

# AS Business Studies

## Business Activity

**Resources** – the inputs that are used in the production process to produce goods and services. These are also called Factors of Production:

- **Capital** – the finance needed to set up a business and pay for its continuing operation as well as all the man-made resources used in production
- **Enterprise** – the driving force, provided by risk-taking individuals known as entrepreneurs, that combines the other factors of production into a unit that is capable of producing goods and services. It provides a managing, decision making and co-ordinating role.
- **Labour** – manual and skilled labour make up the workforce of the business
- **Land** – the general term not only includes land itself but all of the renewable and non-renewable resources of nature

**Self-Sufficient** – depending on one's own goods that were personally made or grown by oneself

**'The Economic Problem'** – there are insufficient goods to satisfy all of our needs and wants at any one time

**Opportunity Cost** – the benefit of the next most desired option which is given up *e.g. if a consumer were to choose to purchase salad over fries, fries would be the opportunity cost for this consumer*

**Consumer Goods** – these are physical and tangible goods sold to the general public.

**Consumer Services** – non-tangible products that are sold to the general public *e.g. hotel accommodation, insurance services, train journeys*

**Capital Goods** – physical goods that are used by industry to aid in the production of other goods and services *e.g. machines, commercial vehicles*

**Primary Sector** – those firms engaged in the extraction of natural resources so that they can be used and processed by other firms

**Secondary Sector** – those firms that manufacture and process products from natural resources

**Tertiary Sector** – those firms that provide services to consumers and other businesses

**Public Sector** – comprises of organization accountable to and controlled by central or local government (the state)

**Private Sector** – comprises of businesses owned and controlled by individuals or groups of individuals

**Cooperatives** – business organisations owned and controlled by a group of people to undertake an economic activity for mutual benefit.

**Consumer Cooperatives** – members buy goods in bulk, sell them, and divide the profits between members

**Worker Cooperatives** – workers buy the business and run it; decisions and profits are shared by the members.

**Producer Cooperatives** – producers organise distribution and sale of products themselves

| Advantages                                                                            | Disadvantages                                                                           |
|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Good motivation for all members to work hard as they will benefit from shared profits | Poor management skills unless professional managers are employed                        |
| Working together to solve problems and take decisions                                 | Capital shortages because no sale of shares to the non-member general public is allowed |
| Members share responsibilities, decision making                                       | Slow decision making if all members are to be consulted on important issues             |
| Bulk Buying                                                                           |                                                                                         |

**Franchises** – a business that uses the name, logo and trading systems of an existing successful business; based upon the purchase of a franchise licensor from the franchiser. Franchise businesses have a lower failure rate than non-franchise firms.

| Advantages                                                                               | Disadvantages                                                                                 |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Fewer chances of new business failing as an established brand and product are being used | Share of profits or revenue has to be paid to franchiser each year                            |
| Advice and training offered by franchiser                                                | Initial franchise license fee can be expensive                                                |
| National advertising paid by franchiser                                                  | Local promotions may be paid by franchisee                                                    |
| Supplies obtained from established suppliers                                             | No choice of supplies or suppliers to be used                                                 |
| Franchiser agrees not to open another branch in local area                               | Strict rules over pricing and layout of outlet reduce owner's control over their own business |

**Joint Ventures** – where two or more businesses agree to work closely together on a particular project and create a separate business division to do so.

| Advantages                                                                                                                                                               | Disadvantages                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Costs and risks of a new business venture are shared                                                                                                                     | Errors and mistakes might lead to one blaming the other for mistakes                                 |
| Different companies might have different strengths and experiences and they therefore fit well together                                                                  | The business failure of one of the partners would put the whole project at risk                      |
| They might have their major markets in different countries and they could exploit these with the new product more effectively than if they both decided to 'go it alone' | Styles of management and culture might be so different that the two teams do not blend well together |

