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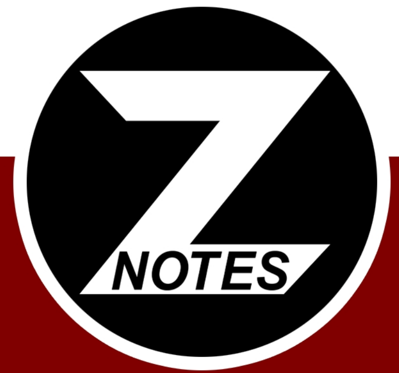


Updated to 2016-18 Syllabus

CIE IGCSE BUSINESS STUDIES 0450

SUMMARIZED NOTES ON THE EXTENDED SYLLABUS

TABLE OF CONTENTS

2 CHAPTER 1
Understanding business activity

7 CHAPTER 2
People in business

13 CHAPTER 3
Marketing

20 CHAPTER 4
Operations management

24 CHAPTER 5
Financial information and decisions

27 CHAPTER 6
External influences on business activity

Z NOTES

1. Understanding business activity

1.1 Nature of Business Activity

- **Needs:** goods or services that we need in order to live
- **Wants:** goods or services which people would like to have. But are not essential for living.
- People's **wants** are **unlimited** (you will always want something)
- There are unlimited **wants** but there are limited **resources** to produce them
- Resources include: Land, Labour, Capital & Enterprise
- This creates **scarcity**.
- **Scarcity**: there are not enough products to fulfil the wants of the population
- Since there are limited resources, we have to make choices on what we want. This means that we will be giving something up, this is the opportunity cost
- **Opportunity cost**: the thing we give up by choosing another item. The next best alternative.

1.2 Specialisation

- **Specialisation**: when people and businesses focus on what they are best at.
- Using specialised machinery, work is more efficient
- Being efficient keeps costs low, good for competition
- A specialised worker has higher living standards
- Division of labour is when production is split in different tasks and each worker performs one of these tasks

Advantages	Disadvantages
Workers specialized in certain task, increases efficiency	Workers become bored of doing the same job. Efficiency might fall
Less time is wasted from one workbench to another, more efficiency	If a worker is absent, no other worker can do the job. Efficiency might fall

1.3 Purpose of Business Activity:

- Businesses combine scarce factors of production to produce goods or services to satisfy people's wants
- Factors of production:
  - **Land** – all resources provided by nature (oil, metal)
  - **Labour** – the no. of people to make the products
  - **Capital** – the finance and equipment (machinery) needed to make products
- **Enterprise** – the skill of the person who brings other factors of production together to make goods
- A business also employs people as worker and pays them wages to allow them to consume products as well

1.4 Added Value

- Added value is how much more a business sells a product for than the total cost of materials

Added Value = selling price – total cost

- It is NOT the profit because added value does not include the price to pay for labour, transport etc.
- To increase added value, a business can either:
  - Increase the selling price of product, while keeping the total cost of material the same
  - Decrease the total cost of materials, while keeping the selling price of the product the same.

1.5 Classification of Businesses

- Businesses can be put into three sectors:
- In **developing** countries, the **primary** sector employs most of the work-force. This is because most people live in rural areas and there is low demand for services
- In **more developed** countries, the secondary and tertiary sector employ more workers
- In **economically developed** countries, the tertiary (service) sector employs most people as they import manufactured goods from other countries (tourism)

1.6 Mixed Economy

- Has both a private sector and a public sector.

Stage	What it does	Example
Primary	Extracts and uses the natural resources to produce raw materials	Farming, mining, forestry
Secondary	Takes the raw materials and converts them into manufactured goods	Manufacturing (car, food, etc.)
Tertiary	Providing services to consumers and other sectors	Retail shops, hotels, hospitals

- **Private Sector**: Businesses NOT owned by government, will make own decisions on what and how to produce.
- **Public Sector**: Owned by the government. Government will make decisions on what and how to produce (i.e. healthcare, education, defence, public transport)

1.7 Enterprise, Business Growth & Size

- An **entrepreneur** is a person who organises, operates and takes risk to make the business better
- Characteristics of entrepreneurs:
  - Hard Working
  - Risk Takers
  - Creative
  - Effective Communicators
  - Optimistic
  - Self-Confident
  - Innovative
  - Independent

Advantages	Disadvantages
Independent, able to choose how to use time and money	entrepreneurs will have to put their **own money** into the business.
Able to put **own ideas** into practice	many entrepreneur's businesses **fail** (**risky**)
May become **successful** and very **profitable** if business grows	**Lack of knowledge** and experience in starting and operating a business
Able to make use of **personal interests** and **skills**	Lost income from not being employee for another business (**Opportunity cost**)

1.8 Business Plans

- A business plan contains business objectives, important details about the operations, finance, and the owners
- Business plans assist entrepreneurs because:
  - It helps gain finance. banks will ask for a business plan before agreeing to a loan or overdraft for the business
  - It forces the entrepreneur to plan ahead carefully, which reduces risk of the business failing.
- The main parts of a business plan include: name, type of organization, business aim and forecast profit

1.9 Government Support for Start-Ups

- Governments encourage entrepreneurs to set up a business because start-ups:
  - **Reduce unemployment**, new businesses create jobs
  - **Increase competition**, gives consumers more choice
  - **Increase output**, economy benefits from increased output of goods and services
  - Can **grow further** and become large and important businesses which pay government more taxes
- Governments may give support to entrepreneurs by:
  - **Business ideas & help**, they set up support sessions held by experienced business people
  - Finance, they may lend **loans** at low interest rates or **grants** if business starts up in places with high unemployment rates.
  - Governments provide grants for **training employees** to make them more efficient and productive
  - Governments allow entrepreneurs to use **research** facilities in universities

1.10 Business Size

- There are several different measurements of business size and they all have limitations:

Measurements	Limitations
The number of **people employed** in the business	Some businesses employ few people but produce high output values
The **value of output** of the business	high level of output does not mean business is big
The **value of sales**	different businesses sell different products (expensive and cheap)
The total value of capital (money) invested into the business (**capital employed**)	some companies may use cheap labor giving low output with low-cost equipment

1.11 Business Growth

- Some businesses want to grow because:
  - Higher profits
  - More status for owners and managers
  - can benefit from **Economies of Scale** (lower costs)
  - Larger share of its market, 'big names'

1.12 Economies of Scale

- Economies of scale are the factors that lead to a reduction in average costs as a business grows.
- **Purchasing** - when businesses buy in 'bulk' so they get cheaper prices
- **Marketing** - targeting a larger audience, business advertises its own product rather than having another company doing it
- **Financial** - bigger businesses get better interest rates from banks as they are less risk

- **Managerial**: Big businesses can afford specialist managers
- **Technical** - Big businesses can afford specialist machines to do more efficient work with less staff
- Businesses can either grow by:
  - Internal Growth
  - External Growth
- **Internal Growth** is when the business expands its existing operations
- **External Growth** is when the business takes over or merges with another business**.**
- There are three types of External Growth:
- **Horizontal Integration** – firm taking over/merging with another firm in the **same industry**
  - i.e. a paper company taking over another paper company
- **Vertical Integration** – firm taking over/merging with another firm in same industry but different stage of production (there is **forwards** and **backwards**)
  - i.e. paper manufacturing company taking over paper selling company
- **Conglomerate Merger** - firm merging/taking over another firm in a different industry. (also known as '**diversification**')
  - i.e. paper company taking over a food company

1.13 Problems with business growth (Diseconomies of Scale)

- Diseconomies of scale are factors that lead to increase of average costs as a business grows above a point.
- **Poor communication** - Bigger businesses are hard to send and receive messages.
- **Low Morale** - Big businesses employ many people, some workers feel unimportant as they cannot grow in business, efficiency lowers.
- **Slow decision making** - Bigger businesses take longer to make decisions to satisfy all of the audience
- Some businesses stay small because:
  - Market size is small
  - Owner's objectives
  - Type of industry

1.14 Why Businesses Fail

- **Poor management** – from lack of experience, poor choice of managers (family business), bad decisions
- **Failure to plan for change** – businesses need to adapt everchanging business environment. Must take risks.
- **Poor money management** – lack of money to pay workers, suppliers, landlords, etc.
- **Over-expansion** – (diseconomies of scale), management problems and finance
- **Competition with other businesses** – new businesses are at more risk of failing than existing businesses.
- This is because start-ups have lack of money, resources, poor planning & don't have much research

1.15 Sole Trader

- A business owned by just one person. It's the smallest type of business. Can employ other people however.
  - Useful for people who are setting up new business
  - Do not need much capital to get business running
  - Will be dealing mainly with the public

Advantages	Disadvantages
Easy to set up, do not require a lot of money to set up	Capital is usually provided by owner, hard to get capital to expand firm
They are their own boss, has the freedom to choose their own holidays, work hours, prices, who to employ	They have **unlimited liability** (responsible for any debts of the business, bank can take away possessions to pay back)
Close relationship with customers	Business is likely to remain small
Does not have to share profits	No one to discuss business matters with
Does not have to give information about the business	They are **unincorporated** (business has same identity as the owner). So, business ends when owner dies

Z NOTES

1.16 Partnerships

- A business in which 2 to 20 people agree to own it. Usually small businesses but bigger than sole traders.
  - Useful for people who want to form a business but don't want the legal complications
  - Industries such as medicine or law where you are not allowed to form a company
  - Partners that know each other very well
- Requires a **Partnership Agreement**

Advantages	Disadvantages
Easy to set up, do not require a lot of money	Capital is usually provided by partners
More capital invested (more expansion)	Partners have unlimited liability
Partners are motivated because any losses are shared by the partners	Partners can disagree on decisions. If one of the partners is inefficient, they all lose money
Responsibilities are shared (focused on different parts of business)	They are unincorporated. If one of the partner dies, the partnership ends

- **Contents of Partnership Agreement:**
  - Amount of capital invested by all partners
  - Tasks to be done by each partner
  - The way profits are shared out
  - How long partnership will last
  - Arrangements for absence, retirement and how partners could be let known

1.17 Private Limited Company (LTD)

- An LTD is different from the other because it can sell **shares** and it is an **incorporated** business.
- Company must be owned by at least 2 **shareholders**
  - A **shareholder** buys shares of an LTD company which represent part ownership of the company
  - **Dividend** is the amount of profit each shareholder gets
- Shares are sold **privately** to friends and family
- Has separate identity from owners, incorporated, so company accounts are separate from the owners'
- Must have: **Articles of Association** and **Memorandum of Association**
- **Article of Association** – must contain the ***RULES*** in which the company will be managed. Contains:
  - Rules for shareholder meetings
  - List of directors and their jobs
  - Voting rights of shareholders
  - Details of how accounts are recorded
- **Memorandum of Association** – must contain important information about the company:
  - Company name, address
  - What the business does
  - Number of shares to be sold

