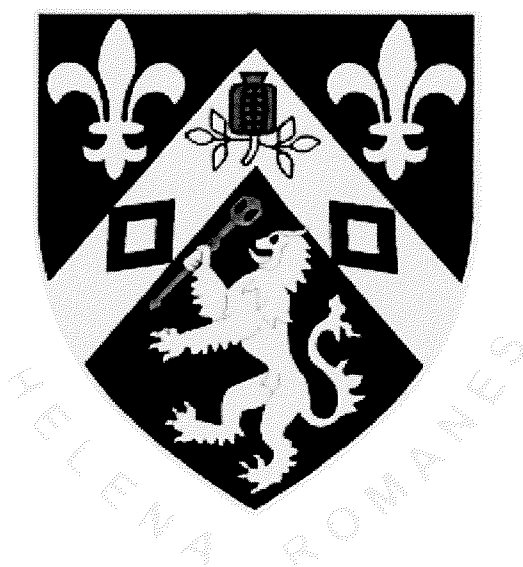


Revision pack

Business Studies

2022 Exams



Key dates:

Paper 1 - 20th May, Afternoon

Paper 2 - 13th June, Afternoon

Paper 1 Content

3.1 Business in the real world		Video link
3.1.1 - The purpose and nature of business	<ul style="list-style-type: none"> - Purpose of business - Basic functions and types of business - Dynamic nature of business 	
3.1.2 - Business ownership	<ul style="list-style-type: none"> - Partnerships - LTDs 	Ownership
3.1.3 - Setting aims and objectives	<ul style="list-style-type: none"> - What are business aims and objectives - Purpose of setting objectives 	Objectives
3.1.6 - Business planning	<ul style="list-style-type: none"> - Basic financial calculations 	
3.1.7 - Expanding a business	<ul style="list-style-type: none"> - Benefits and drawbacks of expansion - Diseconomies of scale 	Inorganic Organic
3.2 - Influences on business		
3.2.5 - Legislation	<ul style="list-style-type: none"> - Consumer Law 	
3.3 - Business Operations		
3.3.1 - Production processes	<ul style="list-style-type: none"> - Flow production - Lean production 	
3.3.2 - Role of procurement	<ul style="list-style-type: none"> - JIT - JIC 	
3.3.3 - Concept of quality	<ul style="list-style-type: none"> - TQM 	
3.3.4 - Good customer service	<ul style="list-style-type: none"> - Benefits of good customer service - How ICT has allowed customer services to develop 	
3.4 - Human Resources		
3.4.1 - Organisational structures	<ul style="list-style-type: none"> - Organisational structures - Appropriateness of organisational structures 	Organisational structures
3.4.2 - Recruitment and selection	<ul style="list-style-type: none"> - Methods of recruitment and selection 	Recruitment and selection
3.4.3 - Motivating employees	<ul style="list-style-type: none"> - Importance of motivated workforce - Methods to motivate staff 	Financial Non-financial
3.4.4 - Training	<ul style="list-style-type: none"> - Importance of training workforce - Types of training undertaken by businesses 	Training
3.6 - Finance		
3.6.3 - Financial terms and calculations	<ul style="list-style-type: none"> - Basic financial terms - Basic financial calculations 	Break-even

Quantitative skills in business		
6.1 - Calculations	<ul style="list-style-type: none"> - Averages - Revenue, costs and profit 	
6.2 - Interpretation	<ul style="list-style-type: none"> - Information from graph and charts 	

Paper 2 Content

3.1 Business in the real world		Video link
3.1.2 - Business ownership	<ul style="list-style-type: none"> - PLCs 	Ownership
3.1.6 - Business planning	<ul style="list-style-type: none"> - Purpose of business planning 	
3.1.7 - Expanding a business	<ul style="list-style-type: none"> - Methods of expansion 	Inorganic Organic
3.2 - Influences on business		
3.2.2 - Ethical and environmental considerations	<ul style="list-style-type: none"> - Ethical considerations - Sustainability (global warming, using scarce resources) 	Ethical considerations
3.2.3 - The economic climate on businesses	<ul style="list-style-type: none"> - Interest rates (impact on businesses who rely on overdrafts and loans for finance, affect consumer and business spending) - Consumer spending 	Interest rates
3.2.5 - Legislation	<ul style="list-style-type: none"> - Consumer Law 	Consumer Law
3.5 - Marketing		
3.5.3 - purpose and methods of market research	<ul style="list-style-type: none"> - Purpose of market research - Methods of market research 	Market Research
3.5.4 - Marketing Mix (4Ps)	<ul style="list-style-type: none"> - Pricing methods - loss leader - Factors that influence price - Product differentiation -USP and brand image - Product life cycle - Product portfolio - Promotional methods - PR and sponsorship - Reasons for promotion - Place - telesales - Nature of the marketing mix 	Place Marketing Mix Product lifecycle Loss leader
3.6 - Finance		
3.6.1 - Sources of finance	<ul style="list-style-type: none"> - Methods used to raise finance - Appropriateness of source of finance 	Sources of finance

3.6.2 - Cash flow	- Interpreting cash flow forecasts	<u>Cash flow</u>
3.6.3 - Financial terms and calculations	- Basic financial terms - ARR - Break-even	<u>Break-even</u>
3.6.4 - Analysis of financial performance of business	- Components of financial statements	<u>Analysing performance</u>
Quantitative skills in business		
6.1 - Calculations	- Averages - Revenue, costs and profit - GPM and NPM - ARR - Cash flow forecasts (total costs, total revenue, net cash flow)	
6.2 - Interpretation	- Information from graph and charts	

3.1 - Business in the real world

Business	A business is an organisation that produces a good or supplies a service.
Purpose of business	Produce goods or supply services that are demanded by others to fulfil the needs and wants of its customers, distribute products, fulfil a business opportunity and provide a good or service to benefit others.
Needs	A need is a basic human requirement – we need to eat and drink.
Wants	A want is a desire for a particular product – we need to drink, but we want Coca-Cola.
Good	Is a physical tangible product such as a car.
Service	Is an intangible product, such as financial advice, or a hairdresser.
Customer	Is someone who buys a product from a business.
Consumer	Is someone who uses goods and/or services produced by a business
Reasons for starting a business	<ul style="list-style-type: none"> - They want to be their own boss and make their own decisions. - They want to keep all the profits of a business for themselves – (earn more money). - They need a job (starting a business is one way of getting a job). - They have an interest or hobby and this grows into a business. - They want to prove something to themselves and get a sense of satisfaction. - They are unhappy with their current job and want to do something different. - They want more flexible working hours and work when they want. - They have spotted a business opportunity to provide a good or service – identified a gap in the market. - They want to provide a service to help others (social enterprise).
Entrepreneur	Is someone who is willing to take the risks involved in starting a new business in return for the rewards (profit, status, satisfaction etc.)
Entrepreneurship	Refers to the ability to be an entrepreneur – to take risks to develop a business idea.
Characteristics of an Entrepreneur	<ul style="list-style-type: none"> - Innovative – good at spotting an opportunity – can identify problems and develop solutions. They have a vision of how things could be.

	<ul style="list-style-type: none"> - Risk Takers – in reality many new ideas fail – you may have lost your savings. - Hard working and determined – you need to be prepared to struggle, you will not be well known and will have to work hard to develop good relationships with customers and suppliers. - Organised – running your own business involves many skills and many decisions. You will have to be good at meeting deadlines. 				
Factors of production	<ul style="list-style-type: none"> - Land – the physical land and the site on which the business is located and other natural resources a business might use. - Labour – the skills and numbers of employees employed by a business. - Capital – the equipment used to provide the goods or services, such as machinery or equipment. - Enterprise – the skills of the people involved in the business to identify business opportunities and bring together resources to meet these opportunities 				
Partnership	<p>Occurs when two or more people join together in a business enterprise to pursue profit.</p> <table border="1"> <thead> <tr> <th>Advantages</th><th>Disadvantages</th></tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> - Share workload and discuss ideas. - Share liability. - More sources of finance than a sole trader. - Share skills as partners can specialise. - Partners can cover for each other when ill or want a holiday. </td><td> <ul style="list-style-type: none"> - May disagree with other partners as they have different ideas. - Decisions may be slower due to consultation. - Unlimited liability. - Liable for the actions of the other partners and share profits </td></tr> </tbody> </table>	Advantages	Disadvantages	<ul style="list-style-type: none"> - Share workload and discuss ideas. - Share liability. - More sources of finance than a sole trader. - Share skills as partners can specialise. - Partners can cover for each other when ill or want a holiday. 	<ul style="list-style-type: none"> - May disagree with other partners as they have different ideas. - Decisions may be slower due to consultation. - Unlimited liability. - Liable for the actions of the other partners and share profits
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Deed of partnership	<p>Is an agreement between partners that sets out the rules of the partnership:</p> <ul style="list-style-type: none"> - How to divide up profits (how much money they put in or how much work they do). - How decisions are made (voting rights). - How to value the business if someone wants to leave. - How to decide on whether someone else can join. 				
Private Limited Company (Ltd)	<ul style="list-style-type: none"> - Is owned by its shareholders who when the business is starting out tends to be its founders – although they may eventually bring outside investors in if more funding is required. - Has Ltd after its name. - Cannot advertise its shares to the general public, if sold will be done privately. 				

	<ul style="list-style-type: none"> - Can include certain restrictions in its Articles of Association to limit who the shares can be sold to (family members only). <table border="1" data-bbox="464 434 1490 1249"> <thead> <tr> <th data-bbox="464 434 975 495">Advantages LTD</th><th data-bbox="975 434 1490 495">Disadvantages LTD</th></tr> </thead> <tbody> <tr> <td data-bbox="464 495 975 1249"> <ul style="list-style-type: none"> - Limited liability – can help gain access to funding from investors. - For many customers, a company seems to have more status than a sole trader. - If the founders die, the company still exists and whoever owns the shares continues with the business. - Managers can be employed to run the day-to-day business whilst the owners retain control. </td><td data-bbox="975 495 1490 1249"> <ul style="list-style-type: none"> - Various legal procedures need to be completed, such as registering, which take time and money. - A summary of the business's financial accounts must be produced and be available to the general public (including competitors) - Accounts must be checked by an independent accountant (auditor) which creates an additional cost. - The business must pay corporation tax, which may be more than if they just had to pay income tax. - Any individual that invests and owns shares will have a vote on how the business is ran – slowing decision making down </td></tr> </tbody> </table>	Advantages LTD	Disadvantages LTD	<ul style="list-style-type: none"> - Limited liability – can help gain access to funding from investors. - For many customers, a company seems to have more status than a sole trader. - If the founders die, the company still exists and whoever owns the shares continues with the business. - Managers can be employed to run the day-to-day business whilst the owners retain control. 	<ul style="list-style-type: none"> - Various legal procedures need to be completed, such as registering, which take time and money. - A summary of the business's financial accounts must be produced and be available to the general public (including competitors) - Accounts must be checked by an independent accountant (auditor) which creates an additional cost. - The business must pay corporation tax, which may be more than if they just had to pay income tax. - Any individual that invests and owns shares will have a vote on how the business is ran – slowing decision making down
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Public limited company (PLC)	<ul style="list-style-type: none"> - Is owned by its shareholders. - Sells its shares to the general public on the Stock Exchange. - The share price changes when there is more or less demand for them <table border="1" data-bbox="464 1449 1490 2018"> <thead> <tr> <th data-bbox="464 1449 975 1509">Advantages PLC</th><th data-bbox="975 1449 1490 1509">Disadvantages PLC</th></tr> </thead> <tbody> <tr> <td data-bbox="464 1509 975 2018"> <ul style="list-style-type: none"> - Can advertise its shares to the general public – access to greater number of potential investors and raise large sums of money. - Attracts more media coverage, which provides a good form of cheap publicity. Plc are usually thought of as having more status than Ltd's and are usually bigger. This can impress customers. - Investors may be more willing to invest as it is easier to sell </td><td data-bbox="975 1509 1490 2018"> <ul style="list-style-type: none"> - Increase media coverage could also be bad for the business if it makes a mistake. - Cannot control who buys its shares, so managers may find that a competitor buys control of the company and takes it over. - More regulated than a Ltd, it has more things it must do according to law. - Must produce more detailed financial information and send it to shareholders – can be expensive and gives away </td></tr> </tbody> </table>	Advantages PLC	Disadvantages PLC	<ul style="list-style-type: none"> - Can advertise its shares to the general public – access to greater number of potential investors and raise large sums of money. - Attracts more media coverage, which provides a good form of cheap publicity. Plc are usually thought of as having more status than Ltd's and are usually bigger. This can impress customers. - Investors may be more willing to invest as it is easier to sell 	<ul style="list-style-type: none"> - Increase media coverage could also be bad for the business if it makes a mistake. - Cannot control who buys its shares, so managers may find that a competitor buys control of the company and takes it over. - More regulated than a Ltd, it has more things it must do according to law. - Must produce more detailed financial information and send it to shareholders – can be expensive and gives away
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shares on later.	information to competitors. - When a Ltd becomes a Plc it brings in external investors, original owners may not agree with views and objectives of new owners						
Shareholder	Is a person or an organisation that owns part of a company. Each shareholder owns a 'share' of the business.						
Liability	<table> <tr> <th>Unlimited</th><th>Limited</th></tr> <tr> <td>Partnership</td><td>PLC LTD</td></tr> <tr> <td>Means the owners are responsible for all of the businesses debts.</td><td>Investors in a limited company can only lose what they invest in a business, they cannot be forced to sell personal assets to pay off the business's debts</td></tr> </table>	Unlimited	Limited	Partnership	PLC LTD	Means the owners are responsible for all of the businesses debts.	Investors in a limited company can only lose what they invest in a business, they cannot be forced to sell personal assets to pay off the business's debts
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Aim	Is a general goal of a business. The owners may aim to grow the business or make it more profitable.						
Objective	Is a specific target that is set for the business to achieve. The aim may be to grow, whereas the objective set from this might be to grow sales by 25% within 3 years						
Purpose of objectives	Managers will be clear about what they are trying to achieve: <ul style="list-style-type: none"> - Helps with decision making and with establishing priorities. - It helps investors to understand the direction in which the business is heading – could help with investment when setting up or expanding. - It provides a target so that everyone can compare actual results with the planned results to decide how successful the business has been. - It can motivate everyone connected with the business because they know what they are trying to do and how they can measure success. 						
Main objectives	<ul style="list-style-type: none"> - Survival – in the short-run surviving is an achievement, ensuring that the business's name is known. You may charge lower prices and make lower profits, but this could change in the long-run. Important for when the economy is doing badly. - Earning a profit (profit maximisation) – normally a long-term objective as it takes time to build a brand. If none or low profits are made the owners will take resources out of the business and use elsewhere. The business must make enough profit to exceed the opportunity cost of using these resources. How much is enough will vary with each business. 						