### Example Income Statement

|                   |         |
|-------------------|---------|
| Sales Revenue     | 1315860 |
| Cost of Sales     | 48826   |
| Gross Profit      | 1267034 |
| Expenses          |         |
| • Fixtures        | 15000   |
| • Loan Repayments | 2500    |
| • Mortgage        | 750     |
| • Other Expenses  | 2600    |
| • Advertising     | 2100    |
| • Insurance       | 1800    |
| • Wages           | 42336   |
| Total:            | 67086   |
| Net Profit        | 1199948 |
| Interest          | 10500   |
| Profit Before Tax | 1189448 |
| Tax at 20%        | 237890  |
| Profit After Tax  | 951558  |
| Dividends         | 55000   |
| Retained Profit   | 896558  |

### Example Balance Sheet

|                                     |                |
|-------------------------------------|----------------|
| <b>Non Current Assets</b>           |                |
| Premises                            | 889000         |
| Machinery                           | 126000         |
| Vehicle                             | 200000         |
| <b>Current Assets</b>               |                |
| Stock                               | 9500           |
| Cash                                | 2260           |
| Accounts Receivable                 | 35798          |
| <b>Total Assets</b>                 | <b>1262558</b> |
| <b>Current Liabilities</b>          |                |
| Accounts Payable                    | 49000          |
| Overdraft                           | 7000           |
| <b>Non Current Liabilities</b>      |                |
| Mortgage                            | 300000         |
| Loan                                | 4000           |
| <b>Total Liabilities</b>            | <b>360000</b>  |
| Share Equity                        | 6000           |
| Retained Profit                     | 896558         |
| <b>Total Equity and Liabilities</b> | <b>1262558</b> |

**Goodwill** – arises when a business is valued at/sold for more than the balance-sheet value of assets

**Intellectual Capital/Property** – amount by which the market value of a firm exceeds its tangible assets less liabilities

Information not in Published Accounts

- Details of the sales and profitability of each good or service produced by the company and of each division or department
- The research and development plans of the business and proposed new products
- The precise future plans for expansion or rationalisation of the business
- The performance of each department or division
- Evidence of the company's impact on the environment and the local community
- Future budgets or financial plans

**Window Dressing** – presenting the company accounts in a favourable light – to flatter the business performance. Common ways of window dressing include:

- Selling assets at the end of the financial year then lease them back
- Reduce the amount of depreciation of fixed assets; increase profits and asset value
- Ignoring some trade receivables
- Giving stock levels a higher value than what they are worth
- Delaying the payment of bills or incurring expenses until after they have been published

## Leadership

**Leadership** – the art of motivating a group of people towards achieving a common objective

**Autocratic** – a style of leadership that keeps all decision making at the centre of the organisation. Lower levels of the hierarchy are given little delegated authority and communication is usually just one way.

| Advantages                                               | Disadvantages                                                      |
|----------------------------------------------------------|--------------------------------------------------------------------|
| Experienced leaders have full control of decision making | Demotivates staff who want to contribute and accept responsibility |
| Good in crisis situations                                | Decisions do not benefit from staff input                          |

**Democratic** – a style of leadership that allows the majority opinion of staff to influence decisions. It involves a great deal of participation from the workforce but can be time consuming.

| Advantages                                                     | Disadvantages                                                                                  |
|----------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Encourages participation in decision making                    | Consultation with staff can be time consuming                                                  |
| Two-way communication is used which allows feedback from staff | Issues may be sensitive to staff <i>e.g. job losses</i> or too secret for staff to be aware of |

**Laissez-Faire** – a style of leadership that leaves much of the running and decision making of the business to the workforce. This may be appropriate in research and development departments staffed by skilled specialists that are self motivated.

| Advantages                                                                             | Disadvantages                                                            |
|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Gives employees as much freedom as possible                                            | Lack of feedback may be demotivating                                     |
| Managers communicate goals to employees but allow them to choose how they wish to work | Workers may not appreciate lack of structure and direction in their work |

**Paternalistic** – a style of leadership based on the approach that the manager is in a better position than the workers to know what is best for the organisation

**McGregor's Theory X** – managers believe the workers dislike work, will avoid responsibility and are not creative

**McGregor's Theory Y** – managers believe that workers can derive as much enjoyment from work as from rest and play, will accept responsibility and are creative

**General View** – workers will behave as a result of management attitudes

**Emotional Intelligence** – the ability of managers to understand their own emotions, and those of the people they work with, to achieve better business performance. Emotional Intelligence competencies should try to develop and improve on:

