect the competitive environment.

Gross Domestic Product (GDP) is total value of goods and services provided in a country during one year. Interest rates are set by the Bank of England and affect the interest paid on savings and borrowing, for example, mortgages and loans. If interest rates are 2% this means on every £100 the bank would pay you 2% or £2 per year on your savings.

Changes in tax rates. The Government controls the amount of tax business and individuals pay to contribute to the state. **VAT** means Value Added Tax and is added to the sale of goods and services of UK businesses. Some items are exempt from VAT for examples postage stamps and children's clothes. Businesses must be registered for VAT and charge VAT to all customers if they have an income of more than £80000

Challenges of growth

You will know and understand the challenges of growth and how they apply in business, including:

- Additional physical resource requirements
- Additional human resource requirements
- Local cultural sensitivities
- Understanding of local legislation

You'll find lots of useful information on

INTEREST RATES

AN
D

Interest rates affect business in 3 ways:

- It the **cost to the business** of borrowing
- It is the **cost to the consumer** of borrowing
- It is the **reward for saving**

Current interest rates for the UK are 0.25% - VERY LOW!

An interest rate is added to loans and mortgages, if it increases then businesses and consumers have less cash / disposable income available to spend on expanding the business OR (as a consumer) to spend on luxury goods and services. This affects business' revenue and profit.
Also when interest rates increase, saving becomes more attractive therefore consumers may decide to invest instead of spending. This may also affect businesses negatively.

Inflation is the general rise in prices.
The Bank of England is responsible for controlling inflation and keep it at its 2% target.

THE LINK WITH INTEREST RATES:

If inflation is too high:
The Bank of England will raise the interest rate. This should reduce the demand for goods and services which will slow down inflation

If inflation is too low:
The Bank of England will reduce the interest rate. This should lead to a rise in demand

The Government makes us pay taxes for several reasons:

- **To pay for the goods and services it provides**
- **To raise the price of some goods that cause external costs like cigarettes, alcohol and petrol**

The Government spends money for several reasons:

- To provide goods and services
- To help poorer or unfortunate people
- To help businesses

TYPES OF TAX:

- **Taxes paid on income**:
  - Income tax
  - National insurance contributions
  - Corporation tax

Taxes paid on spending:

- VAT
- Excise duties
- Business rates

Content area 5: Business growth

Areas of research when starting-up your own business

1. **Customers:** Business research helps a business to **understand who their customers are** and what their **customers need and want**. This is called their customer base.
2. **Competitors:** Business research helps a business to **find out more about their competitors**, such as finding out the 'market rate' for the product or service you are considering selling so that your pricing is competitive yet realistic.
3. **Current and Potential Demand:** Business research can help you to **understand the current and potential demand for the product or service**.

4. **Legal Requirements:** Business research may help you to find out **what your legal requirements are when starting-up your own business**. You must consider the following points:

- Tax and VAT
- Health & safety
- Business insurance
- Customer protection
- Data protection
- Planning consents
- Whether your business is a legal entity.

Physical resources includes

a. Premises
b. Equipment
c. Raw materials
d. Transport
e. Fixtures and fittings

Which physical resource do you think would be the most beneficial but the least expensive when starting-up a business of your choice?

Technological resources

1. **Card and NFC readers** – NFC means 'Near Field Communication' which is a set of communication devices used to take card payments from customers. This includes contactless payments. This technology is also used when you use your phone to make contactless payments.
2. **Till** – As used in all stores and restaurants, a till is of course a physical device which records payments and stores cash.
3. **EPOS** – EPOS stands for 'Electronic Point of Sale' and is an electronic way that customers can pay for items.
4. **Digital manufacturing** – is a method of production in which computer technology manufacturers produce with little or no involvement from people.
5. **Digital communications systems** – for example, the internet or smart phones
6. **IT infrastructure** – refers to the business entire collection of IT equipment including, for example, computers, hardware, software, phones and tills.

Payments

One of the biggest developments in business in recent years is the way that technological resources has changed how we pay for goods or services.

The UK is fast progressing towards becoming a cashless society, as contactless payments become more common practice and less people carry cash around with them.

Any new business will have to consider this as the business may lose customers if they are not able to pay for the goods/services in the way that they want to pay.

Business growth

Internal growth

1.Diversification

occurs when a business expands or varies its range of products or services. An example of this is when McDonalds introduced salads and healthier options to their menu; they expanded the products which they offer which attracts a different type of customer.

