

Tema 1: What is business activity?

Business - is an organisation that provides goods and services.

Goods - is a physical product, e.g. Mobile phone.

Services - is a non-physical product. E.g. Banking.

Organisation - group that has formed for a particular purpose.

Output - Amount of goods or work produced by a person, machine or factory.

Features of business activity:

- Business activity produces an output.
- Goods and services are consumed.
- Resources are used.
- A number of business functions may be carried out (production, marketing, human resources and financial control)
- External factors affect businesses.
- Businesses aim to make a profit.

Goods and services:

Consumer goods: goods and services sold to ordinary people (consumers) rather than businesses.

Producer goods: goods and services produced by one business for another.

Examples: (consumer goods)

Goods	Services
Magazine	Banking
Smartphone	Health care
Handbag	Education

Examples: (producer goods)

Goods	Services:
Tools	Insurance
Delivery van	Market research
Office furniture	Software design

Satisfying needs and wants:

Businesses have to satisfy people's needs and wants.

Needs: basic requirements for human survival (water, food, shelter...)

Wants: people's desires for goods and services. (holidays, a better house...)

Wants are infinite. Unfortunately, the resources available to businesses are finite. This means there is a limited amount. Economists say such resources are scarce.

Partnership: business owned by between 2 and 20 people.

Deed of partnership: binding legal document that states the formal rights of partnership.

Deed of partnership: (What includes)

- How much capital each partner will contribute.
- Rules for taking on new partners.
- How much control each partner has.
- The procedure for ending the partnership.
- How profits (and losses) will be shared.

Advantages	Disadvantages
Easy to set up and run	Partners have unlimited liability
Partners can specialise in their area of expertise	Profit has to be shared between partners
Job of running a business is shared	Partners may disagree and fall out
More capital can be raised	Tend to be small
Financial information not published	Any partner's decision is legally binding on all

Franchises:

Franchise (franquicia): structure in which a business (the franchisor) allows another operator (the franchisee) to trade under their name. (owners of the franchise are called franchisors)

Things that the franchisor offers the franchisee:

- Materials, equipment and support services that are needed in order to run a business.
- A licence to trade under the recognised brand name of the franchisor
- A start-up package

Franchisee has to pay certain fees:

- One-off-start-up fee
- An ongoing fee
- Contribution to market costs
- Franchisors may make a profit on some of the materials, equipment and merchandise supplied to franchises.

Franchisee:

Advantages	Disadvantages
Less risk	Profit is shared with the franchisor
Back-up support is given	Strict contracts have to be signed
Set-up costs are predictable	Lack of independence

Franchisor:

Interdependence:

- Businesses in each of the three sectors above are likely to be interdependent. This means that they rely on each other. E.g. in the primary sector, cereal farmers rely on bakers in the secondary sector for their sales of wheat.

Changes in sectors:

De-industrialisation: decline in manufacturing.

- The number of people employed in each sector does not stay the same. Different sectors grow and decline over time. The decline in manufacturing is called de-industrialisation.

Why has manufacturing declined in developed countries while services have grown?

- People may prefer to spend more of their income on services than manufactured goods. There has also been a decline in demand for the goods produced by some of the traditional industries in manufacturing.
- There is fierce competition in the production of manufactured goods in developing countries such as India, China, Brazil.
- As countries develop, the public sector grows. Since the public sector mainly provides services, this adds to the growth of the tertiary sector.
- Advances in technology mean that employment in manufacturing falls because machines replace people.

Tema 8: Decisions on location

Proximity to market, labour, materials and competitors:

Proximity to the market:

- Businesses that make, large or heavy products may be located close to their customers to keep transport costs down.
- Many services providers have to locate their premises close to their markets. This is because many services are sold direct to consumers.

Proximity to labour:

- Businesses needing large numbers of workers have to consider wage costs and labour skills. Large companies may also consider locating in countries where labour is very cheap. Certain locations may be more suitable than others depending on labour skills.

Proximity to materials:

- Businesses that use large amounts of raw materials that are difficult to transport may choose to locate their premises very close to their sources.
- Some businesses that require large areas of land to locate buildings and other facilities; look to minimise land and property costs.

Set up in areas where:

- Employees want the business to be successful because if a business is growing and profitable, they are likely to get higher wages.
- They will also feel more secure.
- Employees might also need training or things like good working conditions, opportunities to interact with employees or safety at work.

The importance of targets when judging success:

- Many owners set targets when running a business. This makes it easier to measure success.
- Targets might be also used to motivate staff.
- Targets can be adjusted to take in account the current circumstances of the business.