Advantages	Disadvantages
Shares can be sold to lots of people. More capital to expand	Difficult to set up (legal formalities).
Owners are able to keep control of company as long as they don't sell too many shares	Shares are difficult transfer. Requires other shareholders to agree
All shareholders have limited liability (bank can only take amount of money invested)	Accounts are less secret than other forms of business
Company continues after a shareholder dies	Company cannot offer it shares to the public

- Private Limited Companies are useful for family businesses or businesses/partnerships where owners want to expand more (as you can sell shares)

1.18 Public Limited Company (PLC)

- A PLC is similar to LTD only the shares can be sold to the **public**. It is the biggest type of business.
- Shareholders of PLCs may attend an **Annual General Meeting** where they may vote for the board directors

Advantages (in addition to those in LTDs)	Disadvantages
Opportunity to raise high capital sums	Difficult to set up (legal formalities) & accounts are even more public
No restriction of buying, selling or transferring shares	Danger of business being taken over due to public shares
	Selling shares to public is expensive

- **DON'T GET CONFUSED**, Public Limited Companies are **NOT** in the **PUBLIC** sector, they are in **PRIVATE** sector

1.19 Joint Venture

- A joint venture is when two or more businesses start a project together sharing capital risks, and profits

Advantages	Disadvantages
Costs are shared, good for expensive projects	Profits have to be shared if project is successful
Shared knowledge of two businesses	Might have disagreements over important decisions
Risks are shared	Different methods of running business

1.20 Franchise

- A franchise is an agreement of a business based upon an existing brand/business
- The **franchisor** is the main business/brand
- The **franchisee** is the individual to start up franchise
- In a franchise, the franchisor allows the franchisee to trade under its name and see its products for a fee
- The franchisee pays an original fee to franchisor and a percentage of its profit for the privilege
- Franchisor provides support, such as:
  - Advertising
  - Employee training
  - Legal advice
  - Financial advice
- Franchise agreements last 5 – 20 years, if franchisee cancels the agreement early there may be large fines

1.21 Risk, Ownership & Limited Liability

- **Risk** - the uncertainty of profits or danger of loss, events that could cause business to fail
- **Ownership** – who owns the business (partnership = partners, LTDs and PLCs = the shareholders)
- The people with risk are usually the owners
- **Liability** – how much the shareholders of a company are liable for the debts in the business
  - **Limited Liability** – liability of shareholders is limited to the amount of money they invested (PLC & LTD)
  - **Unlimited liability** – owners of business are held responsible for all the debts of the business (not just their investment) (Sole trader & partnerships)

1.22 Public Sector

- The public sector includes every business owned by the government.
- Businesses in the public sector are public services, i.e. education, transport, hospitals, education and police
- Usually these businesses have been **nationalized** (used to be private sector but government bought it)
- Capital comes from taxes, by tax payer

1.23 Business Objectives

- **Business objectives** are aims or targets a business works towards
- Business objectives give clear target to managers and employees and boosts the workers' motivation
- Private sector business objectives:
  - **Business Survival** - Adjust to business environment, change price of products if necessary
  - **Generating profit** – pay a return to owners or provide finance to invest further in business
  - **Returns to shareholders** - discourage shareholders from selling their shares. Can be increased by increasing profit or increasing the share price
  - **Growth of business** – increase salaries, economies of scale. only achieved if customers are satisfied with the product
  - **Market Share** – the proportion of the total market sales by one business, gives good publicity, more influence over suppliers and customers
  - **Service to community** – provide jobs, support disadvantaged groups in society, protect environment

1.24 Stakeholder objectives

- A **stakeholder** is any person with a direct interest in the performance of a business
- There are two types of stakeholder groups:
  - **Internal Stakeholders** work/own the company
  - **External Stakeholders** are outside of the business

Internal Stakeholders	External Stakeholders
Owners Managers Workers	Consumers Government Banks

- Each stakeholder group has different objectives for the performance of the business
- **Internal** Stakeholder's objectives are payments or profits, they want business growth so value of investment increases or they get higher status/power
- **Customers** objectives are reliable products, value for money, good quality, good design and good service

ZNOTES

- **Government** objectives include: money from taxes, will employ more people, increase country's output
- **Banks** objectives are to make profit out of loans
- Since different stakeholders have different objectives, it may cause conflict, to try to please all the stakeholders
- For example: customers want cheap products but workers want higher salaries.
- Therefore, managers have to compromise to decide which objectives are best for the company

2. PEOPLE IN BUSINESS

2.1 Motivating Workers

- It is very important for a business to have a well-motivated workforce
- The main reasons why people work:
  - **Money**: to pay for the basic needs for life and some wants
  - **Security**: to know that you are safe (financially)
  - **Affiliation (Social needs):** to feel part of a group, meet people, make friends
  - **Self-importance (esteem):** to feel that you are important and that the job you do is important
  - **Job Satisfaction**: to feel pleasure that you have done a good job
- **Motivation** – the feeling that makes employees want to work hard and effectively in a business

2.1.1 Key Motivational Theories

- **'Maslow's Hierarchy of Needs'** – a pyramid showing the different types of needs and how some are more important than others

- **Physiological Needs** – food, rest, shelter (fulfilled by receiving wages)
- **Safe/security Needs** – protection against danger & poverty. Having fair treatment (fulfilled by having job security)
- **Social Needs** – friendship, belonging in a group (fulfilled by having colleagues at work)
- **Esteem Needs** – having status and recognition (fulfilled by being recognised for good work)
- **Self-actualisation** – achieving your full potential, feeling that you have done a good job (fulfilled by being promoted & being given more responsibility)
- Maslow's theory also suggests that each level in the hierarchy (starting from Physiological needs) needs to be achieved before moving on to the next

- **F.W Taylor's** theory - "***All individuals are motivated by personal gain***"

- This means that if the workers are paid more, they will work more effectively
- By breaking down worker's jobs into simple tasks, you could calculate how much output they could do in a day
- Taylor's theory focused mainly on factory workers, since it is easy to work out their output done
- Taylor's idea was that if the workers produced this target output, they would be paid more money
- This idea led to big productivity gains in companies that adopted this theory
- **Herzberg's theory** – ***humans have two sets of needs:***
  - Basic animal needs (called '**Hygiene'**)
  - To be able to grow physiologically (called **'Motivator'** needs)

'Motivator' Factors	'Hygiene' Factors
• Achievement • Recognition • Personal Growth • Advancement/ Promotion • Work itself	• Status • Security • Work Conditions • Relationship with boss & subordinates • Salary

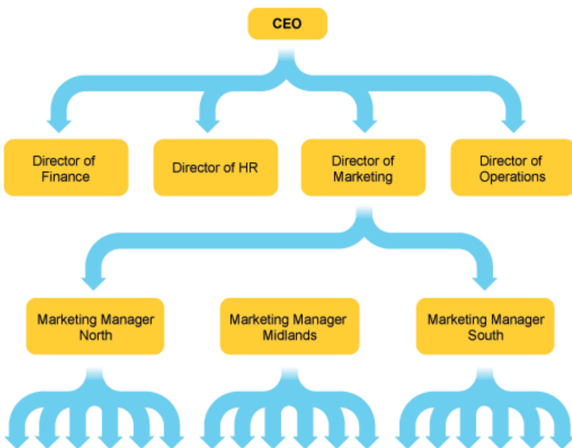
- Herzberg's theory claims that the 'Hygiene' factors **must** be satisfied, if not, it will demotivate workers
- Only after they are satisfied, can the 'Motivator' factors can act as motivators for employees

2.1.2 Methods of Motivation

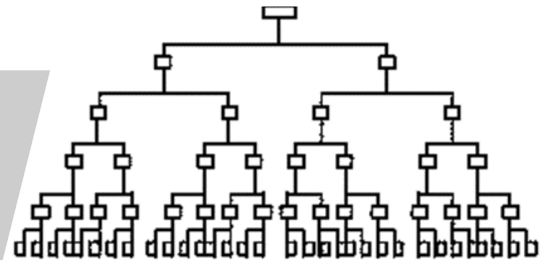
- There are 3 Factors that motivate employees:
  - **Financial** Rewards
  - **Non-Financial** Rewards
  - **Job Satisfaction**
- **Financial Rewards/Motivators** include:
  - **Wages** (payment for work, usually weekly)
  - **Time Rate** (payment per hour, i.e. 10$/hour)
  - **Piece Rate** (where workers are paid depending on the quantity of products made). Has also **BONUS** system for employees who produce more than the set target.
  - **Salaries** (payment for work, usually monthly)
- **Financial Rewards/Motivators** include:
  - Company Car
  - Discounts of products
  - Health care
  - Children's school paid for
  - House is paid for
  - Free trips abroad (holidays)

2.2 Organisation and Management

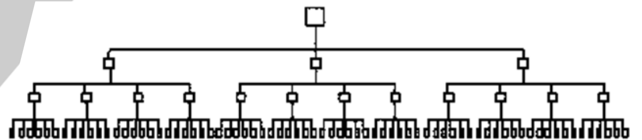
- **Organisational structure** – the levels of management and division of responsibilities within a company
- Organisational structures show the **chain of command** in a company
- this is usually in the form of an **Organisational Chart**
- Organisational Charts show a clear structure of the business and make it easy to see which part of the company does what
- Example of Organisational Chart:



- The benefits of an organisational chart are that it shows how everybody is linked together in the organisation, they know who to reach and how.
- Each employee can also see their own position, who's authority they are under and who they have authority over
- It gives everyone a sense of belonging, motivates them to move up the chain of command
- There are two types of organisational structures of a business:
  - You can have a **'tall'** structure, with a long chain of command:

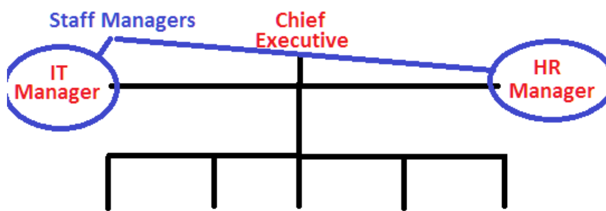


  - You can have a **'wide'** structure, with a short chain of command:



- **Chain of command** – the structure in a business that allows instructions to be passed down from a person to another, below them in the command.
- **Subordinate** – someone who is lower in rank, under authority of a superior (manager)
- **Span of control** – how many subordinates work directly under a manager
- **Authority** – someone that has recognised power to make decisions and to delegate tasks
- **Delegation** – the process of giving authority to a subordinate to perform a task (instructions)
- The **advantages** to have a **short** (and wide) **structure** is that:
  - **Communication is faster** and more accurate
  - Top managers are **more in touch** with subordinates because there are less levels
  - **wider span of control** means employees feel **trusted** and take more decisions by themselves