2.Geographical expansion

This occurs when a business expands their operations into a different location. For example, opening an additional store in a new area. A great deal of market research would be carried out first to assess local competition and local demand.

Horizontal growth

This is when a business expands in the same area that it currently operates in. An example of this may be if a business buys-out one of their competitors, therefore reducing their competition. A business may be able to expand their size, their market share and achieve economies of scale in this way. An example of horizontal growth is the purchase of Instagram by Facebook.

Vertical growth

This is when a business expands in the production process. For example, Apple is a fantastic example of vertical growth. Apple began by designing their products and then grew vertically so that they were then manufacturing, distributing and selling the goods. Apple grew further to offer various after sales services also.

Which business do you think could benefit from a merger? Why?

External growth

1.Mergers

A merger occurs when two companies decide to join together. This may be to share expertise, to adopt a larger market share or to access each other's customers.

A key example of a merger is when Halifax and the Bank of Scotland combined forming HBOS.

2.Takeovers

Takeovers are usually more hostile and may involve a larger company taking over a rival company.

A key example of a takeover is when Kraft bought out Cadbury for £12 billion during 2010.

The reasons why a company may decide to take over another company may include increasing market share, securing better distribution of goods or services, targeting new markets and reducing competition from another company.

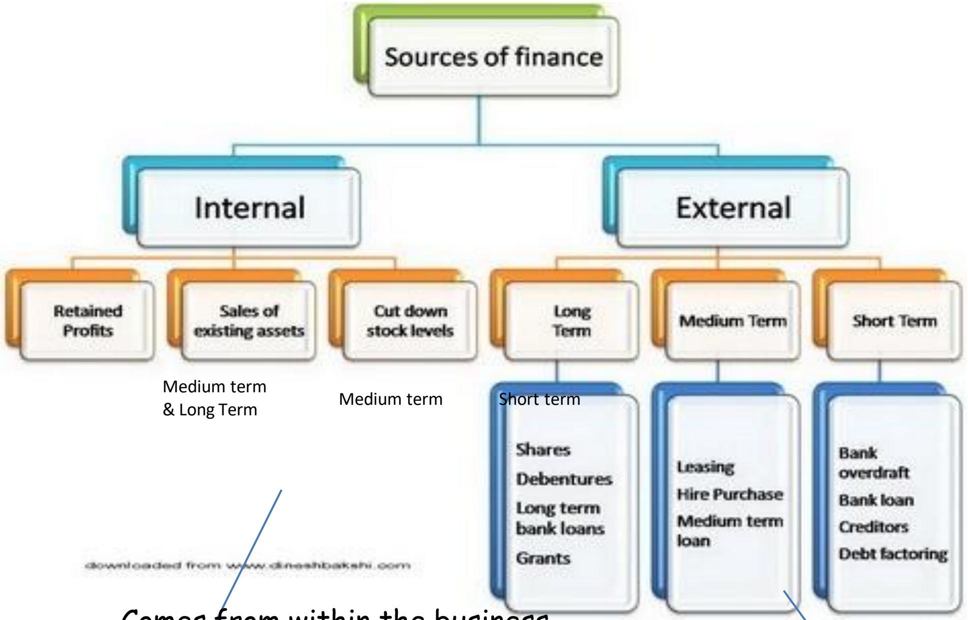
3.Joint Ventures

A joint venture involves two or more businesses joining together for a specific business activity, for example a research project.

The joint venture may create a new business such as a Ltd company or a partnership, or the businesses may retain their individual status whilst creating a contract for a joint venture agreement.

Content area 6: Understand sources of enterprise funding and business finance

of



	External sources of finance	Advantages	Disadvantages
Short-term	Credit cards	Easily available	Can have high interest rates
	Bank overdrafts	• Help with short-term cash flow • No security needed	• Repayable on demand • Often high rate of interest
	Bank loans	Larger sums to invest or expand	May be vulnerable to changing interest rates
Long-term	Mortgage/remortgage on a property	Enables repayments over long-term	May be vulnerable to changing interest rates
	Funds from investors or shareholders	• Potentially more funds available • Enables large scale investments	• May be expensive to set up • Shared control • Share values can rise and fall, affecting company value
	Grants or loans from government or other organisations	• Grants not repayable • Loans often cheaper than bank	• Usually limited in size • Use may be restricted
	Venture capital or business angels	May give tax benefits to investors	• Needs clear exit strategy for investor • Shared control

NOT ALL SOURCES OF FINANCE ARE SUITABLE TO EVERY BUSINESS

Why do businesses need finance?
- Starting a new business venture
- Internal growth
- Takeover/acquire another company
- Replace old assets/machinery
- Moving premises
- Cash flow problems
- Research and development

Comes from within the business.
- Normally no cost as its their own money
- Once its been used up there is no going back and using somewhere else, opportunity cost.
- Others include Cash in the bank and also the owners investment.