	<ul style="list-style-type: none"> - Shareholder value – businesses aim to reward shareholders by generating profits to pay dividends, which are financial rewards paid on each share the shareholder owns. In addition the managers will want to run the business well to encourage people to invest which increases the price of the shares meaning current shareholders own something more valuable. - Customer satisfaction – done by providing a better quality service or a wider range of products than competitors. This should lead to more profits in the long-run as if customers are happy they are more likely to return or tell friends about the business. Could increase costs and result in lower profits in the short-run. - Market share – measures the sales of one product or business as a percentage of the total market sales. (Sales of products ÷ total market sales) x 100. If a business has a larger market share it increases its influence on the market. - Growth – managers and owners may want the business to open more stores, sell more products or increase its revenue. This could be locally or on a larger scale (nationally or internationally) - Being ethical – business will want to be seen to be doing the right thing, for example paying employees reasonable wages, treating their suppliers and customers with respect and being honest with them about the state of the business. They will benefit from favourable media coverage, using the ethical message in its marketing and in attracting customers, investors and employees. It can however increase costs by paying more money to employees or sources more ethical resources. - Environmental and sustainability targets – want to be seen by customers to be taking care of the environment in order to attract more customers. They may set limits on the amount of energy they use, or limit their carbon footprint, or set recycling targets, or reduce wastage.
Business plan	Is a document setting out what a business does and what it hopes to achieve in the future.
Purpose of business planning	<ul style="list-style-type: none"> - Help set up the business successfully – establishing a new business involves lots of decisions and often the person making them is inexperienced. By planning, entrepreneurs have to think ahead and gather data. This helps them assess the risk of various decisions and hopefully make better decisions. - Raise finance – a business plan is useful to show to investors as they would want to see what the managers intended to do with the money that is to be invested. They would want to understand why the managers think the business would succeed. - Set objectives – a plan will set out what the business wants to achieve. This will help provide a clear target for everyone in the business and increase motivate and help with decisions as everyone knows what they are trying to achieve. - Co-ordinate actions – a plan will set out how an objective is going to be achieved, what resources will be required, what the time frame is, what the targets for different parts of the business are. The plan will therefore co-ordinate the various activities within the different parts of the

	business.
Main sections of a business plan	<ul style="list-style-type: none"> - Background information on the founders and investors and their previous experience. - An analysis of the market and the firms' expected position within it; this should include a detailed analysis of the customers that will be targeted. - The firms' objectives - Details of the price it will set and expected sales. - An explanation of how the business will compete against its rivals – how it will be competitive, and what makes it better than the competition. - An analysis of the financial position of the business, including forecasts of profits and cash flow.
Problems of business planning	<ul style="list-style-type: none"> - Uncertainty – it is not always easy to look ahead and predict what is going to happen in a market or to estimate future sales figures with any degree of accuracy. Lots of predictions that are made in the plan could change which makes the plans out of date. - Lack of experience – people starting their own business may not have the experience to compile a sufficient business plan or plan ahead effectively. Bigger businesses can use experts to produce business plans and consult with new businesses may not be able to afford this. - Change – business plans need to regularly reviewed and updated which can take time and money. This can prevent the business from focusing on running the business if they lack the sufficient resources to regularly review and update the business plan.
Reduce the risk of business planning	<p>To reduce the risk of business plans going wrong, businesses can</p> <ul style="list-style-type: none"> - Research the market thoroughly - Talk to experts and consultants (if they can afford it) Plan for a variety of possible outcomes - Regularly review and update the plan so that it remains relevant and any problems are spotted quickly. <p>Not all the risks can be removed but they can be reduced or at least prepared for and better planning helps do this.</p>
Variable costs	Are costs that change with output. E.g. if a café produces more sandwiches, it will need more bread. Bread is therefore the variable cost.
Fixed costs	Are costs that do not change with output. E.g. the rent of a building will be fixed for a given period. The rent will not change regardless of how much is being produced. This does not mean that fixed costs never increase, but they do not change with output.
Total costs	Fixed costs + variable costs
Revenue	Is the income that a firm receives from selling its good or services. It is also referred to as 'turnover' it is measured by Number of units sold X Price E.g. if 200 units of a product are sold at £5 the revenue would be $200 \times £5 = £1,000$ (it is important to include the £ to get full marks)
Profit and Loss	Revenue – total costs – if the costs are greater than the revenue this will

	result in a loss for the business. It is often measured over a given period, normally a year. However, it could be separated for each individual project.								
Unit cost	Measures the cost of a unit. These are also called average costs Unit cost = total costs ÷ output								
Methods of expansion	A business may expand through internal (organic growth) by selling more of its own products or through external growth (inorganic growth, integration) by joining with another business.								
Internal growth (organic)	Can be done in several ways: Franchising, opening new stores, ecommerce or outsourcing. Internal growth tends to be slower than external growth, but may be more manageable. Joining with a new business, changes the size of the business suddenly with new staff and different ways of doing things.								
Franchise	Occurs when a franchisor sells the rights to its products to a franchisee; this is usually in return for a fee and percentage of turnover. <table border="1"> <tr> <th>Advantages of selling a franchise</th><th>Disadvantages of selling a franchise</th></tr> <tr> <td> <ul style="list-style-type: none"> • Can grow quickly. • Franchisee provides some of the finance. • Franchisees motivated as they are running their own business. </td><td> <ul style="list-style-type: none"> • Lost some control. • Danger of problems with one franchisee affecting the whole brand. • Have to share profits. </td></tr> <tr> <th>Advantages of buying a franchise</th><th>Disadvantages of buying a franchise</th></tr> <tr> <td> <ul style="list-style-type: none"> • Established brand. • Access to training and supplies. • Share marketing costs. • Learn from other franchisees. • Tried and tested business – established customer base. </td><td> <ul style="list-style-type: none"> • Have to share profits. • May have to work within franchisor's guidelines. • Have to contribute to group marketing. • Sales may suffer if another franchisee gets a bad reputation. </td></tr> </table>	Advantages of selling a franchise	Disadvantages of selling a franchise	<ul style="list-style-type: none"> • Can grow quickly. • Franchisee provides some of the finance. • Franchisees motivated as they are running their own business. 	<ul style="list-style-type: none"> • Lost some control. • Danger of problems with one franchisee affecting the whole brand. • Have to share profits. 	Advantages of buying a franchise	Disadvantages of buying a franchise	<ul style="list-style-type: none"> • Established brand. • Access to training and supplies. • Share marketing costs. • Learn from other franchisees. • Tried and tested business – established customer base. 	<ul style="list-style-type: none"> • Have to share profits. • May have to work within franchisor's guidelines. • Have to contribute to group marketing. • Sales may suffer if another franchisee gets a bad reputation.
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Outsourcing	Occurs when a business uses another business to produce for it. Used when: <ul style="list-style-type: none"> - A business does not have the time to produce the products - Does not want to take the risk of expanding its own production facilities. - Does not have the finances to expand and does not want to miss a market opportunity. They must be careful to control the quality and it may cost more than producing the items themselves in the long run.								

External Growth (Inorganic)	Occurs when two or more firms join together to become one. This is fast paced growth and rapidly increases the businesses market share.
Merger	Occurs when two or more businesses join together to form a new business.
Takeover	Occurs when one business buys control of another business.
Advantages of business expansion	<ul style="list-style-type: none"> - It can lead to economies of scale, which are benefits that come with a larger size. - It can lead to more power in the market. E.g. retailers are more likely to be more willing to stock the products of a well-known brand. - Big firms have more status. This can make it easier to launch new products - Big firms are more expensive so it makes it more difficult to takeover, so those in charge feel more secure. - Rewards for staff are often linked to the size of the business, so everyone may support the success of the business.
Economies of scale	<p>Occur when a business's unit costs of production fall as its output rises and the business expands. There are different forms of economies of scale.</p> <ul style="list-style-type: none"> - Purchasing – as you get bigger you produce more and therefore need more raw materials. Suppliers administration costs are reduced per unit on larger orders as they only have to process an order once instead of a lot of times for smaller orders. - Technical – Bigger firms may be able to purchase specialist equipment that makes production cheaper and more efficient such as a production line. They may not be able to justify this as a smaller business. - Specialist Managers – as a small business the entrepreneur would normally fulfil all roles in the business. A larger business could employ specialist for each role, such as a marketing manager or a finance director. - Financial – larger firms can get more favourable terms when trying to borrow money.
Disadvantages of business expansion	<ul style="list-style-type: none"> - Decision making becomes slower as there can be more people to consult due to more levels in the hierarchy. This could result in the messaged becoming distorted as they pass through the chains of communication. - Employees may feel isolated and no longer feel special or important to the organisation. This may mean they become demotivated. - Controlling and co -ordinating the business that has many customers and products in many locations can be difficult and may be less efficient
Diseconomies of scale	Occur when the cost per unit increases as a business expands.

3.2 - Influences on Business

Ethics	Refers to whether a business's decisions are thought to be morally right or wrong. An ethical decision is made on the basis of what is judged to be morally right.
Ethical behaviour	Requires businesses to act in ways that stakeholders consider to be both fair and honest.
How to behave ethically?	<p>Businesses can behave ethically by considering the whole community and not just profits when making decisions. Businesses can behave ethically in each of the four functional areas.</p> <ul style="list-style-type: none"> - Ethical Marketing – behave honestly, fairly and responsibly in all marketing activities. E.g. avoid targeting children with advertisements for products with potentially harmful side-effects, such as junk food. - Ethical Business Operations – managers may choose not to buy resources from suppliers that are involved in unethical practices such as child labour or choose to manufacture products that can be recycled. - Ethical Human Resources – not using zero hour contracts, offering employees the opportunity of high-quality training, despite the cost, paying the living wage. - Ethical Finance – investing in the local community or pay employees to undertake charitable work during normal work hours. Paying the correct amount of tax
Fair trade Products	Are those for which customers pay higher prices and offer better trading terms, such as payments with orders. The aim is to improve the living standards of people in poorer countries where the products are produced.
Sustainability	<ul style="list-style-type: none"> - The use of scarce resources – many resources are scarce or nonrenewable, such as coal, oil or gas. This means that is limited. Firms are now looking at using renewable materials such as wind or solar power. - Global warming – is the gradual heating of Earth's surface, oceans and atmosphere. Governments have emission targets that must be met and they pass these onto businesses and fine them if they are unable to. <p>There is also a trade-off between a business acting sustainably and ensuring that they make a profit. They can experience the same benefits and drawbacks as in the trade-off with being ethical and profits.</p>

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Interest rates	Refer to the cost of borrowing money or the reward for saving money, expressed as a percentage.				
Consumers and change in interest rates	<p>A change in interest rates will have two broad effects on consumers' decisions. The amount they want to save and spend.</p> <ul style="list-style-type: none"> - Saving by consumers – a fall in interest rates will lead to some consumers deciding not to save as the interest they will receive will have been reduced. - Spending by consumers – as well as spending their savings, consumers may also be more willing to borrow money to buy expensive items such as a house or car. This is because the cost of borrowing is cheaper due to lower interest repayments. <p>A rise in interest rates will have the opposite effects</p>				
Businesses and changes in interest rates	<p>Some businesses rely heavily on borrowed money to finance their activities. Sometimes this is for a short period to pay for raw materials or for longer periods to pay for new factories. Borrowing large amounts of money over long periods means businesses can be affected significantly by interest rate changes.</p> <ul style="list-style-type: none"> - Rising interest rates – businesses may face large increases in the amount of interest they repay on existing loans. This could increase its costs and reduce profits. It could result in a business being unable to repay its loans and probably stop trading. - Falling interest rates – this would reduce the cost of borrowing and help a business to improve its profits. This is not favourable however, for businesses with large amounts of savings. Businesses are likely to increase spending and expansion when interest rates are low. <p>Businesses can protect themselves by negotiating loans with fixed rates of interest. However, these are likely to be higher rates of interest than the current market rate.</p>				
Consumer spending	Refers to the value of goods and services bought by consumers over a time period usually a month or a year.				
The effects on business of changes in consumer spending	<p>Businesses that produce or sell essential products such as basic foods, do not experience large falls in sales when consumers' incomes fall. Equally they do not benefit from large increases when consumers' incomes rise.</p> <p>Businesses that produce or sell non-essential products such as luxury holidays or organic foods do experience large falls in sales when consumers' incomes fall. Generally when incomes increase they benefit from increases in sales</p>				

Consumer Law	<p>Business can treat their customers unfairly in a number of ways:</p> <ul style="list-style-type: none"> - By selling goods and services that are not as described – e.g. incorrect quantities stated on the packet. - By selling products that are unsafe – e.g. toys containing unsafe chemicals such as lead. - By selling products that do not work properly or at unfair prices. - By selling information about consumers to other business without their permission. <p>Consumer Rights Act, 2015 provides consumers with clear rights and protection when buying goods and services. The Consumer Rights Act covers:</p> <ul style="list-style-type: none"> - Product quality – must be of a satisfactory quality (not broken), fit for purpose and as described. Consumers have the right to reject products that do not meet these standards within a reasonable time. - Returning goods - Repairs and replacements - Delivery rights – with many products now being delivered, consumers are protected against products going missing and late delivery. <p>Finally the Consumer Rights Act protects consumers against unfair terms in contracts.</p>
Examples of consumer Law	<ul style="list-style-type: none"> - Labelling of products – labels must state what ingredients the packaged food contains. Weights and measures must be on the package and be correct. It is illegal to give consumers incorrect information on packaging and labels. - Buying products using loans – laws stops businesses charging very high rates of interest to consumers if they take out a loan to purchase expensive products. It also allows them a week to change their minds. - Using information correctly – prevents people looking at information on computers they have no right to read. Information must be stored securely and avoid any theft or loss. It prevents personal details being sold without the consumer's permission. - Safety of products – states what can be in certain products e.g. such as food. Prevent the selling of unsafe products and makes the business liable for injury caused by their products.