- In organisational charts, it is usually arranged in department (finance, operations, etc)
- Sometimes there is conflict between departments (i.e. marketing wants to buy something but finance does not think it is necessary)
- The supervisors working in these departments are **Line managers** – they have direct responsibility over people below them in the organisational chart
- You also have **Staff Managers** – which are specialists in certain areas to provide support and information to line managers



2.2.2 Role of Management

- All organisations have managers. Leaders, director, executive are all different names, but they are all managers
- The **functions of managers** include:
  - **Planning** – setting aims or targets
  - **Organising** – delegating tasks. organising people and resources effectively
  - **Co-ordinating** – making sure departments work well with each other and have good communication
  - **Commanding** – making sure the workers are keeping to targets and deadlines. By guiding and delegating tasks
  - **Controlling** – measuring and evaluating work of employees and verify they are on target
- Managers often delegate tasks to employees, giving them authority to complete that task.
- However, if the employee does a bad job, the manager must accept the responsibility for it
- **Delegation is important** because:
  - Managers cannot do every job by themselves
  - managers can then measure the success of the employees
  - work becomes more interesting for subordinate, increases their motivation
  - makes employees feel trusted and important
- However, some managers do not delegate tasks
- They might be afraid the subordinates will fail and manager wants to control everything
- Manager might also feel threatened that subordinate will do a better job than them
- Delegation means that once the task is completed, the manager will have less direct control
- This means the trust for the workers is increased by the manager
- Therefore, there needs to be more trust in workers in order to reduce control over them

2.2.3 Leadership Styles

- Leadership styles are the different approaches to deal with people when with authority
- **There are THREE TYPES OF leadership styles:**
  - **Autocratic Leader**: where the manager expects to be in charge of the business and expects to have their orders followed with no questions asked
  - **Democratic Leader**: where the manager allows the subordinates to be involved in the decision-making process
  - **Laissez-Faire Leader**: Where the manager makes broad/general objectives for the employees and leaves them to make their own decisions.

2.2.4 Trade Unions

- **Trade union** – a group of workers that join together to protect their interests
- A trade union is a pressure group
- Employees usually have the same interests (i.e. good wages, pleasant work environment, etc)
- If an employee wants to join a trade union, they must pay a yearly subscription for the benefits

- **Benefits from a trade union usually include:**
  - **Improved conditions of employment** (such as wages, holidays, hours of work)
  - **Improved work environment** (health & safety, heating, noise)
  - **Advice/support** if member thinks they have been unfairly fired, mistreated, etc

2.3 Recruitment

- **Recruitment** – the process from identifying that a business needs to employ someone, to the point where applications have arrived at the business
- Recruitment is one of the roles of the Human Resources department
- Recruiting usually happens when an employee leaves a job, a business is starting up, or it wants to expand
- **Recruitment process (for external recruitment):**
  1. A **job analysis** is done to identify the tasks and responsibilities to be carried out by the new employee
  2. Once the details of the job are gathered, a **job description** will be made, outlining these duties.
  3. From the job description, a **job specification** is created, which outlines the requirements, qualifications and expertise for the job
  4. Then the **job is advertised** in the appropriate media (i.e. if it is a finance related job, it might be advertised in finance magazine)
  5. Candidates start sending their application forms and the company does a **short-list** for interviews (because they cannot interview all)
  6. The candidate is chosen after the interviews by the company, job is filled
- **There are two types of recruitment:**
  - **External Recruitment** – job is filled by someone who is not an existing employee
  - **Internal Recruitment** – job is filled by an existing employee of the company.
- Internal recruitment is good because it saves money for business. The person already has knowledge about the business & position and it motivates other workers to get a promotion.
  however, it doesn't bring in new ideas & experience.

- **There are also two types of employment:**
  - **Part-time** employment
  - **Full-time** employment
- **Part time employment** is normally between 1 and 35 hours a week
- **Advantages**:
  - Work hours are flexible. Fits with employees that have kids to take care of
  - Business can extend the opening/closing hours
  - Employees can just work at busy times
  - Cheaper for the employer than employing a full-time worker
- **Disadvantages**:
  - Employees are less likely to be trained because they might see it as temporary and don't want a promotion
  - Takes longer to recruit many part-time workers than a couple full-time workers
  - Might be less committed to the company

2.3.2 Training

- **Training is important for a business because:**
  - It helps employees become **more comfortable with new processes or equipment**
  - **Improves the efficiency** of the workers
  - Makes **employees more valuable** to the company because they become **more skilled**
  - **Reduces the amount of supervision** needed by the workers
  - **Reduces the amount of accidents**
- **There are three types of training:**
  1. **Induction Training** – where the employee is **given an introduction** on the company's **procedures and customs**, and is **introduced to their co-workers**

Advantages	Disadvantages
• Employees settle into their job quickly • Workers make fewer mistakes • May be a legal requirement	• Time consuming • Worker is being paid while not doing work • Delays the start of work for the employee

2. **On-the-job Training** – where the **employee does the job while being supervised** by a more experienced worker, giving tips, suggestions and help

Advantages	Disadvantages
• Employee does not need to be sent away So cheaper than off-the-job training • There is still production from worker while training • Employee is trained exactly how the company want	• Trainer won't be as productive because they are teaching employee • Trainer might have bad habits and pass on to employee • Not recognised training qualifications outside the business

3. **Off-the-job training** – where the **employee is trained away from the workplace**, normally by specialised trainers.

Advantages	Disadvantages
• Lots of skills are taught • trainings are sometimes off-work hours, worker will still work • Employees become versatile (can be moved around company and know what to do) • Employees are taught by expert trainers. Up-to-date knowledge	• Expensive to send employees off to expert trainings • Workers are being paid but not doing any work • Professional training gives employees additional qualifications, makes it easier for employee to find another job

- Sometimes, a company might need to **reduce the size of the workforce**, possibly because of:
  - **Automation** (robots replacing human jobs)
  - **Less demand** for products or services
  - Business might have **relocated abroad**
  - Business being **taken over/merged** and now there are **too many workers** doing same job
- Companies need to think ahead on the future and establish how many employees they will need and their skills, this is called **workforce planning**
- When a business needs to reduce the number of employees, they can either **dismiss** the employee or make them **redundant**
- **Dismissal** – when the worker is told to **leave the job** due to **poor work or poor behaviour** (i.e. if employee is always late for work after being given warnings, when employee is caught stealing, etc)
  It is more commonly known as being '**fired'**
- **Redundancy** – when a **business no longer needs an employee**. Even though the **employee did nothing wrong.**
  Usually happens during **period of falling sales** or due to an **economic recession** (when no one is buying anything)

2.3.4 Legal Controls over employment issues

- There are many laws in countries, that ensure that everyone has equal employment opportunities regardless of race, gender, religion, age etc.
- This means that businesses need to be careful when advertising a job. They cannot advertise for just a single type of person.
- Companies must treat all applicants for the job equally, if not, they will be fined and prosecuted
- **Employees of a business have legal right that must be protected, which includes:**
  - **Unfair discrimination at work/when applying:** i.e. when employers discriminate unfairly against employees or applicants due to their race, gender, religion or colour.
  - **Health and safety:** there are laws that make sure that employees are protected from dangerous machinery, that they are provided safety equipment & clothing, hygiene conditions, suitable temperatures, provide breaks.
  - **Unfair dismissal**: when the worker is dismissed unfairly (i.e. from joining a trade union, being pregnant, or when given no warnings before being dismissed), the worker can take their case to an **industrial tribunal** to see both sides of argument.
  - **Wage protection**: an employee in a business should have a **contract of employment**, where it should contain the wage rate, frequency of wages and what deductions are made from the wages (from tax). In some countries businesses pay whatever they want because unemployment is high, so they offer very low wages.

Governments take action by creating a **legal minimum wage**.

2.4 Internal & External Communication

- Effective communication is important so that the information sent in the message is received, understood and acted upon as it should
- It is important to businesses because if it is not understood, it can lead to serious consequences
- There are two types of communication in businesses:
- **Internal Communication** – communication between employees of the same business
- **External Communication** – communication between the business and other businesses and individuals
- External communication has to be especially efficient because it establishes the image and the efficiency of a business
- i.e. if a company communicates inefficiently with their suppliers, they might receive the incorrect materials
- **Effective communication involves:**
  1. The **transmitter**/sender sending a message to pass on information
  2. A **medium of communication** – the method for sending message (i.e. e-mail, phone, etc)
  3. The message being sent to the **receiver**
  4. The receiver confirming that the message has been received and responds to it (**feedback**)
- **There are two types of communication:**
  - **One-way communication** – where the receiver cannot reply to the message (i.e. posters)
  - **Two-way communication** – where the receiver can respond to the message, could be just confirmation that message was received (e-mail)
- **The methods of communication include:**
- **Verbal methods** – sender speaks to the receiver (i.e. meetings, telephone, video conference)

Advantages	Disadvantages
• Information given out quickly &Efficient way to communicate with many people • Opportunity for immediate feedback • Message is reinforced by the speaker's body language	• If talking to many people, it's hard to tell whether everyone got the message • Not good for accurate messages and if a permanent record of the message is needed

- **Written methods** – sender creates e-mails, memos or letters, including the use of Information Technology

Advantages	Disadvantages
• Message can be referred to in the future "hard evidence" • Easy to explain complicated messages • Can be copied and re-sent to many people • Quick and cheap	• Might lead to too many e-mails and 'information overload' • Two-way communication is difficult • Hard to check if message has been received • No body language to emphasize message

- **Visual methods** – sender uses diagrams, charts, videos, PowerPoints

Advantages	Disadvantages
• Information presented in more appealing way, people will be more interested to look at it • Can be used to make written messages clearer, to illustrate the point	• No feedback and needs other methods of communication to go with it • Graphs and charts may be difficult for people to understand, message may be misunderstood

2.4.2 Communication Barriers

- **Communication Barriers** – things that prevent efficient communication
- **Problems with the sender**: when language is too difficult, speaks too quickly/not clearly, communicates wrong message
- **Overcome by**: using understandable language, making sure message is a clear as possible by asking questions to make sure message was understood
- **Problems with the medium**: message may be lost/not seen by receiver, wrong medium used (i.e. important message on noticeboard), if message is being passed along – it might get distorted
- **Overcome by**: sender asking for feedback/receiver always sending feedback that message is received, selecting the appropriate channel to send message

- **Problems with the receiver**: not listening/paying attention, receiver doesn't trust the sender/doesn't want to do it
- **Overcome by:** emphasizing importance of message, ask for feedback to ensure it was understood, using direct communication

