Chapter 8

Sectors:

- Primary: sector of business that extracts natural resources.
  Ex: farming, Mining, Fishing.

- Secondary: sector of businesses that use raw materials produced by primary industries and transform them into finished products.
  Ex: Furniture factory.

- Tertiary: sector of businesses that sell goods and provide services.
  Ex: salon,
  .

- Non-profit making organization: include charities and voluntary organizations that are set up to fill a perceived social need or provide help to community.
  Ex:

Chain of production: Stages of production that a product goes through from raw materials to being sold to the customer.

Interdependence: each sector relies on each other.Eg: Marketing department and production department

Chapter 9-12

Business location: This is a place where business activities are carried out.

Factors to be considered when selecting the international location: cheap labour, political stability, Market,

Shareholders: individuals/organizations that own shares in a company. (in effect, they are owners of a company.)

Dividends: amount of money given to shareholders.

Takeover/acquisition: when a business buys at least 51% of another business in order to control it.

Eg: Sri Lanka Telecom took over Mobitel Company

Merger: when two businesses agree to join together to form a new business. Eg: Chrysler merged with Benz

Integrations:

- Horizontal: when firms engaged in the same type of good or service combine.
  Ex: Ford and Honda.
- Vertical: when firms engaged in different stages of production but the same type of good or service combine.
- Lateral: when firms who sell different but related products combine.
  Ex: cake shop with fruit juice shop.
- Conglomerate: when firms who sell completely unrelated products combine.
  Ex: coffee shop with bookstore.

buyer till all the payments are complete. If the buyer falls behind, the goods can be repossessed. More expensive than bank loans. [short-term & long-term.]

- Leasing: renting equipment/property.
- Trade credit: buying resources and paying for them later, usually 30-90 days.
- Credit cards.

Chapter 26

Sources of finance – long-term

Long-term finance : money borrowed for more than a year.

- Owner's capital: it is a cheap source of finance as there is no interest but it is rarely enough.
- Share capital: for limited companies only. Interest payments are avoided but dividends must be paid.

Loan capital:

- Debenture: when holders are creditors to a company, not owners. They are entitled to a fixed rate of return, but have no voting rights. Must be repaid on set date.
- Mortgages: borrower uses land/property and pays over monthly installments. If borrower fails to pay, lender can repossess.
- Venture capitalists: provide funds in exchange for an equity stake for companies that have some potential but are considered risky by other investors.
- Hire purchase
- Government finance : governments prefer to give money to businesses where there is heavy unemployment.
- Enterprise Finance Guarantee (EFG): is for a business with a turnover of up to 25 million euros who cannot get the finance they need. [1,000 – 1 million euros]
- Working Capital Scheme (WCS): involves government guarantees to banks to up to 10 billion euros. [up to 10 billion euros]
- Capital for Enterprise fund (CFE): this allows companies to fund business development by selling debt in exchange for an equity stake in their business.
- Enterprise Capital Funds (ECFs): this fun offers up to 2 million euros to businesses that cannot raise funds from venture capitalists.

Choosing sources of finance:

- Cost : businesses prefer the source of finance which has low cost.
- Use of funds : long-term sources of finance are good for funding heavy capital expenditure while money needed for working capital is funded by short-term sources of finance.
- Status and size of the business.
- Financial situation of the business.
- Risk : companies sometimes have to choose between selling shares or taking out money when raising finance. One way of measuring risk is to look at the gearing *ratio.*
    - Gearing is the amount of capital raised from loans in relation to the amount raised from the sales of shares.
    - High geared: a lot of loan capital relative to share capital.
    - Low geared: small amount of loan capital.

Stakeholders:

- Managers: they need up-to-date information to run the business.
    - Control: managers need financial information such as budgets, details of current assets and creditors to help keep control of the money flowing in and out of the business.
    - Analysis and evaluation: managers will want to assess the performance of the company and this can be done by making comparisons with competitors and with accounts from previous years.
    - Decision making: managers use financial information to help make business decisions.
- Employees: they need financial information during wage negotiations. They could also use accounting info to see if their jobs are secure.
- Owners: they will obviously be interested in the performance and financial position of their business e.g. to check if targets have been met for the year.
- Shareholders: they may look at the size of dividends or use ratio analysis to see how their investment is performing and make comparisons with other businesses to see in which they should invest.
- Bankers: they need up-to-date financial information when deciding whether they should lend money to a business or not.
- Suppliers: they use accounts to see whether new customers are creditworthy before granting them trade credit.
- Investors and financial analysts: the accounts of PLCs are published and help to inform shareholders about the progress and performance of the company. They are also used by potential investors and financial analysts to help make decisions when buying shares.