How business are affected by consumer laws	<table><tr><td>Benefits<ul style="list-style-type: none">• Protection offered to consumers can make them more willing to purchase expensive and complex products such as cars.• Encourage business to produce goods that are safe, fit for purpose and as described. Means that businesses compete on a level playing field.</td></tr><tr><td>Drawbacks<ul style="list-style-type: none">• Increase business' costs of production, such as for imposing standards or requiring businesses to deliver products promptly.</td></tr></table>	Benefits <ul style="list-style-type: none">• Protection offered to consumers can make them more willing to purchase expensive and complex products such as cars.• Encourage business to produce goods that are safe, fit for purpose and as described. Means that businesses compete on a level playing field.	Drawbacks <ul style="list-style-type: none">• Increase business' costs of production, such as for imposing standards or requiring businesses to deliver products promptly.
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3.3 - Business operations

<p>Flow productions</p>	<p>Occurs when an item moves continuously from one stage of the production process to another. E.g.</p> <ul style="list-style-type: none"> - Car manufacturing – cars pass along the conveyor belt as each element of the car is fitted.
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	<ul style="list-style-type: none"> - Bottle plant filling – each bottle is cleaned, cap fitted, a label is added and it moves on to be packed without stopping. <table border="1"> <thead> <tr> <th>Advantages of Flow Production</th><th>Disadvantages of Flow Production</th></tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • Low cost of each unit produced due to high level of output and efficiency. • High amount of automation with computer-controlled machinery produced very consistent, high standard of quality products. • Less need to hold stocks – storage costs are lower and less likely that raw materials will be damaged • Division of labour – the complete job is split up into a large number of small tasks – enables each job to be done quickly. • Specialisation – workers are often specialists in one area of production </td><td> <ul style="list-style-type: none"> • Set-up costs of buying the equipment are high, especially if computer-controlled robots are to be used. • Production problems can be costly as the whole production line may have to be stopped. • Worker motivation can be low because they are not involved in make a complete product and doing one repetitive task can become boring as a result of specialisation and division of labour. This can lead to absenteeism and people leaving which can be expensive and disruptive for a business. • The basic standardised product cannot be changed without costly and time-consuming changes in machinery. (although advances in technology make it slightly possible to change products) </td></tr> </tbody> </table>	Advantages of Flow Production	Disadvantages of Flow Production	<ul style="list-style-type: none"> • Low cost of each unit produced due to high level of output and efficiency. • High amount of automation with computer-controlled machinery produced very consistent, high standard of quality products. • Less need to hold stocks – storage costs are lower and less likely that raw materials will be damaged • Division of labour – the complete job is split up into a large number of small tasks – enables each job to be done quickly. • Specialisation – workers are often specialists in one area of production 	<ul style="list-style-type: none"> • Set-up costs of buying the equipment are high, especially if computer-controlled robots are to be used. • Production problems can be costly as the whole production line may have to be stopped. • Worker motivation can be low because they are not involved in make a complete product and doing one repetitive task can become boring as a result of specialisation and division of labour. This can lead to absenteeism and people leaving which can be expensive and disruptive for a business. • The basic standardised product cannot be changed without costly and time-consuming changes in machinery. (although advances in technology make it slightly possible to change products)
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Lean production	<p>Lean production techniques aim to reduce the amount of waste in a business. Waste is inefficient; if a business can reduce waste it can reduce its costs. There are many forms of waste in a business.</p> <ul style="list-style-type: none"> - If production exceeds demand, then items may have to be thrown away. - Wasted time is inefficient and costs money. In flow production, if workers have to wait to start work because the stage before have not finished, they are wasting time. - Any faulty products will have to be re-made, costing money. - Holding stocks can be wasteful because they can get damaged or stolen. In addition, holding stocks costs money (warehouse costs), which could be in the form of a back earning interest. – Opportunity cost. 				
Just-in-time (JIT)	<p>Means producing to order – the business only makes an item when there is a customer for it.</p> <table border="1"> <thead> <tr> <th>Advantages of JIT</th><th>Disadvantages of JIT</th></tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • Cuts stock-holding costs and increases efficient use of factory space. • Capital expenditure that was used to pay for stocks can now be used more efficiently in other parts of the business. • Close contact with suppliers at all times leads to better, more efficient supplier relationships (e.g. wiliness to supply goods at very short notice). • Improves efficiency of cash flow by reducing the time between paying for supplies and receiving payment from customers. • Less time is spent on checking and re-working the product of others as the emphasis is on getting the work right first time. </td><td> <ul style="list-style-type: none"> • There is little room for mistakes as minimal stock is kept for the reworking of a faulty product. • Production is very reliant on suppliers and if stock is not delivered on time, the whole production schedule can be delayed. • There is no spare finished product available to meet unexpected orders, because all products are made to meet actual orders – however JIT is a very responsive method of production. • Cost of ordering supplies could increase as so many small orders are made rather than one order and one large delivery of supplies. </td></tr> </tbody> </table>	Advantages of JIT	Disadvantages of JIT	<ul style="list-style-type: none"> • Cuts stock-holding costs and increases efficient use of factory space. • Capital expenditure that was used to pay for stocks can now be used more efficiently in other parts of the business. • Close contact with suppliers at all times leads to better, more efficient supplier relationships (e.g. wiliness to supply goods at very short notice). • Improves efficiency of cash flow by reducing the time between paying for supplies and receiving payment from customers. • Less time is spent on checking and re-working the product of others as the emphasis is on getting the work right first time. 	<ul style="list-style-type: none"> • There is little room for mistakes as minimal stock is kept for the reworking of a faulty product. • Production is very reliant on suppliers and if stock is not delivered on time, the whole production schedule can be delayed. • There is no spare finished product available to meet unexpected orders, because all products are made to meet actual orders – however JIT is a very responsive method of production. • Cost of ordering supplies could increase as so many small orders are made rather than one order and one large delivery of supplies.
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Just-in-case (JIC)	<p>Holds stocks just in case there is a delay from supplies or a sudden unexpected increase in demand.</p> <table border="1"> <thead> <tr> <th data-bbox="485 405 970 434">Advantages of JIC</th><th data-bbox="970 405 1477 434">Disadvantages of JIC</th></tr> </thead> <tbody> <tr> <td data-bbox="485 434 970 719"> <ul style="list-style-type: none"> • Can meet sudden increases in demand as has spare stock. • Lower risk if there are problems with suppliers. • Buy bigger quantities and may get price reductions (bulk discount); less transport costs as less frequent deliveries. • Less external costs, from congestion and pollution caused by deliveries leading to good reputation. </td><td data-bbox="970 434 1477 719"> <ul style="list-style-type: none"> • Holds stock that might go out of date or need to have price reduced to sell. • Higher stockholding costs as it holds stocks just in case of an increase in demand or problems with suppliers. </td></tr> </tbody> </table>	Advantages of JIC	Disadvantages of JIC	<ul style="list-style-type: none"> • Can meet sudden increases in demand as has spare stock. • Lower risk if there are problems with suppliers. • Buy bigger quantities and may get price reductions (bulk discount); less transport costs as less frequent deliveries. • Less external costs, from congestion and pollution caused by deliveries leading to good reputation. 	<ul style="list-style-type: none"> • Holds stock that might go out of date or need to have price reduced to sell. • Higher stockholding costs as it holds stocks just in case of an increase in demand or problems with suppliers.
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JIT vs JIC	Businesses need to balance the advantages of JIT (the leaner) with JIC. Neither of these approaches is necessarily better, but they offer different advantages to different types of businesses				
Kaizen	Means 'continuous improvement'. It is an approach in which all employees are involved in improving how things are done. The changes are often very small, but over time can add up to significant improvements. By involving employees the business learns from the people who actually do the work.				
Total quality management (TQM)	<p>Is an approach to quality in which everyone is focused on preventing errors occurring and ensuring quality at each stage of the production process. Required everyone in the business to be working towards ensuring the quality targets are met.</p> <p>It stresses that everyone has a customer and that may be the next employee who you pass work onto. Each employee must ensure that they pass on work that meets the quality targets.</p> <p>Not all employees will want the extra responsibility and they may not be skilled enough to identify mistakes in their own work</p>				
Customer service	Is the part of a business's activities that is concerned with meeting customers' needs as fully as possible.				
Methods of good service	<ul style="list-style-type: none"> - The product – providing products or services that meet the needs of customers is a form of providing high-quality customer service. - Reliability – good should be reliable and do exactly what is expected of them. E.g. paint should last for years without fading. - Safety – ensuring that the product is safe is important as customers worry about safety when buying some products/services e.g. like air travel. - Customer engagement – positive customer engagement occur when customer have a good experience from their contact with the business. The customer is more likely to buy from it and recommend it to others. - Good product information – customers expect clear information about goods or services. This helps them make the right decision. It is therefore important for staff to be well-trained. - Post-sales (after-sales) service – businesses should deal quickly and fairly with complaints, deliver products without delay, exchange goods 				

	<p>that are faulty for do not meet the customers' needs and repair goods (free of charge under guarantee).</p> <ul style="list-style-type: none"> - Premises – they should be clean (e.g. food places), customers should be able to find their way around (e.g. hospitals), disabled customers should be able to access the business and there should be sufficient services like toilets. - Different methods of payment – small business can increase sales by accepting other methods of payments such as cheques, credit cards and also providing small quantities of products at proportionally low prices. - Managing customer expectations – if the shop should open at 9am then it should do and not at 9:15am. In a restaurant you expect to be served in a certain time and receive your food shortly after. Businesses need to think carefully about what they promise.
Benefits of good customer service	<ul style="list-style-type: none"> - It helps a business to be competitive - especially if they can't compete on price - Increases customer satisfaction – customers feel good if they have a good experience, so less complaints are made, staff feel happier. - Attracts new customers – if the product is similar to competitors, then good customer service will attract customers. - Increases customers spend – customer may be more willing to spend with a business that provides good customer services. - Increases market share – as you get more customers, market share could increase. This increases your influence in the market. - Increases customer loyalty – you are less likely to lose customers when new products or competitors come into the market. - Increases profitability – all of the above leads to an increase in profits.
How ICT can help businesses to offer good customer service	<ul style="list-style-type: none"> - Websites – can give the customer information about the business and the products sold. It can help advertise the business to a much larger group, leading to increased sales. It can include FAQ, this can allow customer to find out answers to questions they may have. It can offer advice to customer about problems they may have - E-commerce and M-commerce – customers can view products from 24/7 from all over the world. They can see other people's reviews of products. They can ask questions of online support teams. They may receive suggestions based on their purchases. Could benefit from lower prices online. - Social media – helps build awareness of the product/brand. Allows customer another interface to interact with the business. Can get feedback from customers. - Data analysis – it can help a business rebrand a product, or alter the price based on the data provided. It can help improve decision making in the business as they can understand the customers and their buying behaviour. They can track the effectiveness of their marketing. <p>Not all employees will be skilled enough to use the technology. It may mean training is required or outside specialists may need to be paid for.</p>

3.4 - Human resources

Organisational structures	Is the way a business arranges itself to carry out its activities.
Centralised	Tends to keep all decision making with managers and head-quarters.
Decentralised	Normally a decision taken when a business grows in size because it becomes difficult for a small number of senior managers to make all the decisions. Allows employees working in all areas (branches, departments or factories) of the business to take decisions
Levels of hierarchy	Are the layers of authority within a business. The business with the narrow span of control has 4 levels of hierarchy. This means that the employees at the bottom of the organisational structure have three layers of authority above

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Chains of command	Is the line of authority within a business along which communication passes. E.g. Directors decide on a target and communicate this to managers, this is then passed on as an instruction to team leaders and they shop-floor workers. Similarly each level of the hierarchy will report to the level above on the progress made in achieving the target. This shows how communication can flow up and down the chain of command.				
Delayering	Is the removal of one or more levels from a business's organisational structure.				
Delegation	Is the passing of authority to more junior employees. In very small businesses the entrepreneur might take all the decisions. In a larger business there are too many decisions to make. E.g. a store manager in a supermarket might delegate authority to more junior employees to order supplies of vegetables.				
Influences on choice of organisational structure	<ul style="list-style-type: none"> - The skills of the workforce – skilled workers are more able to make decisions on their own and need less supervision from managers, thus managers may choose wider spans of control and a flat organisation structure. E.g. in a hospital with doctors. - The management style used in the business – managers that like to retain control over employees will be more likely to use a tall organisational structure. Those who do not wish to control employees closely will delegate and use a flatter organisational structure. - The business's competitive environment – a business in a competitive environment may wish to keep its costs to a minimum and have the best possible performance from its workforce. This may lead to a flat organisational structure. This structure requires fewer managers, helping to 				

	reduce wage costs				
Recruitment	Is the process of finding and appointing new employees				
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Motivation	<p>Is the range of factors that influence people to behave in certain ways. It can be described as the will to do something. It is the force that drives an employees to work very hard and to carry out their job as effectively as possible</p> <ul style="list-style-type: none"> - Financial Motivation – offering employees higher pay or bonuses through reaching targets, could lead to increased levels of motivation. - Non-Financial Motivation – factors such as praise or the opportunity to carry out a more interesting job could motivate employees. 				
Benefits of a motivated workforce	<ul style="list-style-type: none"> - Increased productivity levels – this allows a business to reduce its cost per unit meaning they can be more competitive in their pricing and lower the sales price to increase sales. To keep prices the same and benefit from higher profits due to lower costs. - Improved employee retention rates – employees who are motivated are more likely to be loyal to a business. This removes the need to recruit new employees and the costs of that and removes the need to train new employees. It also allows the business to benefit from the skills and 				

	<p>experience of its workforce.</p> <ul style="list-style-type: none"> - Higher levels of sales – motivated workers will work hard to meet the needs of customers. Customers treated like this will be more willing to buy goods and services. - Improved recruitment and selection – motivated staff gives the business a reputation as a good employer. This makes it easier for a business to recruit the best and most skilled employees.
Non-financial methods of motivation	<ul style="list-style-type: none"> - Increasing authority through job enrichment – some employees may lack motivation because they are bored. Job Enrichment can help correct this by making jobs more demanding and challenging. It can give employees more diverse duties as well as more authority to take decisions at work. - Training – an employee may not be able to take on more demanding duties without being trained. Training in itself is likely to motivate employees because it shows that the business owner values the employees. It can also motivate by making the workplace safer following health and safety training. - Management styles – authoritarian managers tend not to motivate employees as they make all the decisions. Democratic managers to allow employees to help make decisions help motivate workers as they feel their opinion is valued as allow them meet their needs to self-esteem and self-actualisation. - Fringe benefits – these types of benefits supplement the pay that employees receive. They could include: health insurance, a company car, discounts when buying the company's products. If offered to a larger number of employees can become expensive
Financial methods of motivation	<ul style="list-style-type: none"> - Salaries – is an income received by an employee, stated as an annual figure. These employees are not normally required to work a set number of hours per week. Employees paid in this way may be motivated by an increase in salary, perhaps alongside some fringe benefits. - Wages – usually paid each week and employees normally work an agreed number of hours. A higher hourly rate (overtime) is paid for any additional hours worked, an increase in the hourly rate may be used to motivate employees. - Piecework – employees are paid according to the amount they produce. They are paid an agreed figure for each unit of output they produce, this is subject to them receiving the National Living Wage as a minimum. - Commission – this is a payment to an employee based on the level of sales he or she has made over a period of time. It is normally paid in addition to a wage or salary. - Profit sharing – employees receive a share of the business's profits alongside their normal wages or salaries. This can motivate as employees benefit directly from an increase in the business's profits
Training	Is a range of activities giving employees job-related skills and knowledge.
Benefits of training	<ul style="list-style-type: none"> - Improvements in productivity – this can make them better at their jobs as they learn new, improved and efficient ways of doing their job. This

	<p>could be: how to use new technology, how to reduce time wasted on unnecessary tasks or correcting mistakes.</p> <ul style="list-style-type: none"> - Improvement in quality – training enables employees to improve the quality of the work they do. This can lead to customers being more satisfied and therefore more willing to purchase from the business which would increase profits. This can relate to products or to the level of customer service provided as employees know how to meet the customer's needs. - More motivated employees – can make employees feel valued, this will make them more committed to the business. Training allows employees to take on more challenging tasks (job enrichment). They also feel that there will be a chance of promotion. - Improved rates of employee retention – makes them more loyal to the business, so that they are less likely to leave the business. The business benefits from the skills and experience and does not have to pay to recruit new employees. <p>All these factors enable the business to be more competitive</p>
Types of training	<p>Induction On-the-job training Off-the-job training</p>
Induction training	<p>Is training given to an employee when he or she first starts a job. It is intended to help new employees to become more familiar with the business and the job they are to do. It might involve:</p> <ul style="list-style-type: none"> - Meeting other employees at the business with whom they will work with closely. - Learn key information about the business, such as how its IT systems work or health and safety information. - More about their role in the business. <p>Induction training helps new employees integrate with existing workers and helps them conduct their jobs effectively. It can help them become more productive earlier.</p> <p>It can help retain employees as if they do not receive training within a certain period of joining they may leave. Induction training can help avoid low rates of staff retention and therefore avoid the additional costs of recruitment and retraining.</p>
On-the-job training	<p>Is training that is done within the workplace. This type of training means that employees may learn from more experienced workers.</p> <p>It can take the form of:</p> <ul style="list-style-type: none"> - Work shadowing – here experienced and skilled employees are observed during the working day. They may offer advice and guidance as well. - Formal training sessions – these can be led by experienced employees or by specialist trainers from outside the business. These sessions can update employees on changes such as health and safety. They can be used to prepare employees to take on new roles within the business. - Computer-based training – employees can conduct a number of

questions or work through some scenarios. This is an efficient form of training as it can be done without a trainer

Advantages of On-the-job training	Disadvantages of On-the-job training
<ul style="list-style-type: none"> • It can be a relatively cheap way of providing training. Employees do not have to travel to a training centre. This is particularly good for businesses that cannot afford to spend lots of money on training. It means that more employees can benefit from the training resulting in an increased level of productivity. • It targets the exact needs of the business. This means that employees will receive precise knowledge and skills they need to carry out their job effectively. • Computer-based training can be delivered at any time and is very effective for large numbers. 	<ul style="list-style-type: none"> • It is unlikely to bring new ideas into the business unless an outside trainer is used. As a result it may not lead to dramatic improvements in the performance of a business's employees. • Using this type of training can result in more employees being unavailable to work within the business for a period of time. E.g. the business might lose the services of the person who is providing the training as well as those receiving it.