- **Self Awareness** – knowing what we feel using that to guide decision making
- **Self Management** – being able to recover quickly from stress
- **Social Awareness** – sensing what others are feeling
- **Social Skills** – handling emotions in relationships well and understanding social situations

## Appraisal and Staff Development

**Appraisal** – the process of assessing the effectiveness of an employee judged against pre-set objectives. This will:

- Be a continuous process
- Enable workers to continually achieve self fulfilment at work
- Establish a career plan that the individual feels is relevant and realistic

## Absenteeism

**Absenteeism** – measures the rate of workforce absence as a proportion of the employee total.

$$\text{LABOUR TURNOVER} = \frac{\text{No. of employees absent}}{\text{Total number of employees}} \times 100$$

## Labour Turnover

**Labour Turnover** – measures the rate at which employees are leaving an organisation

$$\text{LABOUR TURNOVER} = \frac{\text{No. of employees leaving in one year}}{\text{Average number of people employed}} \times 100$$

| Benefits                                                                       | Costs                                        |
|--------------------------------------------------------------------------------|----------------------------------------------|
| Rationalisation (reduction in wastage)                                         | Recruiting, selecting and training new staff |
| New ideas brought into the workplace                                           | Poor output levels and customer service      |
| Low skilled and less productive workers may leave – replaced by better workers | Loyalty and tenacity                         |
|                                                                                | Difficult to establish team spirit           |

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## Market Research

**Market Research** – this is the process of collecting, recording and analysing data about customers, competitors and the market. Businesses need Market Research for:

- To reduce the risks associated with new product launches
- To predict future demand changes
- To explain patterns in sales of existing products and market trends
- To assess the most favoured designs, flavours, styles, promotions and packages for a product

## Market Research Process

### 1. Management Problem Identification

- Businesses need to have a clear idea of the purpose of the research of the problems needed to be investigated
- Examples can include: *What size is the potential market? Why are our sales falling? How can we break into the market in another country?*
- If the problem is not clear, there could be a high loss in money through wastage

### 2. Research Objectives

- These objectives must obviously tie in with the original problem
- At the end of the research they will have needed to provide information to solve the problem
- Examples can include: *How many people are likely to buy our products in Country X? If the price of Good Y is reduced, how much will this increase sales volume?*

### 3. Sources of Data

- **Primary Research** – the collection of first-hand data that is directly related to a firms needs
- **Secondary Research** – collection of data from second-hand resources e.g. newspaper articles

## Primary Data

| Advantages                                                                                        | Disadvantages                                                                                                                                                        |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Relevant – collected for a specific purpose – directly addresses the questions the business wants | Costly – market research agencies can charge thousands of dollars for detailed customer surveys and other market research reports                                    |
| Up to date and therefore more useful than most secondary data                                     | Time-consuming – secondary data could be obtained from the internet much more quickly                                                                                |
| Confidential – no other business has access to this data                                          | Doubts over accuracy and validity – largely because of the need to use sampling and the risk that the samples used may not be fully representative of the population |

## Sources of Primary Data

**Qualitative Data** – research into the in-depth motivations behind consumer buying behaviour or opinions

**Quantitative Data** – research that leads to numerical results that can be statistically analysed

- **Focus Groups** – a group of people who are asked about their attitude towards a product, service, advertisement or new style of packaging. Researchers will be part of this discussion and will have to keep them 'on target' as they may get off track, and they may also present a bias from them leading or influencing the decision too much.
- **Observing and Recording** – market researchers can observe how consumers behave *i.e. how many people will look at a display in their shop*, however could be distorted as people will behave differently if they know they are being watched
- **Test Marketing** – involves promoting and selling the product in a limited geographical area and then recording consumer reactions and sales figures. The region selected however, must reflect as closely as possible the social and consumer profiles of the rest of the country.
- **Consumer Surveys** – involves directly asking consumers or potential consumers for their opinions and preferences. They can obtain both qualitative and quantitative data. The four important issues for market researchers to be aware of whilst conducting surveys are: *Who to ask? What to ask? How to ask? How accurate is it?*

## Sampling

**Sample** – the group of people taking part in a market research survey selected to be representative of the overall target market. When there is a larger sample there will be more confidence in results

**Random sampling** – every member of the target population has an equal chance of being selected. It is considered fair and easy to set up and represents the whole population.