Definitions
Opportunity Cost =cost of missing out on something else.
Asset = item of value owned by the business

Comes from outside the business.
- Usually some form of extra cost, for example interest payment on a loan or losing some of the control of the business (shares)
- Trade credit [short term] the credit extended to you by suppliers who let you buy now and pay later. Businesses take delivery of materials, equipment or other valuables without paying cash on the spot, they tend to pay either 30 or 60 days later – keeping both money and assets in the business.
- Other long term externals are both taking on a new investor/partner and a mortgage for a premises.

Over draft, Trade credit and bank loan

Trade credit: Stock can be purchased without immediate payment

Advantages	Disadvantages
Gives the business more cash to spend in immediate future without it being tied up in stock	Can only be used to buy stock
Allows the business to use revenue from sales of stock to pay off suppliers	Not all supplier can offer trade credit (at supplier discretion)
Repayment time can range from 30 to 90 days	Interest is charged if invoice is not settled within the repayment period

OVERDRAFT: An AGREEMENT with the bank to spend more than the amount in your account.

Advantages	Disadvantages
Very quick to arrange	Only suitable for smaller amounts
A good short term solution to cash flow problems	Needs to be repaid within a short period of time
	Interest or bank charges are attached

Bank loan: An amount of money borrowed over a set time from the bank

Advantages	Disadvantages
Easy and quick to set up	Interest payable on loans
Large amounts of money can be borrowed	If payments are not met, the business risks getting a poor credit rating
Structured repayment terms – easy to budget for	

Finance function is the finance department and is only found in larger businesses

It is vital for any business to have accurate financial data. Without accurate data wrong decisions could be made which affect the business negatively.

When will financial info be useful in business decision-making?	
When a business decides to become more environmentally friendly	There may be increased costs to monitor, it may need extra finance - finance function will provide this
When the business is thinking about changing production methods	A prediction in changes of costs will be needed from the finance function as well as what extra finance will be needed and how the changes might affect cash flow
When the business wants to change the way it markets its products	The finance department would provide information about the costs of these new advertising methods and may need to raise extra finance

Financial information
Includes details of profit, loss, cash flow, break-even, profit margin and average rate of return. These can be used to help make business decisions.

Revenue, Costs and Profit

	Calculation
Revenue	Quantity sold x selling price
Variable costs	Quantity sold x variable cost per unit
Total costs	Fixed costs + variable costs
Gross profit	Revenue - cost of sales
Net profit	Gross profit - expenses
Gross profit margin	Gross profit ÷ revenue x 100
Net profit margin	Net profit ÷ revenue x 100
Profit	Revenue - costs

Businesses will need to interpret these figures to help make business decisions

Revenue
Money from sales
Average rate of return
A method of measuring and comparing the profitability of an investment over its life
Loss
Occurs in a business when costs are greater than revenue
Expenses
The costs of operating the business
Profitability ratios
Calculations which help to interpret financial data

Sources of Finance

Owners' capital

Advantages	Disadvantages
▪ No need to repay the money ▪ No interest has to be paid ▪ No cost to raise the finance ▪ Readily available	▪ The owner might not have enough savings to cover the whole finance ▪ May leave the owner short in personal situations

Retained profit

Advantages	Disadvantages
▪ No interest has to be paid ▪ No need to repay the money ▪ No cost to raise the finance ▪ Readily available	▪ Business might not have enough profit to cover the whole finance ▪ May leave the business short in the future in emergency situations

Loan

Advantages	Disadvantages
▪ Repayment is spread over time ▪ Business knows exactly how much has to be repaid and when ▪ Money is available quickly	▪ Interest has to be paid ▪ Business may need to risk an asset as security ▪ Bank will want to see a business plan to ensure they can afford the loan

Issuing shares

Advantages	Disadvantages
▪ A lot of finance can be raised from many investors ▪ Money does not have to be paid back ▪ No interest is payable	▪ Dividends may have to be paid to shareholders ▪ Shareholders are entitled to have a say in the running of the business ▪ The business may be taken over by a competitor