Off-the-job training

Is provided outside the employee's place of work. It might involve:

- The employee attending a course at a college or university.
- Studying at home.
- Going on a training course run by a training company.

Sometimes off-the job training can last for a considerable amount of time. E.g. an accountancy training course that lasts 2 years)

Advantages of Off-the-job training	Disadvantages of Off-the-job training
<ul style="list-style-type: none"> • Can help bring new ideas and approaches into a business. This can help a business remain competitive. • Off-the-job training is expensive and can be used to motivate employees. This is because they feel valued by their employer because the business is spending significant amounts of money on improving their skills. This can result in substantial improvements in the employee's performance at work. • It can give more credibility to the training, which can be good for getting cheaper insurance if the training is about something like fire safety. 	<ul style="list-style-type: none"> • It can be expensive, so for business making only small amounts of profit, it may not be affordable. They may only choose to send selected members of staff on training, which could mean those who do not attend may not feel as valued. • There is a risk that employees may leave the business for a new job once the training is completed. Off-the-job training can prepare employees to work in a range of different businesses. Thus a business may spend heavily on training an employee, but receive little or no benefit in return.

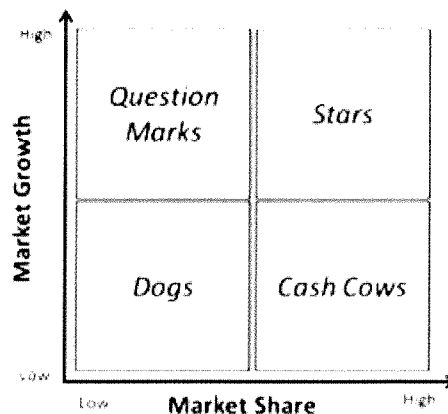
3.5 - Marketing

Market research	Is the process of gathering, analysing and processing data relevant to marketing decisions.	
Purpose of market research	Market research will help gather information about: <ul style="list-style-type: none">- Demand – the size and growth of the market and the different segments that exist within the overall market.- Market share – the sales of each producer as a percentage of total sales in the market.- Competition – the number and size of competitors and their share of the total market sales. Research might identify which businesses are growing and help managers understand why.- Target market – a business is unlikely to want to target everyone in a market, it will want to focus on particular groups.	
Primary research	Uses data that has been gathered for the first time	
Methods of primary research:		
	Advantages	Disadvantages
Observing	Carried out without customer knowledge Potential for bias reduced	Time consuming Does not answer the “Why?” question. Easy to misinterpret

Experimenting	Test how things work out before a large scale roll-out	May not represent the whole market.
Telephone surveys	Cheap Allows interviewers to clarify any questions that are unclear.	May be viewed as a nuisance by those telephoned People may not answer their phones. Cannot see how people react (body language)
Questionnaires	Results are easy to analyse as most use closed questions. A relatively fast method compared to others	Interviewer may be biased (through an over friendly approach)
Customer/supplier feedback	May give insight into future trends, not yet visible on the high street. Helps build relationships with suppliers Real insight as to how to improve the customer experience	Suppliers may present a biased view. Does not represent what noncustomers think
Focus groups	In-depth information about consumer attitudes and motives behind purchasing decisions	Very expensive Only carried out using a small sample, so results may not be representative.

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Secondary market research	Uses data that has already been gathered				
Factors that affect choice of market	<ul style="list-style-type: none">- The budget available- The usefulness of the research				

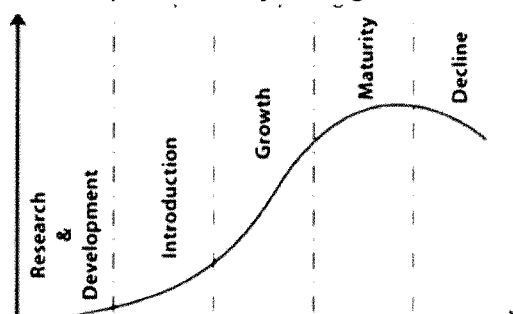
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research	<ul style="list-style-type: none"> - How reliable the research is - What current contacts they have to conduct research 						
Marketing Mix	Refers to all the activities influencing whether or not a customer buys a product. The elements of the mix can be analysed using the four Ps: product, price, place and promotion.						
Choosing the best marketing mix	<p>The choice of marketing mix will depend on factors such as:</p> <ul style="list-style-type: none"> - The product – is it distinctive/ is it a product that needs a unique design? How long does a customer expect it to last? Something unique and long lasting might justify a higher price. - Competitions' products – what do they offer and how does it compare with what you have? - The target customers – who are you trying to sell to? How much do they earn? Why are they likely to buy your product? How much do they need it? What do they do with their time? (so you know how to reach them) - Business approach – are you trying to match what your competitors do? Are you trying to be different from your competitors? 						
Product	<p>The product is what customers actually buy. If the product is wrong then it is difficult to imagine that the marketing overall will be successful. This includes its design, its performance, its features and its reliability. Other factors are also considered:</p> <ul style="list-style-type: none"> - The service – is it easy to order in store or online? As the sales staff well informed? Is there any post-sales services? Is there a delivery service? Does the product come with a guarantee? - The performance of the product – does the performance of the product match what was promised in the advert? - The price – does the product represent better value for money than the competition? 						
Product portfolio	Is a collection of products that a firm produces. This enables a manager of a company to check how the products are doing and decide whether anything needs to be changed.						
Boston Matrix	A famous way of analysing a business's product portfolio is called the Boston matrix. This model looks at products in terms of their share of the market and the growth in the market. It consists of four categories.						



- **Dogs** – are products that have a low share of a low-growth market. These products are not much use to a business and the business should either get rid of them because they are not selling enough or try to improve them to make them much more attractive.
- **Cash cows** – are products that are doing very well in that they have a high share of the market. However, the market is not growing very fast, this could be because it has already grown and is not as big as it is likely to get. Cash cow products are well known and shops want to stock them on their shelves. Customers know these products and buy them in large quantities. This type of product was previously heavily marketed; the business can now generate revenue from it with comparatively little promotional expense. Profits from these products are very good. The business should use the money earned from cash cows to develop products for the future.
- **Question marks** – are products that have a small market share of a fast-growing market. These products could turn out to be very successful and the market is attractive because it is fast growing. However, the business cannot be sure whether or not the product will succeed. Businesses need to spend money promoting and developing question marks to make sure they are successful. The money for this could come from the revenue from cash cows.
- **Stars** – are products that have a big share of a fast-growing market. Start products are doing well in an attractive market. Businesses need to keep improving and promoting stars with the aim of turning them into the cash cows of the future.

Product life cycle

Shows how the sales of a product may change over time.



	<ol style="list-style-type: none"> 1. Development – in this stage the idea for the product is developed and tested to see if it will work. This may involve building a prototype. During this stage, businesses spend money but have no money coming in because there are no sales. 2. Introduction – is when the product is launched and sales begin. It can involve a lot of expenditure on promotion and publicity. At this stage a business needs to convince distributors they should stock the new product rather than existing brands. This can be difficult as they will not want to take a risk. 3. Growth – is experienced when the product starts to sell faster. People are beginning to buy more of it and it is becoming successful. A business may need to find more outlets for the product at this stage. 4. Maturity – the sales rate begins to slow down. Perhaps a competitor has launched something similar that is affecting sales, or perhaps customers simply want something new. During maturity, a business should consider introducing some different versions of the product to keep sales up or use some extension strategies. 5. Decline – occurs when sales start to fall. Decisions need to be made one whether to boost sales by spending more on marketing, or should the product be taken off the market.
Extension strategies	<p>Are attempts to maintain the sales of a product and prevent it from entering the decline stage of the product life cycle. These include:</p> <ul style="list-style-type: none"> - Cutting the price to make the product better value for money. - Spending more on advertising to make the product more popular. - Updating the packaging of the product. - Adding more or different features. - Trying to get people to buy more of the product; for example shampoos say on the label that you should always wash your hair twice. - Trying to get people to buy the product on more occasions; for example, we tend to buy turkey mainly at Christmas in the UK – could you get people to eat it at other times during the year? - Trying to find new customers; for example, a business might try to target a new market by selling its products abroad.
Price	<p>When setting its price a business will have to think about its costs, it will need to cover those costs to make a profit. However, they also have to think about price and demand, generally increasing the price leads to fewer sales.</p>
Loss leader	<p>Is a product sold at a loss in the hope that the customer will buy other items from the business where they can make a profit.</p> <ul style="list-style-type: none"> - Supermarkets use this approach by selling some products at a loss and advertising these in the shop windows. - This gets customers into the shop, and the supermarkets hopes they will buy some of the higher-priced items. - Printers are sold at a loss allowing the business to repeatedly sell the ink cartridges over time making a profit.
Factors influencing price	<ul style="list-style-type: none"> - Costs – to make a profit, the price must cover the costs. There are fixed costs and variable costs to cover.

	<ul style="list-style-type: none"> - Demand – this determines what people are willing to pay for a product. If demand is high, a business can increase its prices. If demand is low, the business will probably have to lower the price of the product. - The nature of the market (degree of competition) – if a market contains many firms selling similar products then prices have to be competitive. Offering a product that is very different from the competition gives the ability to charge more. - A business's objective and approach to pricing – if a business aims to gain a large share of the market and make its product well known, then it may use penetration pricing and have a relatively low price. If it aims to promote its product as very high quality and top of the range, it will probably charge a high price. - Position in the product life cycle – when demand is rising fast in the growth phase it is probably feasible to keep the price high. If the product is in the decline stage, then the price will probably be reduced. - Rest of the marketing mix – price must fit with the rest of the marketing mix. If the product is a well-known high-end brand and promoted in an expensive format, then a high price should be used. - Others – Does the customer have to pay the full amount now or can they pay in instalments? Can they pay with a credit card or do they have to pay cash? Can they get a discount if they buy in large quantities?
Promotional activity	Are the different ways in which a firm tries to communicate with its customers.
PR	These are activities used by a business to arrange free media coverage of its activities and/or products. Shops could hold open days, as this is normally cheaper than advertising. Similarly a business could release a press statement to get coverage for the brand. The problem with public relations is that you cannot control what will be said by the media.
Sponsorship	Can allow the business to be seen to be supporting local sporting teams, or charity events. This is good for the businesses image.
Reasons for promotion	<ul style="list-style-type: none"> - Inform customers or remind them about some aspect of the product. - Create or increase sales. - Create or change the image of the product; to extend sales - Show the benefits of a product; a business may want to explain why its product is so good.
Place - Distribution channel	<p>Describes how the ownership of a product passes from the producer to the final customer.</p> <p>Producer > Wholesaler > Retailer > Customer (two level)</p> <p>Producer > Retailer > Customer (one level)</p> <p>Producer > Customer (zero level)</p>
Telesales	The sale of goods or services over the telephone

3.6 - Finance

Internal sources of finance: Is money that is available from within the business.
External sources of finance: Refers to money that comes from outside the business.

Finance method	Explanation	Benefits	Drawbacks
Owner's Funds	Money put into the business by the owner	No need to pay interest on the money	Could have been invested elsewhere, earning a higher profit Owner may not have enough funds to meet the needs of the business
Retained Profits	Money kept in the business by the owners Known as retained profit on the balance sheet	No need to pay interest on the money Can be available immediately, so don't miss business opportunities	Could have been invested elsewhere, earning a higher profit The business may not have enough retained profit to meet its needs Shareholders may become unhappy if this means lower dividend payments

Selling Assets	Items owned by the business are sold and the money made used to finance the business	The business is using money it already has – so no need to take on loans or pay any interest or charges	The business has to have something worth selling for this to be an option The business may sell something they later need
Trade Credit	Items are bought from suppliers on a 'buy now pay later' basis	Gives the business more cash to use in the immediate future	Can only be used to buy certain goods Bills usually have to be settled within 30,60 or 90 days

Finance method	Explanation	Benefits	Drawbacks
Bank Loan	An amount of money is borrowed from the bank, then repaid (with interest) over a set period of time	<ul style="list-style-type: none"> • Easy and quick to set up • Large amounts of money can be borrowed • Structured repayment term 	<ul style="list-style-type: none"> • Interest payable • If repayments cannot be kept up, the business risks getting a poor credit rating or being made bankrupt
Mortgage	Long term loan provided by a bank in order to buy property	<ul style="list-style-type: none"> • Only method available to buy property • Structured repayments over a long term (25 years) 	<ul style="list-style-type: none"> • Large sums of interest charged • Can take a long time to repay debt
Overdraft	The bank allows the business to draw more money from their bank account than they actually have in it	<ul style="list-style-type: none"> • Very quick to arrange • A good short term solution to a cash flow problem 	<ul style="list-style-type: none"> • Only suitable for smaller amounts and has to be repaid within a short amount of time • Interest or charges are paid
Issuing Shares	A share in the business is sold to an individual or another business. This money then used to purchase new assets	<ul style="list-style-type: none"> • No need to repay the money invested • Cheaper than a loan. • Some businesses can raise large sums of money this way 	<ul style="list-style-type: none"> • Need to pay the shareholders a share of future profits • Ownership also means some influence over how the business is run – the original owners may lose control of the business • Risky for the shareholder - the investment may be lost if the business fails

Family and friends	Friends and family is a popular source of finance for new small businesses.	<ul style="list-style-type: none"> • Easy to arrange • Often lent interest free 	<ul style="list-style-type: none"> • May take a long time to acquire all the finance – miss opportunities. • May not be able lend enough money • May require it back suddenly
Hire Purchase	An item is bought on finance, repayments are made each month until the final payment when the item becomes the property of the firm	<ul style="list-style-type: none"> • Flexible method – can hand back the item if no longer required and payment will stop 	<ul style="list-style-type: none"> • High interest often charged • Item doesn't belong to the business until the end of the term
Government Grants	Money given to the business by the government.	<ul style="list-style-type: none"> • No need to repay the grant 	<ul style="list-style-type: none"> • Limited funds are available • May be restrictions on the usage of the money