**Stratified Sampling** – this draws a sample from a specified sub group or segment of the population and uses random sampling to select an appropriate number from each stratum. This may give more relevant information and may be more cost effective however there is a potential to miss out on whole population views with the focus of just one group

**Quota Sampling** – when the population has been stratified and the interviewer selects an appropriate number of respondents from each stratum. This is a cheaper method, however is not random and therefore may not be fully representative.

## Questionnaire Design

**Open Question** – invites a wide ranging or imaginative response; very difficult to collate and present numerically

**Closed Question** – questions to which a limited number of pre-set answers is offered

## Secondary Data

| Advantages                                                                             | Disadvantages                                                                                                                                        |
|----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Often obtainable very cheaply – apart from the purchase of market intelligence reports | May not be updated frequently and may therefore be out of date                                                                                       |
| Identifies the nature of the market and assists with the planning of primary research  | As it was originally collected for another purpose, it may not be entirely suitable or presented in the most effective way for the business using it |
| Obtainable quickly without the need to devise complicated data-gathering methods       | Data-collection methods and accuracy of these may be unknown                                                                                         |
| Allows comparison of data from different sources                                       | Might not be available for completely new product developments                                                                                       |

## Sources of Secondary Data

- **Government Publications** – Population Census, Social Trends, Economic Trends, Annual Abstract of Statistics, Family Expenditure Survey
- **Local libraries and government offices** – For a small area: Local population census, number of households in the area, proportions of local population from different ethnic or cultural groups etc.
- **Trade Organisations** – information concerning products can be received from trade organisations that produce regular reports on the state of the markets their members operate in.
- **Market Intelligence Reports** – very detailed reports on individual markets and industries produced by specialist market research agencies.
- **Newspaper reports and specialist publications** – could show weekly advertising spend data, consumer 'research' adverts' results, as well as regular articles on key industries and detailed country reports.
- **Internal Company Records** – Customer Sales Records Guarantee Claims, Daily/Weekly/Monthly sales trends, feedback from customers on product/service/delivery/quality
- **The Internet** – has access to data that has already been collected from other sources. The accuracy and relevance of the source would always have to be checked.

## Presenting Data

**Mean** – calculated by totalling all the results and dividing by the number of results

**Median** – the value of the middle item when data has been ordered or ranked

**Mode** – the value that occurs most frequently in a set of data

**Range** – the difference between the highest and lowest value

**Interquartile Range** – the range of the middle 50% of data

## Marketing Mix

- **Product** – methods used to improve/differentiate the product and increase sales or target sales more effectively to gain a competitive advantage *e.g.*
  - Design
  - Technology
  - Usefulness
  - Convenience
  - Quality
  - Packaging
  - Branding
  - Accessories
  - Warranty
- **Price**
  - How much will the business charge customers?
  - Is there a link with the perception of quality?
  - What pricing strategies could the firm use?
  - Importance of knowing the market and keeping an eye on rivals
- **Promotion** – Strategies to make the consumer aware of the existence of a product or service *e.g.*
  - Special offers
  - Advertising
  - User trials
  - Leaflets
  - Posters
  - Competitions
- **Place** – the means by which products and services get from producer to consumer and where they can be accessed by the consumer
  - The more places to buy the product and the easier it is made to buy it, the better for the business and the consumer
  - The further the places are the more costs the business will incur
  - *E.g.* retail stores, wholesale, mail order, internet, direct sales, multichannel

## Integrated Marketing Mix

**Integrated Marketing Mix** – the key marketing decisions complement each other and work together to give customers a consistent message about the product

- **Customer Solution** – what the firm needs to provide to meet customer needs
- **Cost to Customer** – total cost of the product
- **Communication with Customer** – up to date and easy two way communication
- **Convenience to Customer** – providing easy access for the customer to gain the product

**Customer Relationship Marketing/Management** – using marketing activities to establish successful customer relationships so that existing customer loyalty can be maintained; CRM is about not necessarily gaining new customers but keeping existing ones