3. Marketing

3.1. Marketing, Competition & Customer

- ***Marketing*** – Identifying customer needs and satisfying them
- There are many departments within the Marketing sector of a business
- The role of the marketing is to:
    - **Identify customer needs** – this will be done via 'Market Research'. It will influence the development of a product, its price, and the sales technique
        - A good marketing department should also be able to anticipate (predict before happening) changes of customer needs (i.e. due to advancement in technology)
        - Find new trends or gaps in market with potential
    - **Satisfy customer needs** – selling the exact product customers want, for a price they are willing to pay
    - **Maintaining customer loyalty** – building customer relationships and make sure that existing customers will continue to buy from them and to attract new customers
        - Maintaining customer loyalty will be achieved by always satisfying customer needs
- Markets don't stay the same forever, businesses need to adapt to market changes in order to stay competitive
- Some markets change very often (i.e. phones) while some don't change quickly (i.e. jewelry or cereals)
- Markets change because **consumer spending patterns change**, this might be due to:
    - **Trends and fashions change** – for a period of time it might be fashionable to have a specific product (i.e. Fidget Spinner) but a month later no one buys them
    - **Advancement in technology** – new products provide the latest technology so older versions (i.e. iPads or computers) don't have high sales
    - **Unemployment/Wages** – Economies with high unemployment rates/low wages will not have high sales of expensive products
    - **Ageing population** – different ages are interested in different products (i.e. anti-ageing creams)
- Changing customer needs are important to businesses. They must identify these changes and respond in order to stay successful
- ***Market Share*** – the percentage of the total sales of a market held by a single business (i.e. if Company A has $50 Million in sales out of a $200 Million market, then Company A has (50/200 =) 25% market share
- Some markets have become **more competitive** because:
    - **Globalization** – products are sold all over the world
    - **Transportation** – it is cheaper, quicker and easier to send products around the world now
    - **Internet** – customers can now search for products or services and buy from somewhere else around world
- For a business to stay competitive, it must:
    - Maintain good customer relationships
    - Keep improving its existing products
    - Bring out new products to keep customer's interest
    - Keep costs low

3.1.3 Market

- ***Market*** – the total number of customers, potential customers and other sellers of a product/service
- There are two types of market:
    - **Mass market** – where there is a very large number of sales of a product type
    - **Niche market** – a SMALL (usually specialized) segment (part) of a mass market
- For example, the tie industry is a mass market, but a business that makes ties out of crocodile skin is a niche market

MASS Market:

Advantages	Disadvantages
• Sales are very high • Can benefit from economies of scale • Opportunities for growth (large sales) • There are many variations of products so risk is spread	• Lots of competition • High costs of advertisement • Many similar products so it may not meet specific needs of all customers

NICHE Market:

Advantages	Disadvantages
• Avoid competition with big businesses • Specific needs of customers are focused. Advantage over mass market	• Small – limited number of sales • Usually specialize in just one product, if product has low demand, it will fail

3.1.4 Market Segmentation

- ***Market segments*** – a sub-group of a market in which the consumers have similar characteristics or preferences
- A market can be segmented by:
  - According to **age**
  - **SOCIO-ECONOMIC** group – grouping people according to how much they are paid
  - **Location** – where people live (people that live in wet areas will buy more waterproof clothing than those who live in dry areas)
  - **Gender** – men and women products differ
  - **Lifestyle** – how many children a person has, religion, habits, etc.
- **Benefits of market segmentation**:
  - Business aims all of its marketing efforts to the specific segment, making marketing costs efficient
  - Since less money is spent on marketing, more profit
  - Identify a market segment whose needs are not being fully met and fill the gap (first in market)

3.2 Market Research

- There are **2 types of businesses**:
  - ***Product-oriented business*** – a business that focuses mainly on the product itself
  - ***Market-oriented business*** – a business that focuses on market research and find out what the customer wants **BEFORE** a product is developed
- Market research is important because a business needs to know how many people would be willing to buy the product, this is to see how profitable it would be
- ***Market Research*** – gathering information about consumers' needs or preferences in a market
- There are **2 main types of market research**:
  - **PRIMARY RESEARCH (field research)**
  - **SECONDARY RESEARCH (desk research)**

- ***Primary Research*** - Gathering of ORIGINAL data by talking directly with customers/potential customers
- Primary research includes:
  - **Questionnaires**/surveys
  - **Interviews** – person will interview other person and ask questions
  - ***Samples*** – A group of people who are selected (randomly) to answer (i.e. questionnaire)
  - ***Quota Sample*** – when people are selected **based on** certain **characteristics** (age, income)
  - **Focus Groups** – a group of people who represent the target market. They test out product/service and explain what they like or don't like about it
  - **Observations** – many methods, i.e. Seeing which television channels are being watched or watching people and their habits or seeing which products have sold well in a store

Benefits	Limitations
• Detailed information can be gathered about the product (can even be carried online • Customer/potential customer's opinions can be gathered and it is detailed • Most of these ways are inexpensive and gather lots of useful data	• If questions in questionnaires aren't thought out answers won't be useful to the business • Can take lots of time and therefore, expensive • Interviewer may lead the interviewee to answer in a certain way (inaccurate)

- **Secondary Research** – information that has already been collected and is available for others
- This information can be obtained either from **INTERNAL SOURCES** or **EXTERNAL SOURCES**.
- **Internal Sources** – within the firm's own records: sales departments, customer records, finance department and CUSTOMER SERVICE department

- **External Sources** – outside the business: government statistics (i.e. population, ages), Newspapers, Market research agencies, INTERNET

Benefits	Limitations
• cheaper than primary as research has already been done by others • There is some information (i.e. economic forecasts or population size) that can't be obtained by primary research	• You do not get specific results for a certain product or service, you get broad results • data may be outdated or incorrect as it was collected by others • Might not have the specific information

- Regardless on which type of research a business chooses to use, the accuracy of the research data depends on:
  - How **carefully** the **sample** was drawn up
  - How the questions in questionnaires/interviews were **written** to make sure **honest answers** were given
  - The **sample itself** and its **size**. By using **quota** sampling you might get more reliable results
  - **The bias** – some secondary research will be biased (i.e. articles on newspapers) which means the information might be unreliable
  - **Age of the data** – older data might be inaccurate

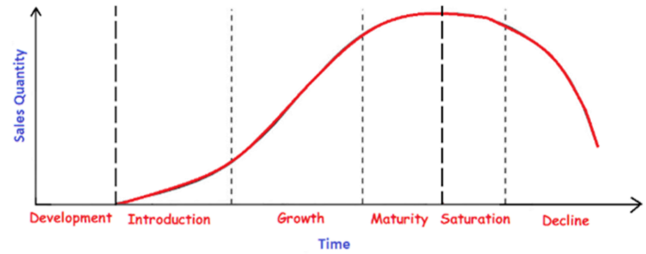
3.3 Marketing Mix

- ***Marketing Mix*** – all of the activities that are involved when marketing a product or service
- The marketing mix can be summed up as the 4 Ps:
  - **P**roduct
  - **P**rice
  - **P**lace
  - **P**romotion

You should always mention the 4 Ps when answering question about Marketing Mix!

3.3.1 Product

- The product itself is part of the marketing mix, it has to



ensure it is the right product for the market.
- This includes the quality and the design of the product (including its packaging)
- Marketers must ask themselves "what can I do to make this product better than my competitors' products"
- **Unique Selling Point (USP)** – the **special feature** of a product that **makes** it **different** from **other products**
- When businesses are developing new products there are several benefits, but also many costs/implications:

Benefits	Costs
• Since the product has its USP, the business will be the first into the market with the new product • Diversification for the business – more range of products to sell, more customers • Allows business to expand into new (or existing) markets	• Carrying out new market research & analysis is expensive • Producing prototypes & cost of wasted materials • Lack of sales if the target market is wrong • Deterioration of brand image if the new product fails to meet consumer needs.

- Now-a-days products are sent straight to a retail store. There is no seller to persuade the potential customer to buy the brand's product over competitors
- This has to be done through **brand image** of the product
- ***Brand image*** – the identity of a product which separates it from competitor products
- The product brand is advertised to inform all the qualities about the product and encourage consumers
- Businesses want to encourage existing and new/potential customers to buy from them and create ***Brand Loyalty***
- If a business has a bad brand image due to poor quality or bad service, then consumers will not buy from them and there won't be brand loyalty.

- The other very important aspect of the product is the **packaging**. It has 2 functions:
  - To be easy to put the product in, protect it, allow it to be used easily, and to be easily transported from factory
  - To promote the product: it must appeal to the customer (colour & shape) and must emphasize the brand image (i.e. a luxury product's packaging might be gold colour)

- **Product Life-Cycle** – the stages a product will go through all the way from development until decline (stop selling)
  1. **Development** of product – market research carried out and product is tested, before launching (no sales)
  2. Product **introduced** to market – Sales growing slowly because customers don't know it exists yet (no profit)
  3. **Growth** - Sales grow quickly – advertising is changed to encourage customer loyalty
  4. **Maturity** - Sales still increase, but slowly, competition is high so prices are changed (profits are at highest)
  5. **Saturation** – competition is very high, profits start to fall as sales reached maximum point. Price reduced
  6. Sales **decline** – new products are made or trend is gone. Prices are so low it is unprofitable to make it. Advertisement is stopped
- As you can see different stages can influence marketing decisions (i.e. pricing & promotion)

3.3.2 Pricing:

- There are 5 main types of pricing methods:
  - **Cost Plus** – the cost of manufacturing plus a profit. it will cover costs and make sure profit will be made
  - **Competitive** – priced just below the competitors' prices to get more market share and increase sales
  - **Penetration** – priced lower than competitors' prices to **enter new market** (consumers will try out cheaper product and see if they like it)
  - **Price Skimming** – a high price is set for a new product on the market. (used for new inventions or development of an old product) high profits to cover the research
  - **Promotional** – priced very low for a short period of time to increase sales. when there is lots of stock but no one is buying. don't make much (if any) profit

Method	Benefits	Limitations
Cost Plus	• It is easy to create and apply	• You could lose sales if price is too high compared to competitors
Competitive	• Lots of sales because the price is reasonable • Product is not under- or over-priced	• You have to do research to see what competitors' prices are. Time & Money • Prices are low so not much profit
Penetration	• Sales are guaranteed and the new product enters a market	• Product is sold at low price so profit will be low
Price Skimming	• Establishes product as good quality • Make quite a lot of profit	• Price is so high that may put off potential customers off
Promotional	• Gets rid of unwanted stock that won't sell • renews consumer's interest in business if sales are falling	• there will not be much/if any profit made – because sales revenue is lower

- **Price Elasticity** – a measurement of how responsive the market is when there is a change in price of a product
- In other words, how much you can increase the price before sales fall enough that you make less money
- A product either has price-elastic demand or price inelastic demand.
- **Price-Elastic Demand** is when the % of the loss in demand is **GREATER** than the % of the increase in price
- i.e. prices increase by 5% but then sales decrease by 10%. Therefore, there is falling revenue for the business
- **Price-Inelastic Demand** is when the % of the loss in demand is **LESS** than the % of the change in price