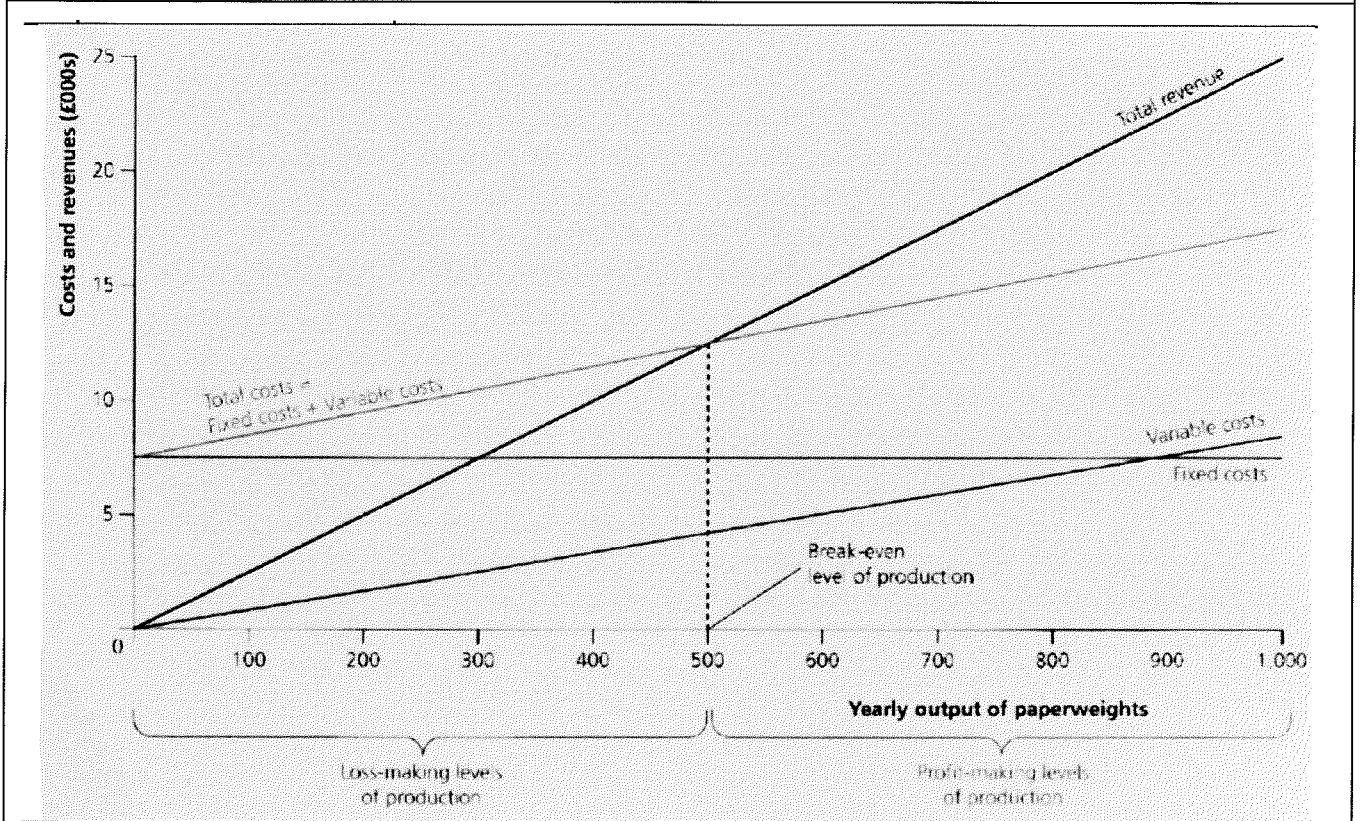
Appropriateness of source of finance	
Cash flow	Is the money that flows into and out of a business on a day-to-day basis.
Cash inflow	<p>Cash inflows mean that money flows into a business and becomes available to it. This could include:</p> <ul style="list-style-type: none"> - Income from sales – the money business earn from selling goods and services. - Loans from banks – this is when the loan is given to the business. - Money invested by the business's owners – when a new business is started, the owner may invest personal finance, an established business may sell new shares.
Cash outflow	<p>Is when a business makes a payment out of the business. This could include:</p> <ul style="list-style-type: none"> - Buying raw materials – most businesses need to buy raw materials, such as for a production line or for food in a restaurant. - Wages – these are higher particularly for businesses that provide a service. - Rent or mortgage – this could be for shops, factories or offices. - Interest on loans – the bank gives a loan as cash inflow and then the repayments become the outflow. - Taxes – businesses may have to pay sales taxes and taxes on profits. - Advertising – this could be used to increase cash inflows.
Why is cash flow important?	<p>Cash flow is important, because if a business does not have enough cash to pay its' bills, it could fail.</p> <p>A business that is unable to pay its suppliers will probably not receive any further supplies.</p> <p>If it is unable to pay its workers, the business will probably stop trading.</p>

Benefits of having a positive cash flow	<ul style="list-style-type: none">- The business does not need to borrow and can avoid paying interest charges – many businesses use overdrafts to cover periods of cash flow difficulties, this can be expensive.- A business will be more able to arrange long-term finance – a positive cash flow position means banks will have greater confidence that the business has the ability to make repayments on time.- Cash flow problems are a major cause of business failure – a positive cash flow helps reduce the risk of a business failing.																																																																
Cash flow forecasts	<p>Is a plan of the expected inflows and outflows to and from a business over a period of time.</p> <ul style="list-style-type: none">- Cash inflows – money that comes into the business.- Cash outflows – money that goes out of the business- Net cash flow – net cash flow = inflows—outflows- Opening balance – is the money held by the business at the start of the month.- Closing balance – is the money held by the business at the end of the month and becomes the new opening balance. <p>All negative figures are shown in brackets.</p>																																																																
Example of a cash flow	<table><tr><th></th><th>December</th><th>January</th><th>February</th></tr><tr><td colspan="4">Cash Inflows</td></tr><tr><td>Personal savings</td><td>5,000</td><td></td><td></td></tr><tr><td>Bank loan</td><td>7,500</td><td></td><td></td></tr><tr><td>Sales revenue</td><td>3,800</td><td>6,000</td><td>8,800</td></tr><tr><td>Total Cash Inflow (A)</td><td>16,300</td><td>6,000</td><td>8,800</td></tr><tr><td colspan="4">Cash Outflows</td></tr><tr><td>Inventories (Stock)</td><td>8,000</td><td>4,250</td><td>3,900</td></tr><tr><td>Wages</td><td>4,000</td><td>3,500</td><td>3,700</td></tr><tr><td>Interest on bank loan</td><td>250</td><td>250</td><td>250</td></tr><tr><td>Rent (for three months)</td><td>4,250</td><td>-</td><td>-</td></tr><tr><td>Electricity & Gas</td><td>250</td><td>220</td><td>210</td></tr><tr><td>Total Cash Outflow (B)</td><td>16,750</td><td>8,220</td><td>8,060</td></tr><tr><td>Net Cash flow (C = A – B)</td><td>(450)</td><td>(2,220)</td><td>740</td></tr><tr><td>Opening Balance (D)</td><td>1,000</td><td>550</td><td>(1,670)</td></tr><tr><td>Closing Balance (E = D + C)</td><td>550</td><td>(1,670)</td><td>(930)</td></tr></table>		December	January	February	Cash Inflows				Personal savings	5,000			Bank loan	7,500			Sales revenue	3,800	6,000	8,800	Total Cash Inflow (A)	16,300	6,000	8,800	Cash Outflows				Inventories (Stock)	8,000	4,250	3,900	Wages	4,000	3,500	3,700	Interest on bank loan	250	250	250	Rent (for three months)	4,250	-	-	Electricity & Gas	250	220	210	Total Cash Outflow (B)	16,750	8,220	8,060	Net Cash flow (C = A – B)	(450)	(2,220)	740	Opening Balance (D)	1,000	550	(1,670)	Closing Balance (E = D + C)	550	(1,670)	(930)
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Causes of cash flow problems	<ul style="list-style-type: none">- Poor management – managers may not be aware of the importance of managing cash flow and may not plan carefully. This is more likely in small businesses, which may not employ specialist finance managers. Even experienced finance managers may make decisions that weaken the cash flow position.- The business is making a loss – a business makes a loss when over a period of time its costs of production are greater than the revenue it receives from sales. A business making a loss will be at risk of running out of cash at some point. This will occur because more cash is flowing out of the business than in.																																																																

	<ul style="list-style-type: none"> - Offering customers too long to pay – this is known as trade credit. Managers may be too generous in offering customers trade credit, especially if they are keen to increase the business's sales. A business may offer 60 days trade credit, but in the meantime it may be unable to pay its own bills on time.
Solutions to cash flow problems	<ul style="list-style-type: none"> - Reschedule payments – it may be possible for a business to agree with its suppliers, or others to whom it owes money, to delay its payments. If this gives the business sufficient time for the business to receive inflows of cash, the problem may be solved. Alternatively a business could persuade its customers to pay more quickly, thereby speeding up cash inflows. This can be done by offering discounts for early payments. Similarly customers that owe money could be chased up and persuaded to pay promptly. - Cut costs – this should result in reduced cash outflows. This could mean employing fewer staff or holding smaller stocks of raw materials. The business could also seek cheaper sources of fuel or raw materials. However, this could result in lower quality and lead to the business losing customers. - Use overdrafts – is a short-term flexible loan that can provide the business with the cash it needs. It can be arranged immediately. However, it can be expensive and if used extensively could damage their profits. Banks can also ask for an overdraft to be repaid immediately. - Find new source of cash inflows – a business may be able to generate extra cash flows by diversifying the products/services they offer. E.g. a pub could also offer accommodation. This could take time to implement. A business could also advertise its products to generate more sales. However, it costs the business money to advertise. - Debt factoring – a business could sell the money owed by customers to another company. This would ensure the business receives some money. However, the business would not receive the full amount as the debt factoring company would take a percentage.
Revenue	Is the income that a firm receives from selling its goods or services. It is also referred to as 'turnover' it is measured by Number of units sold X Price E.g. if 200 units of a product are sold at £5 the revenue would be $200 \times £5 = £1,000$ (it is important to include the £ to get full marks)
Price	Is the amount a business asks a customer to pay for a single product. (see Marketing KM for more information on price)
Sales	Refers to the number of products sold by a business over a period of time. Sales is expressed in volume and revenue in monetary terms
Costs	Are the spending that is necessary to set up and run a business a business normally has to main types of costs – fixed and variable

Variable costs	<p>Are costs that change with output. E.g. if a café produces more sandwiches, it will need more bread. Bread is therefore the variable cost.</p> <p>Total variable costs = variable costs of a single unit x number of units. Total variable costs = £15 x 30,000 = £450,000</p> <ul style="list-style-type: none"> - Raw materials used in production - Employee wages when paid based on what they produce - Energy used in the production process - Commission paid to sales people based on how much they sell
Fixed costs	<p>Are costs that do not change with output. E.g. the rent of a building will be fixed for a given period. The rent will not change regardless of how much is being produced. This does not mean that fixed costs never increase, but they do not change with output.</p> <ul style="list-style-type: none"> - Rent & business rates on factory and office premises - Salaries of employees and management - Insurance - Advertising and other promotional campaigns
Average rate of return (ARR)	<p>Compares the average yearly profit from an investment with the cost of the investment and is stated as a percentage. It helps a business decide whether an investment is likely to be worthwhile.</p> <p>$ARR = \text{average yearly profit} \times 100 \div \text{cost of investment}$</p> <p>For example, if a new delivery van costs £40,000, but increases a business's profits by £6,000 a year, the ARR would be calculated as follows: $ARR = £6,000 \times 100 \div £40,000 = 15\%$</p> <p>To calculate the ARR of an overall project you would have to work out the average yearly profit.</p> <p>Step 1 – total profits ÷ number of years = average yearly profit. Step 2 – $ARR = (\text{average yearly profit} \div \text{cost of investment}) \times 100$</p>
Interpreting the results of an ARR calculation	<ul style="list-style-type: none"> - A higher figure is preferred as it shows the return on the investment is greater. - Managers will simply choose the investment which offers the highest percentage return. - It assumes that profits are the sole factor influencing the decision. - Answers stated as a percentage makes it easy to compare with the returns from an alternate investment, such as holding the funds in a savings account. - ARR are not always accurate, if the forecast for yearly profits is wrong. - The profits could be made towards the end of the project, so businesses could be making a loss in the early years

Break-even	<p>Is the level of production at which a business's total costs and revenue from sales are equal.</p> <ul style="list-style-type: none"> - If total revenues are greater than total costs – then the business will make a profit. - If total revenues are less than total costs – the business will make a loss. - If total revenues equal total costs – the business will break-even
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Margin of safety	<p>Measures the amount by which a business's current level of production exceeds its break-even level of output.</p> <p>Having a margin of safety can be reassuring for the managers of a business. It means that sales and production can fall significantly before the business is at risk of making a loss.</p>				
Advantages and disadvantages	<table border="1"> <thead> <tr> <th>The advantages of using break-even analysis</th><th>The disadvantages of using break-even analysis</th></tr> </thead> <tbody> <tr> <td> <ul style="list-style-type: none"> • Help managers to see the effects of any changes in costs – a rise in costs will increase the level of output and sales a business will need to break-even. It will also reduce or eliminate the margin of safety. A fall in costs will have the opposite effect. • Show the effects of changes in price • Banks are more likely to provide finance if the business can provide evidence of planning future finances. </td><td> <ul style="list-style-type: none"> • It assumes that a business sells all of the output it produces. This is unlikely, even for a well-known business. Break-even charts are much greater value to managers if supported by market research showing that future sales will match production levels. • Many businesses operate in markets where costs and prices change rapidly and frequently. This makes break-even charts of less value as they are inaccurate almost as soon as they are prepared. </td></tr> </tbody> </table>	The advantages of using break-even analysis	The disadvantages of using break-even analysis	<ul style="list-style-type: none"> • Help managers to see the effects of any changes in costs – a rise in costs will increase the level of output and sales a business will need to break-even. It will also reduce or eliminate the margin of safety. A fall in costs will have the opposite effect. • Show the effects of changes in price • Banks are more likely to provide finance if the business can provide evidence of planning future finances. 	<ul style="list-style-type: none"> • It assumes that a business sells all of the output it produces. This is unlikely, even for a well-known business. Break-even charts are much greater value to managers if supported by market research showing that future sales will match production levels. • Many businesses operate in markets where costs and prices change rapidly and frequently. This makes break-even charts of less value as they are inaccurate almost as soon as they are prepared.
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Income statement	<p>An income statement shows three key pieces of information for a business over a period of trading, normally one year:</p> <ul style="list-style-type: none">- The revenue earned by the business- The costs of production that have been paid by the business- The amount of profit earned by the business or the loss it has made.																																					
<div>Components of an income statement</div> <div><table><tr><td>Revenue</td></tr><tr><td>Minus</td></tr><tr><td>Cost of sales</td></tr><tr><td>Gives</td></tr><tr><td>Gross profit</td></tr><tr><td>Minus</td></tr><tr><td>Overheads</td></tr><tr><td>Gives</td></tr><tr><td>Operating profit</td></tr><tr><td>Minus</td></tr><tr><td>Tax and interest</td></tr><tr><td>Gives</td></tr><tr><td>Net profit</td></tr></table></div>	Revenue	Minus	Cost of sales	Gives	Gross profit	Minus	Overheads	Gives	Operating profit	Minus	Tax and interest	Gives	Net profit	<ul style="list-style-type: none">- Revenue – this is income received by a business from the sale of its goods and services over the period of time covered by the income statement.- Cost of sales – these are the costs involved in directly supplying the good or service. They include: the wages of employees directly involved in the production, transport and selling of the products, the buying of the products that are sold in the shops, buying the raw materials which are used in production. Energy costs directly used in production.- Gross profit = revenue – cost of sales- Overheads – These are costs that do not alter when the level of production changes. They are sometimes called ‘expenses’. Overheads include: Salaries of managers, Insurance costs, Interest on loans and Cost of maintaining buildings- Operating profit = gross profit – overheads- Net profit = operating profit – taxes and interest payments. Net profit is a good measure of the performance of a business. <table><tr><td></td><td>This Year £</td><td>Last Year £</td></tr><tr><td>Sales revenue</td><td>940,200</td><td>939,125</td></tr><tr><td>Cost of sales</td><td>438,130</td><td>434,050</td></tr><tr><td>Gross profit</td><td>502,070</td><td>505,075</td></tr><tr><td>Overheads</td><td>225,500</td><td>247,925</td></tr><tr><td>Operating profit</td><td>276,570</td><td>257,150</td></tr><tr><td>Tax and interest payments</td><td>98,425</td><td>101,100</td></tr><tr><td>Net profit</td><td>178,145</td><td>156,050</td></tr></table>		This Year £	Last Year £	Sales revenue	940,200	939,125	Cost of sales	438,130	434,050	Gross profit	502,070	505,075	Overheads	225,500	247,925	Operating profit	276,570	257,150	Tax and interest payments	98,425	101,100	Net profit	178,145	156,050
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Assets	<p>An asset is anything that is owned by a business. Assets can be divided into different types:</p> <ul style="list-style-type: none">- Non-current assets – a business will normally keep this type of asset for more than 12 months. Non-current assets include: shops, vehicles, machinery and land. Non-current assets create revenue for the business and enable it to earn profits.- Current assets – these are assets that the business only expects to have for less than 12 months. Current assets include: cash, inventories (stock)																																					
Liabilities	Liabilities are the amounts owed by a business to other businesses and																																					

individuals.