Other users:

- Government: they use this info to monitor the progress of the economy and help evaluate the success of its economic policies. It might also be used to help people when doing research.
- Competitors: limited company accounts are made available to the public. Therefore competitors' can analyse them and make comparisons. Also, if a company is thinking about a takeover, it can use the accounts to help make a decision.
- The media: newspapers, TV and radio often produce reports on businesses and commerce, esp. specialist ones that focus on business info.
- Tax authorities: they may requite details of income when working out how much tax businesses and their owners must pay.
- Auditors: every year the accounts of limited companies have to be checked by an independent firm of accountants and registered auditors. [Auditing is the process of checking the accuracy of accounts.]
- Registrar of Companies: in many countries, limited companies have to register with the Registrar of Companies. Their annual final accounts must be given and they are made available to the public.

Chapter 35

<u>Ratio Analysis</u>

Ratio analysis is a numerical approach to investigating accounts by comparing two related figures.

- Profitability ratios: these measure the performance of the business and focus on profit, turnover and the amount invested in the business.
- Liquidity ratios: these measure how easily a business can pay its debts.

- Social class: businesses pay a lot of attention to different socio-economic groups. Socio-economic groups is division of people according to social class and based on employment status e.g. sports cars for young professionals.
- Ethnicity: different ethnic groups have different needs and wants because of their different cultures.
- Religion: many religious groups have different needs because of their beliefs e.g. Muslims do not eat pork.

Other methods of segmentation:

- Some customers are *repeat customers*. They are loyal and keep returning. A business might offer them loyalty cards that entitle them to discounts.
- Some businesses offer products or services at different times of the day e.g. transport at peak times.

Benefits of market segmentation:

- Increase in revenue e.g. Etihad charges first-class passengers more than twice the rate paid by economy-class passengers for the same flight.
- Customers may be more loyal to businesses that provide products that are tailored specifically for them.
- Businesses may avoid wasting promotional resources by targeting products at different customers that do not want them.
- Some businesses can market a wider range of goods to different customer groups.

Mass and niche markets:

- Mass markets: this is when a business sells the same products to all consumers and markets them in the same way e.g. McDonalds, coca cola.
- Niche markets: a small market segment which has sometimes gone untouched by larger businesses e.g. wedding planning, halal meat.

Chapter 38

The Marketing Mix

Marketing mix: the key elements in a firm's marketing strategy. 4 p's: product, price, promotion, place. A business must:

- Design high quality *products*
- Charge a *price* that is acceptable to customers
- Let consumers know about products through *promotion*
- Make products available in the right *places*

Products: they have to fulfill or exceed customer expectations. They must be:

- Functional: must perform the function for which they were bought e.g. a jacket must keep one warm.
- Appearance: products should look good and be appealing to customers.
- Unique Selling Point (USP): products will be more successful if it has a USP, which means a particular characteristic that makes it different from others.

- Encourage more frequent use of the product – e.g. Kelloggs persuading people to eat cornflakes for breakfast and supper.

The Boston Matrix: it is used to help analyze the products marketed by a business:

- Stars are valuable for a business. They have high market share and the potential for growth. They are likely to be profitable.
- Cash cows are mature products. They have a high market share but the market is not likely to grow very much. They generate a steady flow of income for the business.
- Problem child products have low market share but their market is growing. If the right marketing action is taken, they could do well. They have potential to become profitable for a business.
- Dogs are at the end of their life cycle. They have a low market share and the market is not likely to grow anymore.

Chapter 43

Market Research

Market research: the collection, presentation and analysis of information relating to the marketing and consumption of goods and services.

Uses of market research:

- The market e.g. identifying market size
- Price e.g. finding out how much customers are willing to pay
- Product e.g. identifying wants and needs
- Place e.g. finding best places to sell
- Promotion e.g. analyzing effectiveness of promotion methods
- Competition e.g. analyzing strengths and weaknesses of competitors

Primary research: (or field research) gathering 'new' information that does not already exist. Methods:

- Questionnaires: have a balance of open and closed questions, contain clear and simple questions, no leading questions and be concise:
  - Postal surveys