ZNOTES

- This means you can increase the price of the product a lot without the demand changing (i.e. oil & petrol because people have to buy it)

3.3.3 Place – Distribution Channels

- Where a product is sold will affect how well it will sell
- Distribution Channel - the method a business will use to send a product from the factory to customer/retailer

There are 4 main distribution channels:

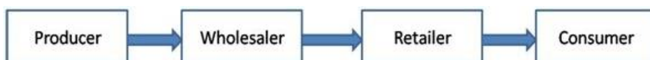
1. **Manufacturer sells products directly to consumer** (i.e. car components to car factory)

Advantages	Disadvantages
• Very simple • Suitable for products that are sold straight out of factories • There is a lower price for consumer (cuts retailer)	• Impractical because consumers don't usually live near factories • Not good for products that can't be sent easily by post (may be expensive to ship it)

- Producer **sells to retailers which sell to consumers**: (i.e. farms selling food to big supermarkets)

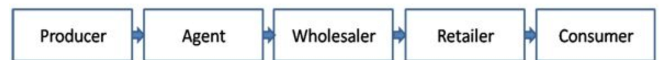
• **Advantages**	• **Disadvantages**
• Manufacturer sells lots of stock to retailer • Cheaper transportation costs because all products go to one place	• There is no direct contact with customers which makes It hard to create customer loyalty

- **Producers sell to wholesalers** – which buy in bulk and then divide their stock into smaller quantities and sell them to retailers



Advantages	Disadvantages
• Reduces storage costs for small retailers because small quantities are sold • Small quantities so transport costs are low • Wholesaler can give feedback on what sells well to producer	• More expensive to buy from wholesaler than from manufacturer • Wholesaler might not have all the products a retailer wants • Takes longer to get to consumer

2. a manufacturer hires an agent (person or business)



that will sell products on behalf or manufacturer

Advantages	Disadvantages
• Agents know the most profitable places & prices to sell in other markets that manufacturers may not know	• Manufacturer loses lots of control on the way the product is sold to customers

3.3.4 Promotion

- **Promotion** – publicizing a product/brand to increase customer awareness or increase sales
- The **aims of promotion** include:
  - To **create a brand image** for a product
  - To **introduce a new product into a market**
  - To **increase competition** in a market
  - To **improve the company's image**
  - To **increase the sales** of a product
- There are many types of promotion methods a business may choose to use.
- *There are 2 types of advertisements:*
  - **Informative Advertisement** – where the promotion of a product focuses on giving information about a product (i.e. the benefits of the product)
  - **Persuasive Advertisement** – where the promotion of a product focuses on persuading the consumer that they really need the product and they should buy it
- A business must also choose the most suitable advertising media to use to promote a product/brand
- Advertising media include:

- ○ **Television** – suitable for products sold to most people (food, cars, household products). it is very expensive but millions of people will see it
- ○ **Radio** – cheaper than TV but there's no visual message
- ○ **Newspapers** – suitable for local products. Cheap to advertise and can be select to target specific group
- ○ **Magazines** – niche/specialist products can be promoted in specific magazines (bike magazines, technology)
- ○ **Billboards** – suitable for mass products/local events. Reasonably cheap and are seen by many people. But many people miss it. And no detailed info can be put
- ○ **Internet (social media)** – suitable for products people already know (clothes, books, electronics). Quite cheap and through algorithms, websites can direct ads to a target audience, and orders can be made online. However, there is lots of competition (i.e. top on google)

- Another way a business can promote a product/brand is through **Sales Promotions** – when incentives (i.e. special offers/sales) are used to increase sales (short term)
- The main sales production methods include:
  - ○ Sales (price reductions)
  - ○ Gifts (i.e. little toys in cereals)
  - ○ "Buy one get one free"
  - ○ Competitions (I.e. raffles, a chance to win something)
  - ○ Free samples
- When a marketing department of a business is deciding which type of promotion it should use, it must take into account the marketing budget – the financial plan for marketing product/brand for a period of time
- i.e. if the budget is small, a business cannot afford to advertise on television
- It must plan out perfectly in order to have cost effectiveness, while reaching target audience
- This is where small business struggle compared to big businesses, because their budget is so much smaller.

3.3.5 Technology & Marketing Mix

- Now-a-days most things are sold on the internet, when you buy or sell goods/services on the internet it is called **E-Commerce**
- Not every product/service is suitable for e-commerce, products that are handmade (i.e. suits) or businesses that like a personal approach with customers
- The opportunities and threats of e-commerce **to a BUSINESS** include:

Opportunities	Threats
• Low-cost promotion: websites are cheap to run and can promote world-wide • Everything can be automated (orders are received and sent to warehouse to dispatch) • Businesses can buy from other businesses (materials/supplies)	• Competition is very high because competitors also have websites to sell • Website design must be easy to use and attractive, this costs money • Transport costs per product sold are higher than sending all to retailer • No direct contact with customers – less feedback

- Opportunities & threats of e-commerce to **consumers**:

Opportunities	Threats
• Don't need to leave house to buy products, shipped straight home • Easy to compare different prices from different stores and buy cheapest • Payment is very easy through credit/debit card • Can view and buy products from abroad, would be impossible without • Competition of e-commerce makes prices much cheaper for consumers	• Need access to internet (poorer countries don't have good access to web) • slow servers or websites or computer failures can frustrate customers • products cannot be seen/touched/tried on (i.e. shoes) and returning products is inconvenient • Some people are worried about identity theft or credit card fraud by entering their details onto a website

3.4 Marketing Strategy

- Marketing Strategy is the plan of action to promote and sell a product or service
- This includes combining the 4 elements of the marketing mix (Product, Place, Price, Promotion) to achieve a marketing objective, which could include:
  - Increasing the sales:
    - Of existing products (i.e. by selling in new market)
    - Of a new product
  - Increase market share/maintain market share
- The different elements of the marketing mix are very important to influence customer decisions.
- For example: A product is made, priced reasonably, and meets the consumer needs, but there is no promotional element. No one will buy it because people don't know about its existence
- Or if a product is made that doesn't meet consumer needs, so it won't sell regardless of the price set
- It is crucial to have all elements working together in order to influence consumer decisions (buying the product)

3.4.2 Legal Controls in Marketing

- There are many laws in different countries to protect consumers from businesses taking advantage of their lack of knowledge or lack product information
- These legal controls include (in the U.K.):
  - Businesses are not allowed to **sell products that weigh less than they should**, or if weighing equipment is inaccurate
  - ***'Trade Descriptions'*** - Businesses are not allowed to give consumers **misleading information on purpose** (i.e. saying that a shirt is made out of silk when it is made out of cotton)
  - ***'Sale of Goods'*** - Businesses are not allowed to **sell products that have less-than-satisfactory quality** – that don't fit for the purpose intended (i.e. waterproof shoes that aren't waterproof)
  - A **service must be provided with at-least satisfactory skill and care**
  - Businesses cannot have **misleading pricing claims** (i.e. 50% off today, when yesterday it was the same price)
  - A business is **responsible for any damage/harm** that a faulty (or dangerous) product might do to a consumer
  - Customers have **7 days in which they can change their minds** about purchasing a good or service. This applies to any transaction made over distance (i.e. online)

3.4.3 Entering New Markets Abroad

- The globalization of businesses has been increasing over the years, there are opportunities & problems to this:

Opportunities	Problems
• Growth potential in other countries: countries are developing and population incomes are increasing • Markets in original country might be saturated (sales are low) • Can produce products in abroad and learn about its market to increase sales • Trade barriers are lowered in most countries so it is cheaper to enter markets	• Lack of knowledge of competitors or consumer habits • Cultural differences: for example, alcohol won't sell well in middle east • Exchange rates: in some countries their currency isn't stable so price of importing goods increase • Transport costs are more expensive

- However, there are many methods to reduce and overcome the problems of entering a new market:

Problem	Method to overcome
Lack of knowledge (& Cultural Differences)	**Joint-Ventures**: by working together/merging with local businesses in the same market, a business will gain a lot of important knowledge about the culture & market **Franchising**: letting people from the market abroad which have local knowledge to choose location of shop
Transport costs are expensive	**Licensing**: the business gives permission for a local business to sell goods under its name, so they do not have to physically import all the products
Cultural Differences	**Localizing Existing Brands**: where a business still has the same brand image but adapts it to the market it is in (i.e. McDonalds cooking vegetarian meals in India)

Z NOTES

4. OPERATIONS MANAGEMENT

4.1 Production of Goods and Services

- **Production** – the making of a product or service to satisfy consumer wants and needs
- A business combines the inputs/economic resources/factors of production to produce a more valuable output (this could be a good or a service)
- The 'inputs' include:
  - **Land** – For factories or for materials
  - **Labour** – Employees
  - **Capital** – Money/finance
  - **Enterprise** – Managers
- Businesses want to combine all of these inputs efficiently to keep costs low to increase profits
- **Labour-Intensive Production** – where lots of workers are used rather than machines to make goods. Usually done in countries with low wages so that it is more efficient.
- **Capital-Intensive Production** – where businesses use machines/robots rather than workers. Usually done in developed countries where the wages are high.
- **Productivity** – the output (goods) measured against the inputs (resources) to create it

  Productivity = Quantity of Output / Quantity of Inputs
- The difference between Production and Productivity is that **Production** is the **process** of **creating** the product/service from inputs. And the **Productivity** measures the **efficiency** of the **Production**
- Businesses usually measure the productivity by measuring one of the factors of production against the outputs (usually Labour)

  Labour Productivity = Output / No. of employees
- Efficiency is increased by either:
  - Using fewer input to produce the same output
  - Using the same inputs to produce higher output
- How to increase productivity/efficiency:
  - Improving the layout of machines to reduce wasted time moving from one workspace to another
  - Improving the labour skills of workers so they use more productive techniques (more efficient)
  - improving employee motivation
  - Introducing new technology (i.e. automation)
  - Improved quality control (check if product is not faulty) to reduce wasted time checking
- Benefits of increasing efficiency:
  - More output compared to inputs
  - Lower costs per unit (AKA Average cost)
  - If there is more output, maybe less workers needed, less people to pay wages
  - If there are less people working, raising their wages will increase motivation and so productivity
- Businesses hold inventories/Stock to ensure that there are always enough products to satisfy demand of customers
- If a business doesn't have enough stock of a product it might lead to lower sales
- When the inventories get to the '**reorder point'**, they will be reordered to get stock back up to maximum point.
- Types of waste that occur in production:
  - **Overproduction** → leads to high storage costs and possible damage to goods while in storage
  - When nothing is happening to the goods (not being processed or moving) this is **Waste**
  - **Transportation** – when the goods are being moved unnecessarily → fuel price, may get damaged
  - **Motion** – any action made by an employee that does not relate with the production of goods wastes time
  - **Over-processing** – when sophisticated machines are being used to do simple tasks
  - **Defects** – when goods have faults/defects that require them being inspected/fixed wastes time
- **Lean Production** – the techniques used by businesses to **reduce waste**, therefore increasing efficiency.
- 3 Types of Lean Production:
  - **Kaizen**
  - **Just-In-Time** inventory (JIT)
  - **Cell Production**
- **Kaizen** – Japanese Term. Means "continuous improvement" by focusing on constantly reducing waste
- The Kaizen technique involves workers meeting regularly to discuss problems and to find solutions
- **Just-In-Time** – a production method that virtually eliminated the need of having inventories of raw materials for production and of finished products
- JIT method involves an efficient system to time specifically when the raw materials should arrive at a factory, for production, and when a truck should arrive to carry the finished products to the next stage of production. (used by Volkswagen)

- Just-in-time system reduces costs by not holding any inventory. Because components and materials arrive just-in-time when needed.
- **Cell Production** – where production is divided into separate units (cells) each making a part of the finished product. Rather than having a flow or mass production.
- Cell Production improves employee morale so they work harder and more efficient.