- **Non-current liabilities** – are debts that will be paid back over many years. These include mortgages.
- **Current liabilities** – are debts that a business will pay back within a year. These include money owed to suppliers and the tax the business has to pay

Balance sheet example

Non-current assets
+
Current assets
-
Current liabilities
-
Non-current liabilities
=
Net assets
=
Total equity

Balance Sheet at 31 st December	2013	2014
	£'000	£'000
Plus: Non-Current Assets		
Goodwill and other intangible assets	150	150
Property, plant & equipment	2,450	2,100
	2,600	2,250
Plus: Current Assets		
Inventories	1,325	1,475
Trade & other receivables	4,030	3,800
Short-term investments	250	190
Cash & cash equivalents	1340	780
	6,945	6,245
Less: Current Liabilities		
Trade & other payables	2,310	2,225
Short-term borrowings	350	550
Current tax liabilities	800	650
Provisions	290	255
	3,750	3,680
Less: Non-Current Liabilities		
Borrowings	1,200	1,450
Provisions	140	140
	1,340	1,590
Net Assets	4,455	3,225
Equity		
Share capital	500	500
Retained earnings	3,955	2,725
Total Equity	4,455	3,225

How to interpret

A business's stakeholders such as managers, suppliers and owners will

financial statements	<p>be very interested in the information that is set out in its balance sheets and income statements. They may look for trends in profits to see if the business is making higher levels of profit than in previous years.</p> <p>They may consider the figure for 'net assets employed' to see if the value of the business has increased over time.</p> <p>To make better judgments about business' performances, it is important to compare a profit figure to something else to understand how successful the business has been. There are a number of comparisons that can be made:</p> <ul style="list-style-type: none"> - A comparison with previous years – key indicators for a business's performance over time from its income statement are: the revenue from sales of goods and services and gross and net profits. a business may have sales that are less than a previous year, but could have reduced its overheads so profits could still increase. - A comparison with the performance of competitors – if a business can increase its revenues and profits more quickly than others in the same industry, it is a good sign that the business is performing strongly in financial terms. - Using profit ratios – there is internal data that can be used to compare a business's financial performance. These can be used to calculate financial ratios, gross profit margin and net profit margin.
Gross profit margin	<p>This profit ratio compares a business's gross profit with the revenue figure for the same year.</p> $\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Revenue}} \times 100$ <p>A gross profit margin of 25% means that 25p in each £1 of revenue is gross profit. Is 25% a good figure for a gross profit margin? This can only be answered by comparing the figure to one of the following:</p> <ul style="list-style-type: none"> - The business's target for its gross profit margin. - The business's gross profit margin from earlier years. - The gross profit of other similar businesses.
Net profit margin	<p>This profit ratio compares a business's net profit with the revenue figure for the same year.</p> $\text{Net profit margin} = \frac{\text{Net profit}}{\text{Revenue}} \times 100$ <p>The net profit margin can be a better indicator of a business's financial</p>

	<p>performance as its calculation includes all the costs paid by a business. Is 10% a good figure for a net profit? As with gross profit it needs to be compared with:</p> <ul style="list-style-type: none"> - The business's target for its gross profit margin. - The business's gross profit margin from earlier years. - The gross profit of other similar businesses.
Importance of financial statements	<ul style="list-style-type: none"> - Assessing business performance – financial documents allow managers and other stakeholders to conduct ratio analysis. By comparing two pieces of financial information, it is possible to make a better judgement of a business's performance. A rise in profits is a good sign for a business, if the business also has a rise in its net profit margin, this shows that the business is being run more efficiently. If a business revenue and profits are rising over time, it provide evidence that the business's performance is improving, this is especially true if the performance of competitors over the same time period has not improved. - Helping managers to make effective decisions – financial documents help managers make better decisions. They may be able to uncover the reasons for falling profits and take appropriate action to improve the situation. The income statement will show whether costs have increased, whether it be costs of sales, or overheads or both. Managers can take decisions to cut costs. Alternatively it may be a fall in sales that has caused the decline in profits. Managers can take decisions to increase advertising to provide a boost in sales.

Exam information

Paper 1	Paper 2
<ul style="list-style-type: none"> • 1 hour 45 minutes long • Worth 90 marks • 50% of total GCSE • Topics 1,2,3 and 4 are covered 	<ul style="list-style-type: none"> • 1 hour 45 minutes long • Worth 90 marks • 50% of total GCSE • Topics 1,2,5 and 6 are covered
<p>In both papers there will be three sections</p> <ul style="list-style-type: none"> - Section A – is a mixture of MCQ and short answer questions and is worth 20 marks. - Section B and C – are both based around a case study. Which could include some data? You will have to answer a mixture of short and long questions related to the information in the case study. 	

Assessment objectives

A01	Knowledge	<ul style="list-style-type: none"> - This skill is about recalling, selecting and communicating. - You need to show that you have got a really good understanding of the facts and that you can use appropriate business terms, e.g. sole trader, supply chain, limited liability
A02	Application	<ul style="list-style-type: none"> - This skill is all about applying what you know to different situations. - Make sure your answer is relevant to the situation being described. - For example – an exam question might tell you about a sole trader who wants to buy a new piece of equipment and ask you to suggest how they could raise finance. Here, you would not want to suggest that the company issue more shares (since only a limited company can have shares and sole traders are unlimited). This would mean although the knowledge is correct, it has not been applied correctly and so no marks would be given.
A03	Analysis and Evaluation	<ul style="list-style-type: none"> - This skill is all about using evidence to make judgements and reach conclusions. - For example if you recommend that a business raise money using a mortgage rather than an overdraft, you need to explain why using what you know about finance. - Your ideas need to be structured in a logical way so that your arguments make sense. - Often these questions will not have a right

		answer. The important thing is using evidence from the question and case study to support your conclusion.
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Command words

Assessment objective	Command word	What to do:
A01	Identify, List, State, Give	These words ask for a statement. You do not need to back it up with evidence.
A01	Describe, What is meant by, Define	These words want you to demonstrate your knowledge, a suitable example, maybe from the case study would be needed to acquire the second mark.
A01 & A02	Explain	This means you need to give reasons for things. You need to show that you understand the connection between things that happen in the world and the effects they have on businesses.
A02 & 3	Analyse	Separate the information into its components and explain their characteristics and their relationship to the context. Draw on the knowledge and understanding from the specification that underpins the question.
A02 & 3	Advise or recommend	Present the key points about different ideas or strengths and weaknesses of an idea. Make a choice from those given and use evidence from the information provided in the item to support that choice.
A02 & 3	Evaluate	You should discuss both sides of an issue. You should finish your answer with a conclusion giving your overall judgement.
A01, 2 & 3	Calculate	Use the given material to carry out a calculation. Remember to show your working.
A02 & 3	Give reasons for your answer	This means you need to include lots of points and explain why they are relevant to your answer. Link your ideas together to build a balanced argument
A02 & 3	Use evidence to support your answer	This means you need to pick out specific information from a case study or piece of data that you have been given, in order to back up your answer

GCSE BUSINESS

Name:

Practice Paper 1 Influences of operations and HRM on business activity

These questions are from past papers covering topics and skills based on the advance information to help you prepare for the exams this summer.

Answer all questions in the spaces provided.

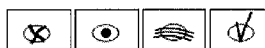
Maximum marks: 90

For questions with four responses, only one answer per question is allowed.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select

Section A

1.1 An example of a business in the primary sector is:

- A Car repairer ☐
- B House builder ☐
- C Photographer ☐
- D Fruit farmer ☐

[1 mark]

1.2 Financial information for a business includes:

Sales revenue	£280 million
Variable costs	£210 million
Expenses	£40 million

Its gross profit would be:

- A £30 million ☐
- B £70 million ☐
- C £170 million ☐
- D £240 Million ☐

[1 mark]

1.3 Which of these businesses provides a service to customers?

- A Boat builder ☐
- B Driving school ☐
- C Fisherman ☐
- D Potter ☐

[1 mark]

1.4 Which of the following definitions describes lean production?

- A Production processes are designed to minimise waste. ☐
- B Automated production processes mean that operatives carry out a limited number of tasks. ☐
- C The production process is continuous. ☐
- D Renewable resources are used in the production process. ☐

[1 mark]

1.5 One benefit of good customer service would be:

- A Greater customer loyalty ☐
- B Improved staff retention ☐
- C Increased production costs ☐
- D Reduction in revenue ☐

[1 mark]

1.6 A business would choose internal recruitment for a management role because:

- A Employees would be motivated by opportunities for promotion. ☐
- B It would give access to a wider pool of applicants. ☐
- C The process could be completed without any specialist expertise. ☐
- D The successful applicant would not need any training. ☐

[1 mark]

1.7 State **two** ways a business might improve staff retention.

[2 marks]

1.8 Explain what is meant by 'revenue'.

[2 marks]

1.9 Identify **two** features of induction training.

[2 marks]

1.10 A business is considering introducing flow production.
Explain **one** benefit this could bring.

[2 marks]

1.11 Explain **one** disadvantage to a business of expanding the business.

[2 marks]

- 1.12** A growing business has three main areas: production, accounts and marketing. A manager leads each one. Explain **one** advantage and **one** disadvantage of introducing assistant managers.

[4 marks]

Advantage _____

Disadvantage _____

Section B

2 Item A: MyTeddyBear.com Ltd

MyTeddyBear.com Ltd was set up in a small town 5 years ago by two friends, Prianka and Jemma. The business offers customers the opportunity to buy their own, personalised teddy bears. Customers can personalise a teddy bear to meet their own requirements. They can choose the bear's size, colour, shape, clothes and accessories, and they can add a personal message to the bear. MyTeddyBear.com sells only through their own website.

The business has a small factory where the bears are handmade for each customer. The business employs 10 experienced, part-time factory workers who have a range of specialist skills. The factory workers were recruited using only personal recommendations from existing workers. They all live locally.

Demand for bears is seasonal, with most of the work coming in the run-up to Valentine's Day and Christmas. These periods often see delays in production because simpler tasks, such as cutting and stuffing, take up a lot of staff time. Workers currently specialise in specific tasks. To help improve efficiency in the factory, Jemma thinks that more staff training is required so that each worker is trained to cover a greater range of tasks.

The business is still growing and expects to recruit more workers in order to achieve the objective Prianka and Jemma have set for next year: to increase profit by 50% in 2023.

Sales figures for MyTeddyBear.com for 2020 and 2021

Quarter	Months	2021	2020
1st quarter	Jan-Mar	162 000	151 000
2nd quarter	Apr-Jun	92 000	84 000
3rd quarter	Jul-Sept	116 000	108 000
4th quarter	Oct-Dec	212 000	196 000

- 2.1** As part of the objective to increase profit, MyTeddyBear.com aims to increase its annual sales revenue.

Calculate the 2021 average monthly sales figure for MyTeddyBear.com.

[3 marks]

2.2 Explain **one** benefit to MyTeddyBear.com of selling only through its own website.

[2 marks]

2.3 Explain **one** reason why Prianka and Jemma may have chosen to set up their business as a private limited company rather than as a partnership.

[4 marks]

2.4 Explain **one** problem of using part-time staff rather than full-time staff.

[2 marks]

Question 2 continues on the next page

2 Item B: MyTeddyBear.com Ltd

MyTeddyBear.com has secured a contract for making teddy bears in the colours of the local football team. The bears will still be personalised and therefore made to order. The business expects an increase of sales during most of the year. Five full-time staff will be needed to make these bears.

Prianka and Jemma know that they will need to retain the staff they recruit and train them effectively.

- 2.5** Analyse **one** drawback of MyTeddyBear.com using external recruitment to find five suitable employees.

[6 marks]

Extra space _____

2.6 The importance of the new contract and the increase in the number of employees has led Prianka and Jemma to consider how to motivate the staff. They are considering using non-financial motivation methods.

Advise MyTeddyBear.com whether or not non-financial methods would be effective for motivating the staff.

Give reasons for your decision.

[9 marks]

[illegible]

Extra space _____

- Recommend which you think is the better way for MyTeddyBear.com to improve efficiency. Give reasons for your recommendation.

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper appears to be a standard notebook page.

[illegible]

Section C

3 Item C: Dine Fine Ltd

Dine Fine Ltd is a high-quality catering company based in a major city. The business supplies a range of pre-cooked meals to businesses that need to impress clients by offering restaurant-standard food during meetings. Orders are often taken in the morning and the food is then prepared by qualified chefs. Once cooked, the meals are delivered by van at the requested time.

As the company grew, the managers realised they needed a bigger kitchen. They considered renting an empty unit on an industrial estate five miles out of the city. Instead, they decided to buy a failing restaurant in the city centre. The restaurant kitchen has a selection of up-to-date equipment. Dine Fine Ltd extended the kitchens at the restaurant, installed more new top quality equipment and reduced the seating area. The restaurant is used to prepare food for its delivery service and also for serving customers who visit the restaurant.

- 3.1** Explain **one** way diners at the Dine Fine Ltd restaurant are protected by consumer law.

[2 marks]

- 3.2** Dine Fine Ltd prides itself on providing good customer service.
Explain **one** way Dine Fine Ltd could provide good customer service.