Tema 15: Reasons for business failure

Business failure:

- The precise rate of business failure across the world is difficult to identify.
- Many businesses fail because they run out of cash, even when they are potentially profitable. Other fail because they did not raise enough finance before trading began, or they could not attract crucial funding at a later date.
- Effective financial planning in business is crucial.
- Entrepreneurs need to ensure that the business has enough money exactly when it is needed

Cash flow problems:

- Some entrepreneurs focus too much on profit and forget about the importance of cash.
- **Overtrading** : Young and rapidly growing businesses are particularly at risk of overtrading. This occurs when a business is attempting to fund a large volume of production with insufficient cash.
- **Investing too much in fixed assets**: When businesses first start trading, funds are limited. It may be better to lease some of these fixed assets to protect cash reserves.
- **Allowing too much credit** : a great deal of business relies on credit. This means that goods are sold and the customer pays for them at a later date. One of the dangers is that businesses allow their customers too long for payment. This means they are waiting for money and may be forced to borrow.
- **Over-borrowing**: Businesses may borrow to finance growth. As more loans are taken about, interest rates rise. To avoid borrowing, a business may try to raise more capital perhaps by selling shares.
- **Seasonal factors** : Sometimes trade varies for seasonal reasons.
- **Unexpected factors**: Businesses need to prepare for any unforeseen expenditure. In the early stages of business development, owners are often hit by unforeseen expenditure. This might be caused by lack of experience or poor planning.
- **External factors** : Sometimes events that are outside the control of the business cause cash flow problems. Examples include changes in consumer taste, changes in legislation or a downturn in the economy.

- Subordinates look to their managers for leadership and guidance.
- It allows the decisions made by management to be carried out by employees.
- It allows managers to command, to control and to organise.

Upward communication:

- Upward communication: passing messages from the bottom of an organisation to those at the top.

Is helpful because:

- Helps managers to understand the views and needs of subordinates.
- May make managers aware of problems.
- Helps staff to feel that they are valued.
- Provides managers with information to help make decisions.

Horizontal communication:

- Horizontal communication: exchange of information between parties on the same level in an organisation's hierarchy.

Internal communication:

- Communication between people inside the business.
- Ej: a board meeting where directors are discussing a possible merger.

External communication:

- Communication between the business and those outside such as customers, investors or the authorities.
- Ej: a statement from a credit card.

Formal communication:

- Use of recognised channels.
- Formal groups are those set up by the business

Informal communication:

- Use of non-approved channels when communicating.
- Most informal communication is done "on the grapevine". This means that unofficial information is passed on through gossip and rumours. This type of information may become confusing and misleading.

The importance of good communication in business:

- If internal communication is poor, problems can arise. As a result, efficiency and profitability may suffer.
- Poor communication can lead to mistakes, wasted resources and confusion.
- It can lead to workers not understanding what they have to do, poor motivation and some work accidentally being repeated.
- Poor external communication can make the business look foolish and may cost it money.

Methods of Communication:

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- Things that get in the way of good communication are called communication barriers.
- Lack of Clarity: If a message isn't clear, it may be misunderstood or ignored. Unclear communication may be the result of poorly written or poorly expressed messages.
- Technological breakdown: If technology is faulty, communication may become unclear or break down. Ej: websites sometimes crash if there is a large volume of traffic.
- Poor communication skills.
- Jargon: Is vocabulary that is used and understood by people in a specific group; however, outside that group it may be meaningless.
- Distractions: Communication may break down if there are distractions in the communication process. (ej: noise)
- Business culture: Occurs when there is a general lack of communication throughout the whole organisation. This is negative and encourages a mentality in which staff become isolated and fail to share information with colleagues.
- Long chain of command: messages take longer to pass through the chain and may become unclear or inaccurate on the way.
- Using the wrong medium: if the sender uses an inappropriate medium, an important message may be missed.
- Different countries, languages and cultures: Employees may be in different time zones which can delay responses.

The problems of ineffective communications in business:

- Can result in expensive problems.
 - Higher staff turnover, more staff absences, poor customer service, more work-related injuries, difficulties making changes, higher legal costs, lower profits.
 - Ineffective external communications can damage relations with customers and suppliers.
- If communication problems cannot be solved customers may find alternative shops or suppliers, which will result in lost revenues and lower profits.

How can barriers to communication be removed?

- Recruitment.
- Training.
- Written Communication.
- Technology.
- Chain of command.
- Social events.
- Culture change

Culture of business: how things go or how things are done in the business

Tema 18: Recruitment and selection

Types of employment:

Full-time employment:

- The dangers from hazardous substances.
- The protection needed from bullying, violence... in the workplace.

The benefits of training:

- Keeping workers up to date.
- Improving labour flexibility
- Improving job satisfaction and motivation.
- New jobs in the business.
- Training for promotion.

The limitations of training:

- High cost of training courses and other resources.
- Learning by doing
- Loss of output
- Employees leaving
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Business Tema 21

Tema 21: The importance of motivation in the workplace

Motivation: desire to achieve a goal.

Why is employee motivation important in business?

- If a business has a well-motivated workforce it will perform better.
- Labour productivity will be higher, therefore, business profits are likely to be higher.
- Easier to attract employees:
- Easier to retain employees:
- Higher labour productivity:

How can businesses influence motivation?

- Because they have the opportunity to provide for a number of human needs.
- These needs may be physiological, social or concern safety and security.
- A number of theories have been developed that suggest how businesses can motivate workers by satisfying human needs.

Herzberg two-factor theory:

- Discovered in the 1960s that certain factors at work would help to give employees job satisfaction.
- He called these motivators.
- He also found that other factors could leave workers dissatisfied. He called these hygiene factors.
- He said that businesses must find ways of giving workers job satisfaction to motivate them.