4.1.2 Methods of Production

- 3 main methods of production:
  - **Job Production** – products made one at a time
  - **Batch Production** – a quantity (batch) of a product is made, then a batch of another product is made
  - **Flow Production** (mass) –large quantity of products made in a continuous process

- **Job Production:**

Features	Benefits	Limitations
Products are made specifically to order Each order is different i.e. bridges, ships, cinema films, suits	good for "one-off" products meets exact requirements of customer varied work increases employee motivation	Often labor intensive, + cost Production takes longer Any errors are expensive to fix, (made to order) Materials are more expensive

- **Batch Production:**

Features	Benefits	Limitations
Similar products are made in batches i.e. bakery: makes one type of bread, then one type cake. Furniture, clothing	Flexible work, can change products easily Gives some variety to worker's jobs More variety = more consumer choice	Machines must be reset to do diff. batches Semi-finished products may need to be transported around (+ cost) Need space for stocks of raw material

- **Flow Production:**

Features	Benefits	Limitations
Large quantities of a product are produced Ingredients start at one end & flow to the other end, ready to be sold Cars, drinks, electronics, any mass-made products are made this way	High output, capital intensive more efficient Costs are low Benefits from economies of scale Works 24/7, no need for labor No need for moving goods around (all made in the same place)	Very boring for employees High cost of inventory of output & raw materials Costs of setting up are very high If machine breaks down, whole production stops

- **Automation** – when equipment in factory is controlled by a computer to do mechanical processes (i.e. painting car). Only workers are to ensure it runs smoothly
- **Mechanisation** – when production is done by machines but operated by people. Used to do difficult, precise or dangerous tasks. Work 24/7.
- **Computer Aided Design** (CAD) – software that helps design or re-style products quickly, allows technical sketches to be very detailed
- **Computer Aided Manufacture** (CAM) – when computers monitor production and control machines/robots
- **Computer Integrated Manufacturing** (CIM) – wen software that designs the products is integrated with the machines that produce (CAM + CAD)

4.2 Costs and Scale of Production

- **Fixed (overhead) Costs** – Costs that do not change with the number of items sold/produced.
- Fixed costs must be paid regardless if the business is making a profit or not.
- Examples of **Fixed Costs**:
  - **Rent of factory**: even if you produce lots of products, the rent price will be the same
  - **Insurance**: you set the insurance cost before-hand
  - **Bank fees**: bank fees are a set price, they don't change depending on the products produced
  - **Management Salaries**: they are set regardless of production
  - **Staff cost (Security)**

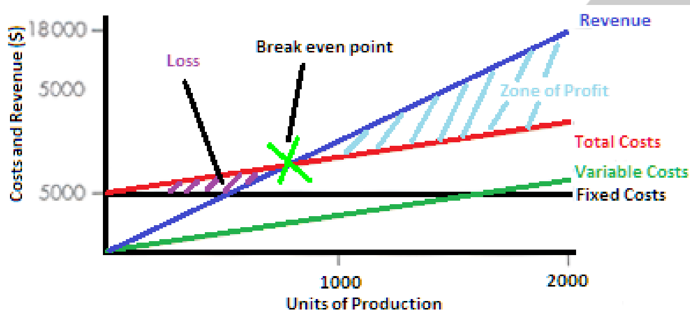
- **Variable Costs** – costs that are directly proportional with the number of items sold/produced.
- The more items produced, the higher the variable cost

- Examples of **Variable Cost**:
  - **Raw materials**: the more you produce, the more materials you need
  - **Electricity & Gas**: Energy is paid by use. if you are producing more, more electricity is being used
  - **Shipping cost**: Making more products means you have to ship more items and shipping is paid by weight
- **Total Cost** – Fixed and variable costs combined
- **Average Cost (Per Unit)** – total cost of production divided by the total output. Referred to as Unit Cost
- Large businesses can benefit from Economies of scale and therefore getting lower average costs.

4.2.3 Break-Even Charts

- Break even charts show how costs and revenues of a business change with sales. They show the level of sales the business must make in order to break even
- The break-even point is where:

total cost = sales revenue



Where the revenue line intersects the total cost

- **Sales revenue** is the income of a business from sales of goods or services in a period of time.
- To draw a break-even chart, you must include:
  - Fixed Costs line
  - Variable Costs line
  - Total Costs line
  - Sales Revenue line
- Anything before the break-even (BE) point is loss
- Anything after the break-even (BE) point is profit
- **'y' axis** measures money amounts (cost & revenue)
- **'x' axis** shows the number of units produced or sold
- Total cost is variable cost line starting from fixed cost
- If the total cost **increases**, then the BE point **increases** and total cost's line becomes steeper
- If revenue **increases**, then revenue line becomes steeper and so the break-even point **decreases**
- **Benefits of break-even charts:**
  - Managers can read of the graph if the company **expects profit or loss**, and can see how much profit/loss the will have at any level of output
  - They can **attempt different scenarios** and see the impact it will have on the profit or loss of the business. It lets managers **try out different possibilities** to find out which one is the best. (i.e. increasing the selling price, increasing production)
  - It can be used to show the **SAFETY MARGIN** – the **amount by which sales exceed the break-even point**.
    For example: if a business' break-even point is at 400 units and they're producing 600 units, their safety margin is 600 – 400 = 200.
- **Limitations of break-even charts:**
  - Break-even charts **assume that all products made will be sold**. It does not show the possibility that inventories may build up if they are not sold
  - Fixed costs only stay the same **if the scale of production stays the same** (doubling the output will also increase the fixed cost because they must need bigger factory, more machinery, labour, etc)
  - Break even charts **assume that costs and revenues can be drawn with straight lines**, which doesn't happen in real life.
- To calculate the break-even point:

Break Even = Fixed cost / contribution (per unit)

- **Contribution** – the selling price of a product (unit cost) subtracted by the variable cost (per unit):

Contribution = unit cost – variable cost (per unit)

Variable cost (per unit) = Variable cost / units produced

4.3 Achieving Quality Production

- ***Quality** – to produce a good or a service which meets customer expectations*
- **Quality is important for businesses because:**
  - It establishes brand image
  - It builds brand loyalty
  - It maintains a good reputation
  - It will help to increase sales
  - Attracts more and new customers
- ***If quality is not maintained, businesses will:***
  - *Lose customers to other brands / competitors*
  - *Have to replace faulty products or repeat poor service which raises costs for business*
  - *Have a bad reputation because people who had bad experiences will tell other people, etc. Leads to lower sales & revenue*
- ***Quality Control** – Checking for quality **at the end** of the production process, whether it is a product or a service.*
- Quality control is a traditional way to make sure that products leave the factories with no defects
- The jobs of people in quality control departments are to take samples at **regular intervals** to check for errors.
- If errors are found, the whole batch of production might have to be redone.
- *Their job is also to prevent any production errors before they happen during production, which will lead to money loss*
- *Sometimes, businesses bring a mystery customer to test out the **service** to check if the quality is as expected*
- ***Advantages of Quality Control:***
  - *Eliminates faults/errors before customer receives product or service*
  - *Less training is required for the workers*
- **Drawbacks *of Quality Control:***
  - *Expensive, as employees need to be paid to check the product or service*
  - *Identifies the fault but not how and why it occurred so it is difficult to remove the problem*
  - *Increased costs if products have to be scrapped or reworked or service repeated*
- ***Quality Assurance** –checking for the quality standards **throughout** the production process*
- **Advantages of Quality Assurance:**
  - Eliminates faults/errors before customer receives product or service
  - Fewer customer complaints
  - Reduced costs if products don't have to be scrapped or reworked or service repeated
- **Drawbacks of Quality Assurance:**
  - Expensive to train employees to check products
  - Relies on employees following instructions of the standards set by company
- **Total Quality Management (TQM)** – the **continuous improvement** of products and processes by focusing on quality at **each stage** of production
- Total quality management is used by many companies
- It tries to "**get it right the first time**" and have no defects
- It focuses on ensuring 100% that the **customer is always satisfied**. Customer is **not just the final user**, it also includes other people and departments within the business
- This means that quality needs to be maintained throughout the business and no faults should occur.
- **Advantages of total quality management:**
  - Quality is built into each part of the production. It becomes a habit for the employees
  - Eliminates virtually all faults/errors before the customers receives.
  - No customer complaints so brand image is improved
  - Waste is removed and efficiency increases which means less money is wasted (higher profits)
- **Drawbacks of total quality management**
  - very expensive to train employees to check the product or service at every stage of production
  - relies on employees following the ideology of TQM

4.4 Location Decisions

- **Factors that influence the *choice* of location of a business:**
  - **Labour (cost & skills)** – how many employees and if they rely on special labour skills
  - **Cost of land/premises** –big manufacturing companies need lots of cheap land to build
  - **Transport links** (supplies & distribution) – being close to transport links (i.e. rail road) means that products can be easily and quickly transported which reduces time wasted. and if business imports lots of components it will be cheaper if they easy transported

- **Sales technique** – if a company does online or phone sales, then the company doesn't need to be in the centre of the city. If it relies on personal visits buy customers, like retail, it should.
- **What the business does** – manufacturing businesses are usually in the outskirts of a city where land is cheaper because they don't rely on customer visits. A retail company would be near customers
- **Number / location of competitors** – having competitors nearby is not always a bad thing. If there are many clothes shops right next to each other, it encourages people to visit area because there is lots of choice, increases business.