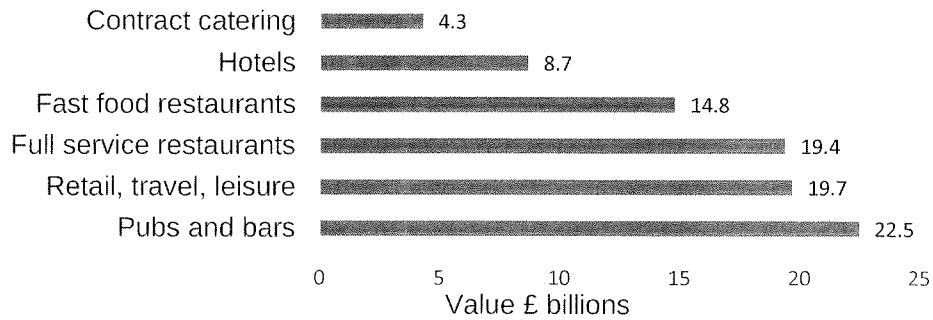
[4 marks]

- 3.3** Dine Fine Ltd always chooses high quality ingredients.
Analyse **one** impact on Dine Fine Ltd of choosing high quality ingredients.

[6 marks]

Extra space _____

- 3.4** The total value of the eating out market in the UK is £89.4 billion. Statistics are shown by sector in the chart below:



Dine Fine Ltd operates in two sectors of the eating out market: contract catering and full service restaurants.

Calculate the combined percentage of the whole eating out market for these two sectors.

Total for contract catering and full service restaurant sectors:

Workings _____

Percentage of the full market for eating out that is contract catering and full service:

Workings _____

Final answer _____

[5 marks]

3.5 Analyse **one** benefit to Dine Fine Ltd of its expansion into the city centre restaurant.

[6 marks]

Extra space

Item D: Dine Fine Ltd

Dine Fine Ltd's managers are keen to improve the efficiency of the business. Some of the managers believe that it would save money by using a Just in Time (JIT) system of stock control in order to reduce the waste of ingredients. Others believe that training the staff in using the more up-to-date equipment available in the new kitchen would be more efficient.

- 3.6** Dine Fine Ltd has invested heavily into the new city centre restaurant. It needs now to improve efficiency where possible and is considering two options:
- introducing Just in Time (JIT) stock control
 - training its staff to use the new kitchen's more modern equipment.

Analyse the effect of **each** of these **two** approaches on efficiency.

Evaluate which of these **two** approaches will have the bigger impact on Dine Fine Ltd's **efficiency**.

[12 marks]

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Extra space

GCSE BUSINESS

Name:

Practice Paper 2 Influences of marketing and finance on business activity

These questions are from past papers covering topics and skills based on the advance information to help you prepare for the exams this summer.

Answer all questions in the spaces provided.

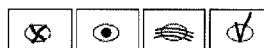
Maximum marks: 90

For questions with four responses, only one answer per question is allowed.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.

If you wish to return to an answer previously crossed out, ring the answer you now wish to select

Section A

1.1 Which statement is true?

- A** A public limited company (plc) has only one owner. ☐
- B** A public limited company (plc) must have between 2 and 20 owners. ☐
- C** Shares in a public limited company (plc) are sold on the Stock Exchange. ☐
- D** Shares in a public limited company (plc) can only be sold to family members. ☐

[1 mark]

1.2 A business plan is produced to provide information for:

- A** Competitors ☐
- B** Customers ☐
- C** Investors ☐
- D** Suppliers ☐

[1 mark]

1.3 One method of primary market research is:

- A** Company accounts ☐
- B** Quality circle ☐
- C** Telephone survey ☐
- D** Web page ☐

[1 mark]

1.4 One method that could extend the life of a product (an extension strategy) is:

- A** Introducing a new product ☐
- B** Reducing the variable costs ☐
- C** Setting a penetration price ☐
- D** Updating the packaging ☐

[1 mark]

1.5 A business trying to operate more sustainably would consider:

- A** Investing in electric delivery vehicles ☐
- B** Reducing its advertising budget ☐
- C** Retaining profits ready to invest in its next new product ☐
- D** Working with its suppliers to reduce the cost of materials. ☐

[1 mark]

1.6 Which of the following would be included in a statement of financial position?

- A** Fixed assets ☐
- B** Gross profit ☐
- C** Rent ☐
- D** Wages ☐

[1 mark]

1.7 Explain what is meant by 'USP'.

[2 marks]

1.8 Explain the meaning of 'loss leader'.

[2 marks]

1.9 Explain what is meant by a 'focus group'.

[2 marks]

1.10 Explain how a business would know that its product has reached the maturity stage of the product life cycle.

[2 marks]

1.11 Explain **one** suitable method to promote the opening of a local shop.

[2 marks]

1.12 Explain **two** benefits to a business of developing new products.

[4 marks]

Section B

Answer **all** questions in the spaces provided

2 Item A: Snug-Fit Ltd

Snug-Fit Ltd is a small, family-owned replacement window company. Much of the company's business comes from within the town where Snug-Fit is based. Once replaced, the windows should last 20 years. The business has a good reputation because of its skilled employees, high quality windows, and the good customer service that they give. Consequently, the business is able to rely on word-of-mouth advertising to get new orders.

Some jobs are much bigger than others, but the average price charged by Snug-Fit for all the windows in a house is £5000. Most customers replace the windows in the whole house in one go; a few replace half the house at a time; some replace just a door. Customers pay for their new windows after they have been fitted and they are happy with the quality of the work.

Recently, a new replacement window company has opened in the town.

2.1 Explain **one** way Snug-Fit could use telesales to get new customers.

[2 marks]

2.2 Analyse **one** effect that the opening of the new replacement window company might have on Snug-Fit's pricing decisions.

[6 marks]

[illegible]

Extra space _____

- 2.3** There are plans to buy a new glass cutting machine that is estimated to increase profit by £20 000 per year and is expected to last eight years. It will cost £120 000 to buy. Calculate the average rate of return. State the formula used and show all workings. Give your answer to two decimal places.

[5 marks]

Formula _____

Workings _____

Answer _____

- 2.4** In the past year interest rates have started to rise. Analyse **one** effect that rising interest rates could have on Snug-Fit's revenue.

[6 marks]

Item B: Snug-Fit Ltd

After some research, Snug-Fit is considering building high-quality greenhouses to order. This new product would be designed and built to each customer's own requirements using the machinery in the existing workshop. Competition would come from national businesses that offer a limited range of styles and sizes for self-assembly at relatively cheap prices.

- 2.5** Snug-Fit aims to increase its profit in the next year. To do this, it is considering either adding the greenhouses to its product portfolio or increasing spending on marketing. Recommend which of these options would be the **most** effective in increasing Snug-Fit's **net profit**.

[9 marks]

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Item C: Snug-Fit Ltd

Snug-Fit is experiencing some cash flow difficulties. It is becoming hard to find the money to pay its employees and suppliers each month. The business has already contacted the bank to increase its overdraft. One of Snug-Fit's owners says the cash flow could be improved by asking customers for a non-returnable deposit of 50% when orders are placed. Other family members are not sure if this would be a good idea.

2.6 Snug-Fit's owners are considering ways to improve cash flow.

Advise Snug-Fit whether it is a good idea to ask customers for a non-returnable deposit of 50% when they order replacement windows as a way of Snug-Fit improving its cash flow difficulties. Use Items, A, B and C to support your answers.

Give reasons for your advice.

[9 marks]

[illegible]

Section C

Answer **all** questions in the spaces provided

Item D: HighSkies plc

HighSkies plc is a UK-based, low cost airline. The business operates flights from Luton, East Midlands and Newcastle airports. Flights from each of these UK airports go to European holiday destinations in Spain, Italy, Greece and Portugal.

The business has seen rapid growth since it started in 1994; it became a public limited company (plc) in 2003. Most of the growth has been achieved from takeovers. HighSkies has taken over two struggling budget airlines since becoming a plc. However, the increasing cost of fuel has made it more expensive to run an airline.

The number of passengers flying with HighSkies is steadily increasing. Research indicates that passengers are unwilling to pay the high fares charged by the premium airlines.

3.1 Explain **one** benefit to a business of merging with a similar business.

[2 marks]

3.2 Explain **one** way HighSkies could use organic growth to increase revenue.

[4 marks]

3.3 Extracts from HighSkies' income statements (profit and loss account):

	2020 (£ million)	2019 (£ million)
Revenue (sales)	300	280
Cost of sales (cost of goods sold)	240	210
Expenses	55	40

Calculate HighSkies' gross profit margin for 2020.

State the formula for gross profit margin and show your workings.

[3 marks]

Formula _____

Workings _____

Answer _____ %

3.4 Explain **one** reason why HighSkies' gross profit margin percentage might have changed between 2019 and 2020.

[2 marks]

Item E: HighSkies plc

The marketing manager is proposing to introduce an executive service on some flights. This would involve upgrading a number of seats (about 10% of the total available) on each HighSkies plane. To compete with other airlines offering first class seats, there would be new high-quality seating and improved in-flight services. Passengers would be charged premium prices for the executive service.

HighSkies has plans to take over a third airline. It would need an extra £80 million of funding. At the moment, interest rates are low.

3.5 Analyse **one** risk to HighSkies of introducing the premium priced executive service.

[6 marks]

[illegible]

Extra space _____

3.6 Explain **one** reason why HighSkies would use break-even analysis.

[4 marks]

3.7 HighSkies' directors need to raise £80 million to continue to expand the business.

They are considering two ways of doing this:

- to sell more shares in the business
- to obtain a loan from a bank.

Analyse the effect of these two options on HighSkies' business.

Evaluate which of these two options would be the best way for HighSkies to raise the finance required for expansion.

[12 marks]

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Extra space on next page

Extra space _____

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FORMULA LIST

FOR AQA GCSE (BUSINESS)

Confident
Not quite
sure
Unsure

Remember to learn all the formulae listed here, as no formulae will be provided in Paper 1 or Paper 2.

Total costs

Total costs = total fixed costs + total variable costs

Total fixed costs

Total fixed costs = total costs - total variable costs

Total variable costs

Total variable costs = total costs - total fixed costs

Revenue

Revenue = selling price per unit \times quantity sold

Profit/Loss

Profit/loss = revenue - total costs

Average unit costs

Average unit costs = $\frac{\text{total costs}}{\text{output}}$

Net cash flow

Net cash flow = total cash inflows - total cash outflows in a given period

Opening and closing balances

Opening balance = closing balance of the previous period

Closing balance = opening balance + net cash flow

Break-even point from a break-even chart

Break-even point from a break-even chart: when total revenue = total costs

Profit/loss from a break-even chart

Profit/loss from a break-even chart = total revenue - total costs

Margin of safety

Margin of safety = actual or budgeted output - break-even point

FORMULA LIST

Confident
Not quite
sure
Unsure

Average rate of return

Average rate of return (%) = $\frac{\text{average annual profit (total profit / no. of years)} \times 100}{\text{cost of investment}}$

Gross profit

Gross profit = sales revenue – cost of sales

Gross profit margin

Gross profit margin (%) = $\frac{\text{gross profit}}{\text{sales revenue}} \times 100$

Operating profit

Operating profit = gross profit – overheads

Net profit

Net profit = gross profit – overheads, tax and interest

Net profit margin

Net profit margin (%) = $\frac{\text{net profit}}{\text{sales revenue}} \times 100$

Net current assets

Net current assets = total current assets – total current liabilities

Net assets

Net assets = non-current assets + net current assets – non-current liabilities

Total equity

Total equity = value of net assets

Market share

Market share = $\frac{\text{sales of one product or brand or business}}{\text{total sales of market as a whole}} \times 100$

Market size

Market size = the total volume of sales of a product or the total value of sales of a product

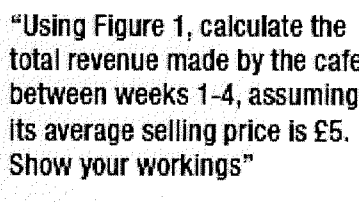
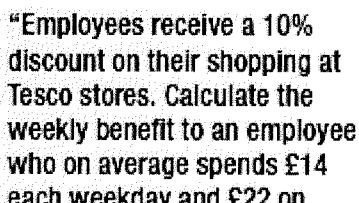
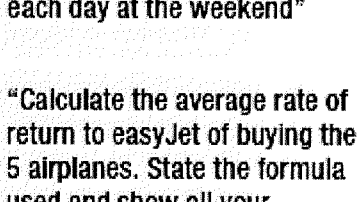
“MCQs”, “Complete the table” and “Identify” – 1 mark questions

- Points based marking – 1 mark per relevant point
- MCQs will be found in Section A only
- “Complete the table” found in any section (more than one figure may be required, which would mean the response would be worth more than one mark)
- “Identify” can appear in any section, but usually Sections A and B

Command word	Question example	How to answer?
MCQ	<p>01.5 Which of the following is an example of an industry in the primary sector</p> <p>A Distribution B Construction C Mining D Tourism</p>	<p>MCQs:</p> <ul style="list-style-type: none"> ✓ Select the correct response and ensure the circle is completely filled in alongside the appropriate answer ✓ If you change your mind, cross out the original answer and completely fill in the circle next to the answer you now wish to choose ✓ If you do change your mind, refer back to the instructions at the start of Section A to ensure you are following them precisely; the key is to make sure your answer is clear
Complete the table	<p>“Complete the table and calculate the increase in total costs of producing one Portakabin next year compared to this year”</p>	<p>Complete the table:</p> <ul style="list-style-type: none"> ✓ Ensure the figures are clear and are entered in the appropriate box(es) in the table ✓ Read the question carefully: if two figures are asked for then ensure that two figures are included ✓ Be prepared: this type of question may be part of a hybrid question (i.e. the question may involve a further calculation to reach full marks: in the question given (worth 3 marks) two marks would be awarded for completing the table and showing the correct method of the calculation; a further mark would be awarded for the final calculation of the increase in total costs)
Identify	<p>“Identify one benefit and one drawback to a business of using just in time production”</p> <p>OR</p> <p>“Identify two benefits to the Shepherd Group Ltd of being a private limited company”</p>	<ul style="list-style-type: none"> ✓ One or two points should be clearly stated or identified, dependent on the question ✓ Don't forget context in Sections B and C; if the point would not be appropriate to the business in the item, the mark(s) will not be awarded ✓ Don't over answer – a lengthy paragraph will just waste time and gain no extra marks: a few words will usually be sufficient to gain all the mark(s) available

"Calculate" – 2/3/5 mark questions

- Points based marking
- "Calculate" questions can be found in any section of the exam paper and vary in terms of the marks allocated
- Read each question carefully in terms of what is **exactly** required to gain full marks

Command word	Question example	How to answer?
Calculate – 2 marks	"Using Figure 1, calculate the total revenue made by the cafe between weeks 1-4, assuming its average selling price is £5. Show your workings" 	<ul style="list-style-type: none"> ✓ Best practice would be to write the formula in order to focus your mind on the calculation required; there are however no marks available for the formula in this type of low marked calculation question ✓ Show all LABELLED workings to the calculation; ensure the final answer can be clearly seen by the examiner
Calculate – 3 marks	"Employees receive a 10% discount on their shopping at Tesco stores. Calculate the weekly benefit to an employee who on average spends £14 each weekday and £22 on each day at the weekend" 	<ul style="list-style-type: none"> ✓ Remember to include £ signs or units etc appropriate to the question set ✓ Always attempt a calculation question; work methodically to reach the answer, but don't spend too long on a calculate question to the detriment of other questions
Calculate – 5 marks	"Calculate the average rate of return to easyJet of buying the 5 airplanes. State the formula used and show all your workings. Give your answer to two decimal places" 	<ul style="list-style-type: none"> ✓ Read the question carefully; it asks for the formula; all of the workings given plus the answer given to two decimal places; ensure that all of these requirements are met ✓ Start off by writing the formula; there is usually a space provided in the exam paper where the formula can be written ✓ Label all workings clearly; it is a huge risk if all workings are completed on the calculator without being written on the actual exam paper; zero marks will be awarded if the final answer is incorrect, no formula or workings are shown ✓ Ensure the final answer is written clearly and the correct units, £ etc is given
Calculate – 5 marks Cont.		<ul style="list-style-type: none"> ✓ Ensure that 2 decimal places are included in your response; practise rounding! ✓ Remember, even if the correct answer is given, but the formula is missed, full marks will not be awarded, as the question clearly requires that the formula is stated, which is worth one mark ✓ Do not spend too long on a calculation question to the detriment of the rest of the paper; as it is vital that all questions are attempted ✓ But, always attempt every calculation question; even if the final answer stated is incorrect, marks can still be allocated for workings!