Interest
The amount of money that has to be paid back on borrowed money
Sale of assets
Items sold by the business
Crowd funding
Money raised through an appeal to public
Overdraft
An arrangement with a bank to spend more money than it has in its account
Retained profit
Profit not distributed to owners
Loan
Sums borrowed for a certain period at an agreed rate of interest
Owners' capital
Money from savings put into the business by the owner

Sales revenue AKA turnover is the money a business receives for selling a product. It can be worked out with this formula:

SALES REVENUE = SELLING PRICE X QUANTITY SOLD

Raising the price may not necessarily increase **REVENUE**. If the price goes up, **DEMAND** for the product may go down, thereby selling less and receiving less revenue in total. There a several factors a business must consider before it changes a price:

- **THE NUMBER OF COMPETITORS:** If there are lots of competitors then raising price is unlikely to increase revenue
- **COMPETITORS ALSO RAISE PRICE:** Likely that demand will remain constant therefore revenue increases
- **THE PRODUCT IS A NECESSITY**: If products are essential demand is unlikely to change regardless of a price change
- **HOW MUCH CONSUMERS SPEND ON THE PRODUCT**: Perception of the product and what people are willing to pay.

If a business can't change its price then it can influence the amount that is sold by either:

- ***Increasing advertising***
- ***Sell in more places***
- ***Increase its product range***

BUSINESS COSTS

FIXED COSTS: Costs that do not change regardless of output e.g. rent, salaries, business rates

VARIABLE COSTS: Costs that do change depending on output (no output, no variable cost) e.g. materials, wages

FORMULA:

TOTAL VARIABLE COSTS = QUANTITY SOLD X VARIABLE COSTS PER UNIT

TOTAL COSTS = **FIXED COSTS + VARIABLE COSTS**

AVERAGE COSTS = **TOTAL COSTS / QUANTITY SOLD**

Calculating average cost helps to ***decide what price to charge*** for the product. If the business wants to make a profit, it will need to set the price higher than the average cost.

Sometimes a business sets a price lower than the average cost because they want to steal customers from the competition, or business is bad i.e. recession and they are trying to maintain production to survive until business picks up again.

Ways to reduce Average cost:

- Increase production to spread FIXED costs across more units.
- Reducing the supplier bill or changing to a cheaper supplier
- Increasing the efficiency of the staff
- Achieving economies of scale

Calculating break even

Total fixed costs ÷ (price - variable costs per unit)

Break-even forecast
A prediction about the break-even quantity based on estimates of future sales revenues and costs

Break-even quantity
The amount a business must sell to earn enough revenue to cover its costs

Margin of safety
The amount by whicha business' actual output is greater than its break-even output

Businesses use information about revenues and costs to calculate the break-even level of output

5:4 Breakeven

Usefulness of break-even analysis

- It will help when taking out loans
- Can make decisions about price and costs
- Can find expected profit
- See how much you need to sell
- Shows the margin of safety

Limitations of break-even analysis

- Prices may change because of promotions
- Costs may change
- A price increase could lead to a fall in sales
- Competitors may change
- The product may enter the decline stage

5:5 Cash Flow

Cash flow forecast: shows the expected flow of money into and out of a business

Inflows
Cash flowing into the business
Outflows
Cash flowing out of the business
Expenditure
Money that the business pays out
Opening balance
Cash available at the start of the month
Closing balance
Cash available at the end of themonth

Usefulness of cash flow forecasts

- A planning tool
- Enables remedies to be put in place for shortages
- Anticipates periods of cash shortage
- Provides targets

A negative cash flow may:
- only be temporary and may not necessarily cause a problem for the business
- require the business to obtain additional finance in the form of an overdraft to help it overcome a shortage of cash
- mean that the business has to delay payment of money it owes to others such as suppliers

Key questions

1. State one function of the finance department.
2. Calculate the profit a business would make in 4 weeks.
3. Analyse one benefit of owners' savings.
4. Recommend one source of finance for a business to use.
5. Evaluate whether a business should use a bank loan or retained profit.

State | Explain | Analyse | Recommend | Evaluate

PROFIT

After working out revenue, total costs can then be deducted to work out PROFIT. To be more accurate, gross and net profit can be calculated.

GROSS PROFIT = The amount of profit made after buying and selling goods and services . All other expenses (day-to-day costs) are excluded from this calculation.

NET PROFIT = The profit made as a result of buying and selling goods as well as accounting for ALL expenses in the business.