- Some businesses may decide to locate their operations in another country, to expand operations. the business then becomes a TNC – Trans National Company.
- **Factors influencing decision of which country to locate operations in:**
  - **New market overseas** - when a business sees an increase in sales overseas, it may decide to move/relocate there, instead of transporting products there
  - **Cheaper Source of material** – if the raw material runs out, the business must either bring in alternative supplies from somewhere else or relocate to new country with these raw materials, it also might be cheaper than transporting it
  - **Difficulties with the labour force and wage costs** – if business is located in country where wages keep rising, business may decide it is more profitable to relocate to country where wages are lower
  - **Rents/taxes considerations** – if other costs such as rent or taxes increase, this might cause business to relocate to countries where it is lower

5. Financial information and decisions

5.1. Needs of Capital

Finance = Capital = Money

- Main reasons why businesses need finance:
  - To **start up** a business: the money needed to buy the essential assets to start trading is the **start-up capital**
  - To **expand** the business
  - To **increase working capital**
- **Working capital** - money needed to pay day-to-day costs
- There are 2 types of **finance needs**:
  - **Short-Term Finance Needs:** Finance needs to pay things that last less than a year, (working capital) - includes wages, rent
  - **Long-term Finance Needs:** long term investments (that last more than 1 year). Money to buy **Fixed Assets** (i.e. buildings)

5.1.2 Sources of capital

- The main sources of capital include:
  - **Internal Sources** – Obtained by business **itself**
  - **External Sources** – Obtained from **outside** business

Examples:

Internal sources	External sources
Retained profit Sales of assets	Issue of shares (if it's LTD/PLC) Bank loans/Micro-finance Grants

- **Micro-Finance** - providing smaller loans to poorer people to start up their own business.
- Micro finance is very important in developing countries
- There are also short-Term and long-term **sources** (don't get confused with short/long term **finance needs**)
  - **Short Term Sources** – money that must be paid back in less than a year
  - **Long Term Sources** – money that can be paid back in longer than one year

Short-Term Sources	Long-Term Sources
Overdrafts – when the bank allows a business to spend more money than they have in their account (i.e. to pay employees) **Trade Credit** – delay paying suppliers to be in better cash position	**Bank loans** **Issuing shares** **Owner's savings** **Hire Purchase** – When a business buys a fixed asset in monthly payments (which include interest)

- The main factors considered in making financial choice:
  - **Size of business** & Legal Form (type of business): Public limited companies have larger choice of sources of finance because they pay less interest (less risk)
  - **Amount of capital** required: if you need just a little money you won't issue new shares
  - **Purpose** of capital & **time** period: The general rule is that the finance source should match the finance need:

	January	February	March
Opening bank balance (A)	10,000	15,000	(5,000)
Cash inflows (B)	35,000	45,000	50,000
Cash outflows (C)	30,000	65,000	40,000
Net cash flow (D) (= B – C)	5,000	(20,000)	10,000
Closing bank balance (= A + D)	15,000	(5,000)	5,000

- If use of capital is long-term, source should be long-term (same with short term)
- **Existing Loans**: if a business already took out lots of loans, banks will think it is too risky to finance

5.2 Cash-Flow Forecasting & Working Capital

- Cash is a **Liquid Asset** – it can be immediately available to spend on goods & services
- **Cash Flow** – the cash **inflows** (money received by business) & **outflows** (money paid) over a period of time
- **Cash-Flow Forecast** – an estimate of future cash inflows and outflows.
- A cash-flow forecast shows the expected cash balance at the end of each month:
- Cash flow forecasts are just little charts with values comparing 2 different time periods (months/years etc.)
- **Net Cash Flow** – The difference between the cash inflow and outflow (**inflow – outflow**)
- Cash flow forecasts are useful because:
  - They show how much cash is available to pay liabilities of to buy assets
  - They show how much money a business might need to borrow from a bank
  - They show whether the business is holding too much cash which could be reinvested back into business
- To complete a cash-flow forecast, just rearrange and use the equation (***net flow = inflow – outflow***)
- Short-term cash-flow problems can be solved by gathering short-term sources of finance

Working Capital

- Working capital is the money needed to pay day-to-day costs

Working Capital = Current Assets – Current Liabilities

- A business cannot run without enough working capital
- You can measure the success of a business by seeing how much working capital it has
- Working capital should be handled properly because it shows investors & banks how efficient a business is and its financial strength

5.3 Income Statements

- For most business, profit is the main objective
- **Profit** is the money left over after total costs have been subtracted from the sales revenue.

The simple equation for profit:

Profit = Sales revenue – total costs

- Profit can be made by:
  - Increasing the sales revenue, so that it is higher than the production costs
  - Reducing the production costs
- Profit is very important, especially for the private sector companies (not owned by government)
  - **Profit is a reward for risk taking**: investors & entrepreneurs take lots of risks when investing money
  - **Profit is a reward for enterprise**: entrepreneurs and workers put lots of effort to make business succeed
  - **Profit can be re-invested back into business**: the retained profits can be put onto business to expand
  - **Profit indicates that the market might be successful**: a market where most businesses are making profit would be a good market for an entrepreneur to start their own

Profit ≠ Cash

- Profit can be in the form of cash, but it can also be in the form of credit (customers will pay later)
- If a company makes $40,000 in sales, but only $20,000 is in cash and the other $20k is in credit. The business only has $20,000 in cash to pay costs.
- Credits can vary from a week to a year, it is 'promised' cash but not physical, and can't pay for costs.
- So, in this case, if the business makes $40,000, and the costs are $15,000 it will make $25,000 in *gross* profit (theoretical profit), but only $5,000 in *net* profit
- **Income Statement** – A business account that records all the incomes of a business and all the cost payed over a year – to see if it is making profit.
- It will be used by managers, banks and other investors to see if a business is making profit:
  - to compare with previous years - if it is greater than the year before
  - To see if it is higher than competitors
- The main features of an income statement include:
  - **Revenue**
  - **Costs**

- **Gross Profit** – the profit made after **costs of goods sold** are taken away from sales revenue
- **Net Profit** (AKA 'Profit') – the profit made after taking away all expenses and overhead costs (other expenses)
- **Retained Profit** – the net profit after taking away taxes and payments to owners – which is **reinvested back into the business**

Profit Type	Equation
Gross Profit	**Sales Revenue - Costs of goods sold**
Net Profit	***Gross Profit – Overhead Costs*** (wages, electricity, rent, marketing)
Retained Profit	***Net Profit – (tax + dividends)***

- Income statements are very important in decision making in a business
- If a business is thinking to relocate a factory, they will make a forecast income statement in both locations and compare

5.4 Balance Sheets:

- **Balance Sheet** – a document that shows the value of the business' assets and liabilities in a point in time
- A balance sheet
- **Assets** – Items of value *owned* by a business
- **Liabilities** – Debts *owed* by business
- There are 2 types of assets:
  - **Current Assets** – (Short-term Assets) Items owned by business for *less* than 1 year
    i.e. Raw material, cash
  - **Non-Current Assets** – (Long-term Assets) Items owned by business for *more* than 1 year
    i.e. Buildings, land, company cars
- There are also 2 types of liabilities:
  - **Current Liabilities** – (Short Term Liabilities) Debts owed by business for less than 1 year
    i.e. Bank overdrafts, wages
  - **Non-Current Liabilities** – (Long Term Liabilities) Debts owed by business for more than 1 year
    i.e. Long-term bank loans, creditors (money that business owes to suppliers)
- the **Total Equity** (AKA Shareholders' funds) is how much a business is worth. (only for Limited companies)

Shareholders' Funds = Total Assets – Total Liabilities

- The shareholders' funds is the total amount of money invested in a business by the shareholders/owners
- If the total equity of a business has increased/fallen, the shareholder's stake of the company will be worth more/less, respectively

From a balance sheet, you can calculate the

Working Capital = Current Assets - Current Liabilities

You can also calculate the **Capital Employed** – the long-term capital invested in a business

Capital Employed = Non-Current Assets + Total Equity

Total Equity = Shareholders' funds

5.5 Analysis of Accounts

- Using all of the documents and information from cash flow forecasts, balance sheets and income statements you can rate the performance of a business
- Analysis of accounts is interpreting these accounts/documents to see how a business is doing
- To rate a company's performance, you can use 5 ratios
- There are 2 types of ratios:
  - **Profitability Ratios** – how profitable a business is
  - **Liquidity Ratios** – how able a business is to pay its short-term debts (current liabilities)
- Profitability Ratios:
  - **Gross Profit Margin** (%) – how good a company is at converting sales into gross profit. A percentage
    GPM (%) = 100 × Gross Profit / Sales Revenue
  - **Net Profit Margin** (%) – how good a company is at converting sales into net profit. A percentage
    NPM (%) = 100 × Net Profit / Sales Revenue
  - **Return on capital employed** – how profitable a company is compared to the amount of money used
    RoCE (%) = 100 × Net Profit / Capital Employed
- One profitability ratio isn't useful by itself. You need to use all the profitability ratios and compare it with previous years of the business.
- Liquidity Ratios:
  - **Current Ratio** – how good a company is to pay off its current liabilities with its current assets
    Current Ratio = Current Assets / Current Liabilities

- **Acid Test Ratio** – measures the ability of a company to pay off its liabilities without depending on the sales of inventory

  Acid Test Ratio = Current Assets – Inventories (Stock) / Current Liabilities

- The acid test ratio is used to measure if a business is likely to survive in the future
- The good and bad values of these ratios:

Gross Profit Margin (%)	No exact value, you must compare with: • Competitor businesses • Previous years • The targets set by the business
Net Profit Margin (%)	
ROCE (%)	
Current Ratio	Should be **above 1.5** to be safe
Acid Test Ratio	Should **be above 1**, unless you are dealing with cash sales in which it can be above 0.75 (cash is liquid - pays of liabilities easily)

- **Liquidity** – Ability for a business to pay off it short term debts
- If a business' assets can't be easily converted to cash, then they are Illiquid
- *Current Assets are liquid*.
- Having lots of stock may mean that the company might be illiquid because inventories are hard to convert to cash easily
- Liquidity is very important for a business:
  - If they can't convert their assets into cash, they won't be able to pay their suppliers (current liabilities)
  - Not paying suppliers will force them to stop trading to pay back their debts

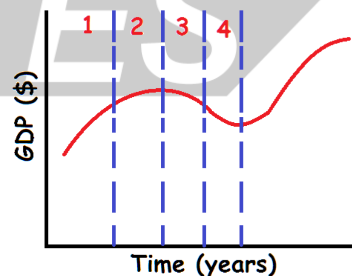
5.5.3 Why and how accounts are used:

- Limited companies must publish their accounts for the public to see. IT is used for ratio analysis.
- All types of stakeholders will be interest in seeing these accounts to see how well the business is doing. i.e.:
  - **Managers**: to keep an eye on the performance of the business. Compare ratios with competitors & previous years to make decisions.
  - **Shareholders** & potential investors: They will see how profitable a business is using the ratios to see if it is worth investing in it. See how much business is worth
  - **Banks**: see if business is performing well to calculate the risk on whether to give out a loan or not.
  - **Employees**: to see how safe the business (and their jobs) are.