Fringe benefits:

- “perks” over and above the normal wage or salary.
- Some examples: subsidised meals or free counselling services.

There are some good reasons for rewarding workers with fringe benefits:

- It may be cheaper to give employees fringe benefits than cash. Employees may also pay less tax if they take fringe benefits instead of cash.
- Productivity may improve because there is less staff absence.
- Some benefits help to attract and retain better-qualified employees for a business.
- Many benefits provide protection and security for workers and their families. This might help to improve worker satisfaction, such as free private health insurance...
- Some fringe benefits are performance related. This will help to motivate staff.

Non-financial rewards:

- Some people are not motivated by money.
- Some workers attach more importance to non-financial rewards.

Job rotation:

- Allow employees to change jobs from time to time.
- This will give workers more variety and help to avoid feeling bored.
- Job rotation should help motivate workers and provide a business with more flexibility.
- One possible disadvantage of this method of motivation is that training costs will rise.
- Specialisation may be lost.

Job enrichment:

- Job enrichment: doing more tasks at a higher level (hierarchy). Tasks motivate workers.
- Job enlargement: doing more tasks at the same level. Tasks don't motivate workers.

Autonomy:

- Autonomy improves motivation.
- Workers are given the authority to make more choices and decisions about the way they work.
- This gives workers control and suggests that they can be trusted.
- It might also give employees more self-confidence and is a way of recognising their achievements.
- Help motivate workers.
- Some workers may respond negatively to autonomy, especially if they do not receive extra pay.
- Some workers may not be confident in taking on more responsibility.

Tema 23: Organisation structure and employees

Organisational charts:

(diagrams page 235)

The limitations of a break-even chart:

A break-even chart shows:

- How much output a business has to produce in order to break even
- The costs, revenue and profit at different levels of output
- The margin of safety

However, the chart does have some limitations:

- The TC and TR are shown as straight lines. In practice they may not be straight lines
- It is assumed that all output is sold and no stocks are held.
- The accuracy of the break-even chart depends on the quality and accuracy of the data used to construct total cost and total revenue.

Tema 36 : Product

Vocabulary:

- **Marketing mix:** elements of a firm's marketing that are designed to meet the needs of customers (often called the 4 P's they include product, price, promotion and place)
- **Product life cycle:** level of sales at the different stages through which a product passes over time.
- **Skimming or creaming:** Setting a high price initially and then lowering it later.
- **Penetration pricing:** Setting a low price to start with in order to get established in the market; the price may be raised once established.
- **Extension strategies:** methods used to lengthen the life of a product.
- **Product portfolio:** range of products businesses currently marketing.
- **Boston matrix:** 2x2 Matrix that describes products according to their market share they enjoy and whether the market has any potential for growth
- **Penetration pricing:** Setting a low price to start with in order to get established in the market; the price may be raised once established.

The Marketing mix

Design and produce high-quality products

Charge a price that is acceptable to customers

Let consumers know about products through promotion

Make products available in the right place at the right time

Product development

Generating ideas

Extension strategies

Finding new markets for the product- for example, selling abroad

Finding new uses for a product

Modifying the product

Develop the product range- for example, a crisp manufacturer bringing out new flavours

Change the appearance or packaging

Encourage more frequent use for the product

Managing and reviewing the product portfolio

Stars: Are valuable products for a business. They have a high market share but also their potential for growth. They are likely to be profitable.

Cash cows: 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.

Question marks: Are products with a low market share but the market is growing. If the right marketing action is taken these products could do well. They have potential.

Dogs: Are at the end of their life cycle. They have low market share and the market is not likely to grow more. They are likely to be replaced with new products.

Chapter 37: Price

Vocabulary:

Cost-plus or cost-based pricing: Adding a percentage to the costs of producing a product to get the price.

Mark-up: percentage added to cost that makes a profit for a business when setting the price.

Competition based pricing: Pricing strategies based on the prices charged by rivals.

Destroyer or predatory pricing: setting a low price until the rivals have gone out of business.

Loss leader: Products sold below cost to draw in customers.

Pricing

Marketing mix: price has to fit in with other elements in the mix.

Objectives: pricing can be used to achieve certain aims

bulk breaking: dividing a large quantity of goods received from a supplier before selling them on in smaller quantities to customers

Distribution channels

distribution channels: route taken by the product from the producer to the consumer

Retailing

retailers: businesses that buy goods from manufacturers and wholesalers and sell them in smaller quantities to consumers

they buy large quantities from manufacturers and wholesalers and sell smaller quantities to customers

they sell in locations that are convenient to consumers

They may add value to products by providing other services

Independents

tend to be relatively small outlets

Supermarkets

large stores selling up to 200-400 products lines including groceries, fresh food...

Department stores

large stores split into distinct selling departments such as menswear, nightwear, cosmetics, food..

Multiples or chain

one owner opens multiple stores selling the same range of goods in different locations

Superstores or hypermarkets

very large stores, not likely displayed attractively with very few staff, however really cheap

Kiosks and street vendors

small outlets selling a limited range of goods. Cheap and low overheads

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