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SECTION 1 - Understanding business activity

1.1 - Business activity
Key definitions:
Needs - Goods or services necessary for life
Wants - Goods or services that are not necessary for life but are still sought after
Scarcity - The basic economic problem, unlimited wants but limited resources
Opportunity cost - The next best alternative forgone
Specialisation - When a business focuses on producing a specific type of good or service that they are good at

Factors of production: Factors that must be available for the production of goods/services
Capital: Machinery, equipment and finance
Enterprise: The entrepreneur ready to take the risk
Land: All natural resources involved
Labour: The people available to work

Importance of specialisation
- Builds brand reputation
- Increased product quality due to focusing on what they do best
- Increased productivity as production processes are broken down
- Increased PROFIT!! (as a result)

Specialisation of workers - division of labour
When workers are assigned specific tasks or jobs

+	-
• Employee skills are developed • Quality of products increases as employees are accommodated • Production is more efficient • Quicker training	• If one worker is absent the whole production is disrupted • The job can get repetitive • Bored workers are more likely to quit (increased labour turnover) • In turn, the quality of products could also decrease

Purpose of business activity
To use the factors of production to create goods/services that meet consumer wants and needs.

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Added value equation (the difference between): Cost of materials used — Selling price of product
To increase added value, you: **1.** Increase selling price of product OR **2**. Reduce cost of production

OR you can…
Adding value - methods of increasing added value

Branding	Creating a unique brand image that makes the business identifiable to consumers. Essentially, brand reputation. E.g., people like buying branded bags
Excellent service	Providing unique services that make the customer want to return. E.g., having a 2-year warranty
Product features	Having unique product features that make it stand out from competitors, resulting in customer return.
Convenience	The location in which the good/service is being sold. A customer would prefer purchasing bread at their nearest grocery store over driving 20 km for a similar variety.

1.2 - Classification of businesses

Key definitions:
Private sector: Businesses owned and run by private individuals
Public sector: Businesses owned and run by the government
Mixed economy: An economy where both private and public sector businesses co-exist

Types of industries:

Primary	**Secondary**	**Tertiary**
Industries that extract raw materials from the Earth	The industry that convert raw materials into finished goods	The industry that provides services

Reasons for changing importance of business classification
Industrialisation: The changing of an economy's focus from primary to secondary sector
- Usually occurs in LEDCs/NICs

Deindustrialisation: The changing of an economy's focus from secondary to tertiary sector
- Usually occurs in NIC/MEDCs

1.3 - Enterprise, business growth and size

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Characteristics of successful entrepreneurs

- Creative
- Risk Taker
- Decisiveness
- Open mindedness
- Determination/drive
- Optimistic
- Confident

Business plan - A document detailing a business' objectives and other necessary information.
Uses - **1.** To help the business remain close to its objectives **2.** To spot any potential problems

Contents:

- Objectives
- Strategies
- Sales
- Marketing
- Finances

Methods of measuring business size (and limitations)

Number of people employed	Value of output	Capital employed
May not be applicable for capital/machinery intensive businesses	This depends on the product produced. E.g., a car business produces much less than a clothing business, but could be larger	May not be applicable for labour intensive businesses.

Why owners of a business may want to expand

- To spread the risk/overtake competitors
- To increase market share %
- To increase profit

Methods of business growth

	Internal growth	External growth
Definition	Organic growth, or building a business slowly from scratch	Breaking into new markets by taking over and merging with existing business.

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	by selling and creating more products.	
Methods	- Selling and creating more products	1. **Vertical integration**: integrating with a business of the same industry, but different levels of production 2. **Horizontal Integration**. Integrating with a business from the same industry and same stage of production. 3. **Conglomerate.** The merging or take over of a business with one that is of a different industry (AKA diversification)

Problems and solutions linked to business growth

Problems	**Solutions**
- The business becomes hard to control - Poor communication occurs - The business becomes short of finance - Different management styles from business integration leads to conflict	- Operate the business in small units - Use an appropriate communication medium - Expand slower to ensure proper finance - Introduce a new management style for the workforce

Governments supporting start-ups

why?	**how?**
- To increase employment - To increase competition in markets so technology is developed - To increase exports in a country - To bring in new ideas into the market	- Providing grants - Giving out loans with low interest - Providing free training and advice - Simplifying paperwork

Why some businesses remain small

1. Owner's personal objectives
2. Having a small market
3. The type of industry (e.g hairdressing)

Causes of business failure

1. Lack of good management

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2. Not responding to changes in business environment
3. Overexpansion
4. Lack of financial planning

Why new businesses are at a greater risk of failing
1. Less experience, not understanding market trends
2. Lack of finance
3. Less exposure to market causing lack of sales

1.4 - Types of business organisations

*Key definitions***:**
Limited liability: The owner's legal identity is separate from the business. Only the assets belonging to the company are risked
Unlimited liability: The owner's legal identity is not legally separated from the business. The assets belonging to the owner AND the business are risked

Forms of business organisations:
Sole trader
A business with only 1 owner
+ Profit is kept by the owner
+ Easy to set up
- Unlimited liability
- Less capital
- No continuity (the business will die if you die)

Partnerships
A business with 2-20 owners
+ More range of skills to work with
+ More capital can be raised
+ Easy to set up
- If a partner leaves, business is dissolved
- Conflict can occur between partners

private and public limited companies
A company registered with the government to become a separate legal identity, owned by multiple shareholders. They can sell shares (a % of their company) to raise capital, people who own shares are shareholders.