"Explain" – 2/3/4 mark questions

- * "Explain" questions can be found in any section of the exam paper and will vary in marks
- * 2-3 mark "Explain" questions will be examined via a points based system
- * Most "Explain" questions found in Sections B and C will be marked via a levels of response grid

Command word	Question example	How to answer?
Explain – 2 marks	<p>"Explain one personal characteristic of a successful entrepreneur"</p> <p>OR</p> <p>"Explain how being ethical may benefit a business"</p>	<ul style="list-style-type: none"> ✓ Include only one point that answers the specific question set ✓ The question usually asks for just one point, but not always; be guided by the number of marks that are available to ensure that you answer the question in the most appropriate way (e.g. 2 marks – point with a short explanation) ✓ No context is required for a 2 mark Section A "Explain" question; however, if this type of question is found in Sections B or C, then context should be given ✓ The point given should be explained using one connective such as "this means that..." "therefore..." "as a result..." "in turn..." <p>E.g. An entrepreneur will be a calculated risk-taker (1) as he/she will risk his/her own money investing and setting up a business venture. If the business idea is successful, the entrepreneur will gain the rewards (1)</p>
Explain – 3 marks	<p>"Explain one way that introducing lean production techniques could decrease the costs of a business"</p>	<ul style="list-style-type: none"> ✓ Include only one point that answers the specific question set ✓ No context is required if this type of question is found in Section A ✓ The point given should be explained using two steps in the chain of argument; if it is found in Sections B or C, then the answer should be clearly linked to the Item or written in context ✓ Using connectives x 2 such as "this means that..." "therefore..." "as a result..." "in turn..." will help you to achieve full marks in this type of question <p>E.g. If a business uses just in time stock control (1) it will reduce the amount of space that is required to hold stock (1). This means the business will incur lower costs for warehousing and insurance that would be associated with holding excess or buffer stock (1).</p>

Command word	Question example	How to answer?
Explain – 4 marks	“Explain two benefits to a business of training its workforce.”	<ul style="list-style-type: none"> ✓ Often found in Section A of the paper, therefore no context would be required ✓ Follow the same principles as the 2 mark ‘Explain’ question i.e. give a relevant point, followed by a short explanation of that point with one connective; this must be done twice! ✓ The points must be distinct from each other and remember two points must be given
Explain – 4 marks	“Explain why easyJet has chosen to open easyHotels in many city centres, with very cheap prices starting from £19 a night”	<ul style="list-style-type: none"> ✓ If ‘Explain’ questions are found in Sections B and/or C remember context is vital in order to gain the top level of the mark scheme ✓ Questions usually ask for one or a benefit, effect, drawback etc ✓ Include one point, ideally taken from the Item and explain this point in a chain of argument using connectives x 3 e.g. “this means that...”, “therefore...”, “as a result...”, “in turn...” ✓ The key to success is answering the specific question set, ensuring that the explanation is relevant to the business in the case study ✓ If the question does not specifically ask for one point, two can be given, but more than 2 points should never be given in a response <p>E.g. The use of the £19 means that the hotels will attract publicity. (L1) which will result in the rooms being continually booked, as they will become well known. (L1) This will mean that the investment in building the hotels can be paid back quickly. (L2) because of the high levels of revenue easyHotel will receive due to the high occupancy rates. (L2)</p>

"Analyse" – 6 mark questions

- * "Analyse" questions will appear in Sections B and C
- * A levels of response marking grid will be used containing 3 levels
- * The examiner is looking for detailed or "full" analysis to reach Level 3 of the mark scheme
- * Context is extremely important; all 3 levels of the mark scheme refer to context
- * A variety of "Analyse" questions will be found in the exams e.g. "Analyse how effective...", "Analyse one benefit...", "Analyse the drawback..."
- * Despite the question, only **ONE POINT** is required. **NEVER INCLUDE MORE THAN ONE POINT IN A RESPONSE** otherwise the answer given may become a series of listed points, which will not demonstrate the skills of analysis and **NOT** answer the question

Command word	Question example	How to answer?
Analyse	<p>"Analyse one effect of Trendy Teens using e-commerce and m-commerce to sell its jumpers"</p> <p>OR</p> <p>"EasyJet sells its tickets through the internet direct to the customer, rather than using traditional distribution methods through travel agents. Analyse the benefit to easyJet of selling direct to its customers."</p>	<ul style="list-style-type: none"> ✓ No definition ✓ Maximum ONE point explained with at least 3-4 steps in the chain of argument ✓ The point should be taken from the item, to ensure the answer is in context from the start ✓ The chain of argument should refer to the context throughout and demonstrate a logical chain of argument, with no missed "steps" <p>E.g. Using e-commerce and m-commerce will mean that Trendy Teens' teenage customers will be able to view the products easily, as this age group use mobile phones and technology a great deal. (Level 1) This means that Trendy Teens' products will be seen by a huge number of their target market, who would be keen to wear the firm's jumpers due to the recent publicity involving a pop group. (Level 2) This would increase the firm's sales dramatically, as they would be able to access and buy these products regardless of where they lived. This would therefore increase Trendy Teens' revenue and, if they could control the costs of distribution and other costs, also its profitability. (Level 3)</p>

"Recommend" or "Advise" – 9 mark questions

- * "Recommend" or "Advise" questions will be found in both Section B and Section C
- * "Recommend" or "Advise" questions sometimes involve two options, but not always
- * Assesses application, analysis and **evaluation**; a judgement is therefore required
- * Levels of response marking with 3 levels; the level that "best fits" the answer **as a whole** will be awarded
- * If there are figures included in the question, ensure they are referred to and used within your response; figures are included in the Item and the question for a reason – the best candidates will always use them! Be aware AQA will increasingly use figures in the 9 mark question!
- * The examiner is looking for:
 - * An answer that is written fully in context and shows accurate knowledge and understanding of business concepts
 - * Detailed chains of argument across a maximum of two points . Figures should be manipulated by conducting relevant calculations, such as %'s or % changes, to support your analysis/chain of argument(s)
 - * A clearly justified, thorough judgement that is answering the question set

Command word	Question example	How to answer?
Recommend	<p>"Amit and Chloe have noticed that sales of the style of jumpers that sold very well in the first two years are now declining. They now have an important decision to make:</p> <p>- Chloe believes that they should use product extension strategies in order to sell their remaining stock of jumpers</p> <p>-Amit believes they should forget about the existing stock and launch a new range of jumpers as soon as possible.</p> <p>Recommend to Amit and Chloe which would be the better option for them to take. Give reasons for your advice"</p>	<p>No definition</p> <p>Structure your answer as follows</p> <p>Paragraph 1: Pro of first option explained with connectives in CONTEXT</p> <p>On one hand using product extension strategies would be good because . . . which means . . . and therefore . . .</p> <p>Paragraph 2: Pro of second option explained with connectives in CONTEXT</p> <p>On the other hand launching a new range of jumpers would be good because . . . which means . . . and therefore . . .</p> <p>Paragraph 3: Conclusion</p> <p>Overall I think:</p> <p>(w) – choose which one EITHER THE PRODUCT EXTENSION STRATEGIES OR LAUNCHING A NEW RANGE OF JUMPERS</p> <p>(w) – why have you chosen that option: Use the phrasing "Not only would it be good because . . . refer back to the +ve point you have referred to in your earlier paragraph" but also it is good because (additional evidence to support your judgement) IN CONTEXT)</p> <p>(w) – why is it better than the alternative you have rejected. . . (think about the situation of the business, its finances, its aims)</p>

Command word	Question example	How to answer?
Recommend Cont.		<p>Remember to:</p> <ul style="list-style-type: none"> ✓ Embed your answer in the item throughout – this is crucial! ✓ Convince the examiner your judgement/choice is correct for the business (write a nice, detailed chunky paragraph here!)
Recommend	"Recommend whether Portakabin should continue to invest in health and safety training for its new and existing employees. Give reasons for your advice."	<p>Paragraph 1: Pro of the idea in the question explained with connectives in context</p> <p>On one hand continuing to invest in health and safety would be good for Portakabin because... which means... and therefore</p> <p>Paragraph 2: Con of the idea in the question explained with connectives in context</p> <p>On the other continuing to invest in health and safety would not be good for Portakabin because... which means... and therefore</p> <p>Paragraph 3: Conclusion</p> <p>Overall I think:</p> <p>(wi) – make a decision whether it is a good idea or not (wi) – why have you chosen that option? Use the phrasing "Not only would it be the best idea for Portakabin because... <i>refer back to the point you have referred to in your earlier paragraph</i> but also it is better because (additional evidence to support your judgement IN CONTEXT)</p> <p>(wi) – why is it better than the alternative you have rejected?... (think about the situation of the business, its finances, its aims)</p>

"Analyse and Evaluate" – 12 mark question

- * There will be one 12 mark question in each paper found in Section C only: it will always be the last question on the paper
- * "Analyse and Evaluate" questions assess all the assessment objectives: **knowledge & understanding, application, analysis and evaluation**
- * **The interdependent nature of business i.e. how different functional areas relate together is crucial to the 12 mark question**
- * The question will always have two bullet points that need to form the basis of the argument in the first two paragraphs of the answer
- * Levels of response marking with 4 levels; the level that "best fits" the answer will be awarded
- * The examiner is looking for:
 - * Accurate use of key terms; thorough knowledge and understanding of business which draws together different functional areas of business
 - * An answer that relates to the Item
 - * Detailed chains of argument in context. There should be at least 3-4 steps in the chain of argument
 - * A detailed, valid and well supported judgement that is answering the question set and weighs up the information provided in the Item i.e. an answer that compares the relative importance of both points or brings in another functional area

Command word	Question example	How to answer?
Evaluate	<p>"Analyse the impact on easyJet's performance of recent external events. You should consider:</p> <ul style="list-style-type: none"> - Promotional policies - Economic considerations <p>You must evaluate which of these areas will have the biggest impact. Use evidence to support your answer"</p>	<p>✓ Start your answer with one short definition from the question, but this must be brief! Knowledge and understanding can be demonstrated throughout the answer, as it progresses</p> <p>Structure your answer as follows:</p> <p>Paragraph 1: Argument referring to the first bullet point i.e. how easyJet's performance has been impacted by promotion – explained using connectives and key terms. Links should be made to other functional areas explicitly</p> <p>On one hand easyJet's performance has been impacted by its promotional policies because.... (Point taken from the Item) which means and therefore the impact on the functional area of will be resulting in.... and therefore.... and as a consequence....</p>

Command word	Question example	How to answer?
Evaluate Cont.	<p>1. The following information is taken from a report on the performance of easyJet in 2014. The report is divided into three sections: a summary of the company's performance, a discussion of the factors that have impacted the company's performance, and a conclusion. The summary of the company's performance is as follows:</p> <p>easyJet's performance in 2014 was strong, with a 10% increase in passenger numbers and a 5% increase in revenue. This was due to a combination of factors, including a strong marketing campaign, improved operational efficiency, and a focus on customer service. The company's revenue was also boosted by a 10% increase in the price of its flights, which was a result of a 10% increase in the price of oil. The company's operating costs were also reduced by 5% as a result of a 10% increase in the price of oil.</p> <p>2. The following information is taken from a report on the performance of easyJet in 2014. The report is divided into three sections: a summary of the company's performance, a discussion of the factors that have impacted the company's performance, and a conclusion. The discussion of the factors that have impacted the company's performance is as follows:</p> <p>The company's performance in 2014 was impacted by a number of factors, including a strong marketing campaign, improved operational efficiency, and a focus on customer service. The company's revenue was also boosted by a 10% increase in the price of its flights, which was a result of a 10% increase in the price of oil. The company's operating costs were also reduced by 5% as a result of a 10% increase in the price of oil.</p> <p>3. The following information is taken from a report on the performance of easyJet in 2014. The report is divided into three sections: a summary of the company's performance, a discussion of the factors that have impacted the company's performance, and a conclusion. The conclusion is as follows:</p> <p>easyJet's performance in 2014 was strong, with a 10% increase in passenger numbers and a 5% increase in revenue. This was due to a combination of factors, including a strong marketing campaign, improved operational efficiency, and a focus on customer service. The company's revenue was also boosted by a 10% increase in the price of its flights, which was a result of a 10% increase in the price of oil. The company's operating costs were also reduced by 5% as a result of a 10% increase in the price of oil.</p>	<p>Paragraph 2: Argument referring to the second bullet point i.e. how easyJet's performance has been impacted by economic considerations – explained using connectives and key terms. Links should be made to other functional areas explicitly</p> <p>On the other hand easyJet's performance has been impacted by economic factors such as ... because (Point 2 taken from the Item) which means that... and therefore the impact on the functional area of ... will be ... which in turn means ... and therefore ...</p> <p>Paragraph 3: Conclusion - AJIM</p> <p>Overall I think:</p> <p>(A) – Answer the question; avoid sitting on the fence – decide on the area which you believe will be most impacted</p> <p>(J) – Justify this decision; refer back to your prior argument and bring in additional evidence to support your judgement by linking different functional areas together and comparing the relative importance of one area against the other. This is absolutely crucial in order to achieve level 4 in your response</p> <p>(I) – “It depends” on factor; does your judgement depend upon anything? If so include it here and explain why; alternatively will the judgement differ in the short-term/long-term in relation to the area that will be most impacted – again if you think so, explain why; remember to try and integrate/link different functional areas together</p> <p>(M) - Explain the most important reason why you have come to this judgement; this may include reasons why an alternative argument has been rejected (think carefully about the situation of the business, its finances, its aims when making this decision); ensure the data in the case is weighed up in terms of importance and reference is continually made to different functional areas</p> <p>Remember to:</p> <ul style="list-style-type: none"> ✓ Embed your answer in the context throughout ✓ Convince the examiner your judgement/choice is correct for the business; write a nice, detailed chunky conclusion clearly answering the question set ✓ Ensure you weigh up the data in the Item in terms of which area will be impacted the most and link together different functional areas; ideally refer to and make links to more than the two areas that are listed in the question