GROSS PROFIT = REVENUE – COST OF GOODS

NET PROFIT = GROSS PROFIT – ALL REMAINING EXPENSES

Profit margins can then be calculated which is expressed as a percentage

GROSS PROFIT MARGIN = $\frac{gross\ profit}{revenue}$ **x100**

NET PROFIT MARGIN = $\frac{net\ profit}{revenue}$ **x100**

Data produced from margins can allow a business to compare information and spot any problem areas in their costs that may need addressing

Comparing profit over time: Calculating and recording the amount of sales revenue and profit provides a means of ***comparing the financial performance*** of a business:

- Over a period of time
- With its competitors

It can also help identify:

- If a business activity is worth doing
- How the financial performance of a business has changed

The information is likely to be used by:

- The **owners** of the business
- The **employees** of the business
- The **competitors** of the business
- **Trade unions** involved with the business

Remember some businesses do not aim to make a profit. Social enterprises or NOT-FOR-PROFIT businesses aim to raise as much money as possible for a good cause.

What affects the amount of profit or loss?

- *The type and size of the business*
- *The objectives of the business*
- *The demand of the product*
- *The price consumers are willing to pay*
- *How the business controls its costs*
- *The amount of competition*
- *The cost of setting up the business*

The importance of profit: Can be seen as a return on an investment as well as a reward for risk

Profit is paid to the owners:

- **DIVIDENDS** to SHAREHOLDERS (incorporated)
- **DRAWINGS** to sole traders and partnership (unincorporated)

The document used to record the profit and loss of a business is called a 'TRADING, PROFIT AND LOSS ACCOUNT'

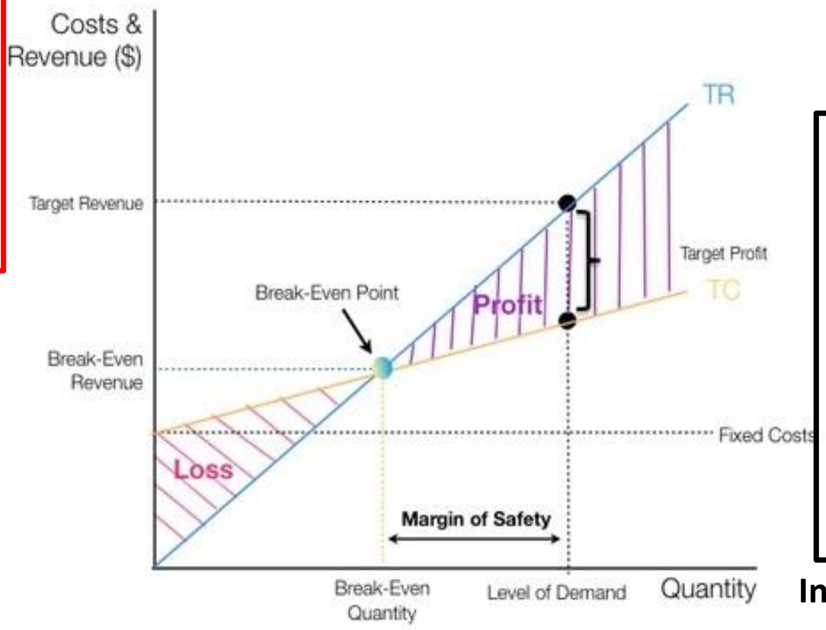
Break-even forecast
A prediction about the break-even quantity based on estimates of future sales revenues and costs

Break-even quantity
The amount a business must sell to earn enough revenue to cover its costs

Margin of safety
The amount by whicha business' actual output is greater than its break-even output

When total costs are equal to revenue

A break even forecast is a prediction about what costs and revenue may be, based on data from the past or from carrying out research



The uses of break even:
A break even forecast is normally prepared when a business is starting up – it will be found in the BUSINESS PLAN.
The figures in the forecast will help with the planning of:

- How much to sell to make a profit
- Making judgements about prices and costs

Changes in price and costs will change the break-even level

- If price is reduced, less revenue would be made making the revenue line FLATTER. Break even point will therefore increase
- If costs increased it would make the total cost line STEEPER therefore the break even point would increase.

*The **margin of safety** is the difference between the break even point and actual sales. The bigger the margin of safety, the more profit the business is making*

In a competitive market, it is not always possible to increase price to reduce break even level as it may make DEMAND reduce, therefore the only option is to REDUCE COSTS

Limitations of break even:

- Forecasted figures may turn out to be inaccurate
- Break even usually only relates to one item (the business may sell multiple items)
- It is assumed that all output will be sold

Other influences that could affect break even:

- The number of competitors in the market could change, affecting DEMAND for your goods
- The cost of ingredients could change (inflation could increase prices)