Private	**Public**

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+ Shareholders have limited liability + Easy to raise capital + Shared decision making + Has continuity - Expensive and has many legal formalities - Cannot sell shares to the stock market, can only sell to friends and family and known people. - Profit is shared	+ Limited liability + Easier to raise capital + Can share shares to the public in the share market + Has continuity - Many legal formalities (more than private) e.g accounts must be made public - Expensive to start - General meeting for shareholders must be held

Franchises

A business (franchisor) that agrees to another business (franchisee) opening a branch, a franchise, of the mother business, using their business idea. E.g KFC

+ And — of a franchise:

To the franchisor	To the franchisee
+ They are paid royalty fees for the use of the business idea + They build brand reputation and spread globally (expansion) without managing the new businesses + The franchisee will run the franchise + The franchisee may understand the country's local market better - Loss of control over business - Reputation can be affected - Materials and support will need to be provided	+ They have an existing customer base to begin with + They do not need much experience as they will be receiving support + Less risk + Raw materials and products are supplied by franchisor - It is expensive to set up - Profit must be shared - There is no full control over business decisions - Advertisements and promotion must be done by the franchisee.

Joint ventures

An agreement where 2 or more businesses work together for a specific cause/business activity

- + Reduces risk of failure
- + Ideas can be shared
- + Market and product knowledge is shared
- - Costs will be shared by both businesses
- - Conflict may arise during decision making

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1.5 - Business objectives and stakeholder objectives

Key definitions:
Stakeholder - A party directly affected by or interested in a business' activity.

Business objectives - The goal that a business aims to reach.
+ Increases motivation
+ Unites the business to the same goal
+ Helps to track business performance
+ Decisions are made quicker

Private sector objectives
- Profit
- Survival
- Growth

Public sector objectives
- To improve the wellbeing of citizens
- To improve accessibility to services and goods.

Social enterprises:
Enterprises that aim to simultaneously make profit and work towards a better society.

Stakeholders -
Internal and external stakeholder groups

Internal: Stakeholders part of a business	**External: Stakeholders outside a business**
- Employees - Managers - Shareholders - Etc.	- Suppliers - The local community - Customers - Etc.

How they conflict with each other: E.g. shareholders may want an increase in profit which will result in the redevelopment of a playground. The local community is against this idea, as local kids use the playground often.

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SECTION 2 - People in business

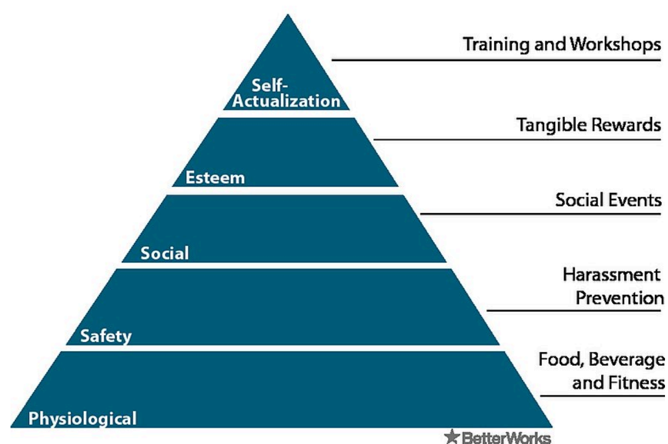
2.1 - Motivating employees

Key definitions:
Motivation: the reason why employees are willing to work diligently for a business

Why people work
- Job security
- Job satisfaction
- To increase standard of living
- To develop skills

Benefits of a well motivated workforce:
- Reduced absenteeism
- Reduced labour turnover
- Better quality goods and services
- Increased productivity

Maslow's Hierarchy - concept of human needs
Motivation of employees happens in levels. Each level of the hierarchy must be met before moving up.



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Taylor's theory - money
He states that all workers are motivated by personal incentives which include money/wages.

Herzberg's theory

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He states there are hygiene and motivating factors. If hygiene factors are not met, an employee could be demotivated. In addition, hygiene factors must be met before motivating factors, or an employee will not be effectively motivated.