6. EXTERNAL INFLUENCES ON BUSINESS ACTIVITY

6.1 Government Economic Policies & Objectives

- **Inflation** – The increase of average prices of goods & services
- Governments want 3 main economic objectives:
  - **Low Inflation**: Low prices of goods & services, so people will buy more, more money in economy
  - **Low Unemployment**: High % of people working so that they don't rely on government funds
  - **Economic Growth**: growth of the GDP (Gross Domestic Product) of a country – more goods and services being produced and sold
  - **Balance of payment** (of Imports & Exports): the difference between the imports and the exports of a country balance out (BoP = Exports – Imports)
- Exports are goods/services sold from one country to another – and they bring money into a country
- Imports are the opposite
- An economy does not grow steadily, there are bumps where the economy does not grow at all
- **Recession** – A period of falling GDP
- Economies go through the 'Business Cycle':



1. **Growth**: GDP is rising, unemployment falling, businesses succeeding & higher living standards
2. **Boom**: Higher living standards so people start spending more money, so prices increase – business costs will also rise
3. **Recession**: people become uncertain about their jobs so they don't spend money. Many workers lose their jobs because of lack of demand & profit in a business
4. **Slump** – A long-term, serious recession: Unemployment will be very high, GDP has decreased a lot and many businesses will not survive and go bankrupt

6.1.1 Government Economic Policies

- There are 3 main ways governments can influence the economy (AKA economic policies):
  - Government expenditure } **Fiscal Policy**
  - Changing tax rates }
  - Interest Rates
- Government Expenditure is how the government spends the money made from taxes. It is usually spent on education, defense, healthcare, public transport, etc.…
- Companies that are involved in these markets/sectors above will benefit. i.e. a bus manufacturing company will benefit if government spends more on public transport
- Spending more on these markets will boost economy in a country (more jobs created, more demand)
- There are 2 types of taxes:
  - **Direct Taxes** – taxes paid directly from incomes (of individuals as wages or as business as revenue)
  - **Indirect Taxes** – VAT, taxes added to prices of goods
- Out of these 2 types, there are 4 common taxes that affect business activity:

Tax	What it is	How it affects business activity
Income tax (direct tax)	Tax on people's incomes – You can either have a set tax (i.e. 20% of income) or **Progressive income** tax, where richer people pay higher taxes.	People have less disposable income (money after tax). They would have less money to spend on goods or services. Businesses have less revenue.
Profits Tax (direct tax)	Tax on profits made by businesses (a set percentage)	If tax rates increase: • Harder for a business to expand (less profit) less money to reinvest back into business. • Fewer people will start their own business
Indirect Tax (VAT)	Tax added to prices of goods & services (varies within types of products)	Prices of goods will increase so less people will buy them – Less demand for a business
Import Tariffs & Quotas (indirect)	Tax on imported goods from other countries. **Import Quota** is a *physical limit to the amount of products that can be imported.*	• Local businesses will have more demand because there less imported goods • Importing raw materials from abroad will be much more expensive – products will be more expensive – sell less

Interest Rates

- The interest rate is the amount charged for borrowing money from a bank
- In most countries, the interest rates are fixed by the government
- the % of the interest rate is called the monetary policy
- The effects to business activity due to having higher interest rates include:
  - **Less profit** for companies that already took out a loan - less/**slower expansion** of a business.
  - Entrepreneurs thinking of starting business might not be able to **afford to take out a loan**
  - If consumer loans (i.e. mortgages) increase, people will have **less disposable income** – **less demand** for goods
  - **Higher exchange rates** of currency
- Businesses might respond to all of these policies by:

Policy	Business Response
Higher income tax	• Lowering production costs to be able to sell goods for lower prices
Higher tariffs (on imports)	• Focusing on the domestic market • Buying materials from local companies rather than from companies abroad
Higher interest rates	• Reduce investment for business growth • Lower prices of goods for consumers • Sell assets for cash to reduce loans

6.2 Environmental & Ethical Issues

- Business activity can impact the environment in many different ways, including:
  - Air pollution made by factories & transportation
  - Water & land pollution from improper waste disposal
  - Increase carbon emissions – global warming
- Most business decisions lead to benefits and costs. There are **private** and **external** benefits and costs
- Private costs & benefits are costs that a business pays for, and the benefits the business gains
- **External Costs** – costs paid by society, rather than the business (as a result of business decision)
- **External Benefits** – gains to society, rather than the business (as a result of business decision)

- The possible *external* costs and benefits of a business decision might include:

External Costs	External Benefits
• Environment is harmed from waste products • pollution may damage the health of people • less energy • traffic	• Jobs are created, economy is boosted • Other companies might move in, more services • better infrastructure • better quality of life

- these externalities change depending on the decision.

- **Sustainable development** – development that does not compromise the living standards of future generations
- Businesses can contribute to sustainable development by doing 4 main things:
  1. Using **renewable energy** (wind, solar)
  2. **Recycling** & reusing their **waste**
  3. Using **less natural resources** (lean production)
  4. Developing **environmentally friendly products** & packaging (i.e. biodegradable packaging)
- People & consumers pressure companies to think more environmentally. There are many reasons and ways businesses give the environment a higher priority:
- Pressure groups - a group of people who want to change policies/decisions of businesses or the government.
- Pressure groups acting on unethical decisions made by a business will lead to a **consumer boycott** - consumers not buying their products
- Environmentally friendly businesses can use the fact that they are environmental as a marketing advantage

Type of pressure	What it is	How and why it responds
Pressure group	a group of people who want to change policies / decisions of businesses They lead to **consumer boycotts** - consumers not buying their products	• Lots of public support • Very bad brand image & reputation • Loss in sales
Laws passed by Government	Government making certain activities illegal (i.e. dumping waste)	• It is more expensive to manufacture
Fines	If a business produces more pollution than the government allows, they pay heavy fines.	• Costs of business increase

- Governments sell 'permits' to companies that allow it to pollute the environment up to a certain level
- Firms that pollute *less* than the government allows, can sell their permit to companies that pollute more
- This motivates businesses to pollute less, to earn money

- **Ethics** – "doing the right thing" - the moral principles
- Most businesses have to face many ethical decisions, they have to decide whether to act ethically or have higher profits
- Ethical decisions include:
  - Employing child workers, even though it might not be illegal in some countries
  - Buying supplies that lead to damage of the environment
  - Paying managers large bonuses while having their workers in minimum wage & poor conditions
  - Offering bribes to people to gain information
- Different companies have different ethical standards because people have different moral codes
- Businesses may respond to ethical issues by following their moral code and "doing the right thing"
- These decisions have benefits and disadvantages:

Benefits	Disadvantages
• Consumers appreciate the efforts made by the company and so they buy more from them • Creates good publicity • Less risk of lawsuits • Easier to find workers	• Higher costs of production • Higher prices – might lead to less demand • In some places families depend on their children to earn money

6.3 Business and the International Economy

- **Globalization** –the world becoming more interconnected leading to increasing worldwide trade & people moving
- The reasons for globalization include:
  - More **Free-Trade Agreements** – imports/exports between countries that pay no tariffs
  - Easier, cheaper and faster transportation between countries
  - E-commerce allows products to be bought from all over the world
  - Industrializing countries (i.e. India & China) can produce products at very low prices

- The opportunities and threats of globalization to a business include:

Opportunities	Threats
• Businesses can **sell abroad**, increasing sales • **Opening factories or offices abroad** – can be cheaper to produce, but it is expensive to set up • **Importing materials** from abroad – can be cheaper but transport costs can be too high • **Importing goods** from abroad and selling it in home country	• **Increasing foreign competitors** importing their products, leading to less sales (& profit) • **Workers in home country might leave** for higher wages in other countries • **More foreign companies** set up operations in the home country of the business, more competition

- Sometimes governments introduce import tariffs and quotas to protect local businesses – this is called **Protectionism**
- They believe that by reducing the number of foreign competitors and goods (that would have much lower prices), there will be less unemployment and higher incomes
- However, by doing this, it is harder for local businesses to import materials and export their goods abroad

6.3.2 Multinational Companies (MNCs)

- Multinational Company = Transnational Company
- A multinational company is a company that has factories or service operations in more than one country
- *It is not just selling products abroad*, it is having operations abroad
- The benefits of a business becoming international:

Benefits to the business	Benefits to the country
• Producing goods at **lower costs** • **Closer to resources** (i.e. oil) • **Closer to market** • **Avoid expensive taxes** of import of goods (i.e. Korean cars (KIA) being produced in EU to benefit from free trade) • **Spread risks** (if there are low sales in one country and high sales in another)	• **Jobs** are created • **Investments** in **development** of infrastructure in country • **More exports** • **Tax** – more money to government • **increased product choic**e for consumers

- However, there are potential drawbacks to the country:
  - Less sales for local businesses, might go bankrupt
  - 'Repatriation of profits' – profits are sent back to home country and doesn't benefit country located
  - Business has lots of influence on government – they can threaten to leave the country
  - They can use up scarce resources in the country

6.3.3 Exchange Rates

- **Exchange Rate** – the price of one currency in terms of another currency
- For example, 1 Euro is equivalent to 1.2 Dollars
- **Currency Appreciation** – when the value of a currency increases (i.e. 1€ = 1.2$ → 1€ = 1.7$)
- **Currency Depreciation** – when the value of a currency increases (i.e. 1€ = 1.2$ → 1€ = 1.1$) – it can buy less of another currency
- The exchange rate of a currency is influenced by 2 things:
  - **Demand for the currency**: if many people want to buy the currency the price will increase because there is a 'limited' number of currency (appreciate)
  - **Supply of currency**: if the central bank prints more money, the supply increases but the demand is still the same so the value is lower (depreciation)
- Exchange rates can affect businesses by:

If it Appreciates:	If it Depreciates:
• **Import prices fall**: since your currency can buy more of the other currency • **Export prices rise**: your currency is worth more so it is more expensive for other currencies to buy it	• **Import prices rise**: your currency is worth less so you need more to buy other currencies • **Export prices fall**: it is worth less so other currencies can buy your currency for les of theirs

- This means that if the currency Appreciates:
  - The product's **price** in other countries will **increase**
  - Business will make **more profit**
  - Business can lower the price and still make the same amount of money as before – it is **more competitive**
- If the currency depreciates:
  - The products **price** in other countries will **decrease**
  - **less profit** will be made
  - Business needs to raise the price to make the same amount of money as before – **less competitive**

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