Hygiene	Motivating
- Good work environment/conditions - Job security - Good relationship with superiors - Salary	- Acknowledgment by superiors - Promotion - Enjoyment in the work given - Achievement

Methods of motivation:

Financial:

Piece rate - paying an employee based on the number of output Time-rate - paying an employee based on number of hours worked Commission - paying an employee a % of the profit of a good sold (tertiary sector) Salary - a fixed pay monthly Bonus - money paid annually for good performance Profit-sharing - a part of the company's profit is paid to the employees

Non financial (fringe benefits):

- Company car - Medical insurance - Employee discounts etc. **Making work less boring (a form of motivation):** Job rotation - allowing employees to switch from one job to another. Job enlargement - increasing the variety of tasks given to an employee Job enrichment - giving employees a variety of higher skilled jobs to enhance their sense of responsibility. This method could improve an employee's skills,

2.2 - Organisation and management

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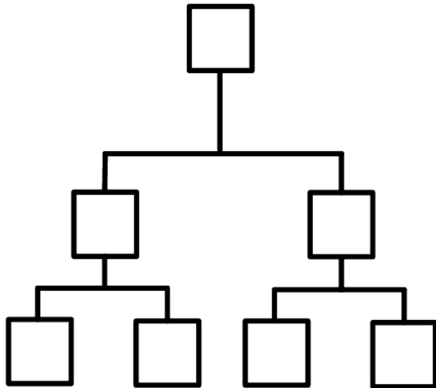
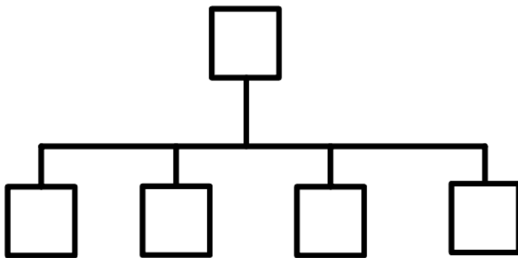
Key definitions:
Span of control - The number of subordinates working directly under an employee.
Chain of command - The flow of instructions being passed down the hierarchy.

Tall - long chain of command, small span of control (large organisations)



Advantages	Disadvantages
- Managers can supervise subordinates easily - Promotions are more common - Employees can form better relationships with their superiors	- Decision making is slower relative to communication - Errors in communication are more likely to occur.

Wide - short chain of command, large span of control (small/medium organisations)



Advantages	Disadvantages
- Superiors are forced to delegate - Chain of command is simple - Subordinates must be high quality	- Superiors might feel pressured - Superior may lose control of subordinates - Managers must be high quality

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Role of management:

Planning	**Organising**	**Commanding**	**Coordinating**	**Controlling**
Create plans to work towards the business goal	Creating tasks to put the plan into work, and delegating these tasks	Giving direction to employees so that the tasks are done well	Managing multiple employees so work is done efficiently	Creating deadlines and monitoring progress to meet targets.

Importance of delegation:

- Less pressure is placed on the manager, and tasks can be completed more efficiently. However, a manager must trust a subordinate to do well with the delegated task.
- The subordinate feels more responsible

Leadership styles:

Autocratic	**Democratic**	**Laissez-faire**
Decisions are made by the manager, and employees must follow instructions from the manager without question. + Decisions are made fast + Employees are clear with instructions - No employee contribution, leading to demotivation and dissatisfaction	Managers and employees share and discuss ideas to come up with the best decision. + Decisions made may be the best option, so better decisions made + Employee skills and relationships improve - Decision making is slow - Conflicts may arise; unproductive	The manager shares the objectives and lets the employees do what they see fit with the given task. + Employees may feel motivated as they have freedom + They can develop their own skills - No clear instructions given - This could be unproductive and slow

Trade unions: organisations made up of workers that allow them to protect their interests

+	-
• Better pay • Better working conditions • Protects the rights of the workers	• Employees must pay fees to the trade union to be member • Action taken by the trade union will reflect the workers even if they agree or not

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2.3 - Recruitment, selection and training of employees

Key definitions:
Redundancy - An employee being let go due to uncontrollable circumstances, and a lack of need for the worker.
Dismissal - The letting go of an employee due to inappropriate behaviour and violation of policies.

Internal recruitment - promoting/relocating a worker already existing in a firm	**External recruitment - hiring a brand new employee**
+ Training is not as necessary as the employee is familiar with the firm + The employee's skills are already recognised + Other workers get motivated by the chance at promotion + It is cheaper - New ideas and skills are not introduced into the firm - Other employees may get jealous	+ New ideas and skills are introduced + Another worker does not need to be hired to fill out a vacancy produced by the promoted employee - It is more expensive to train a new worker - It is time consuming to find and review candidates

Stages of recruitment and selection of employees

1. **Job analysis -** looking at the job and identifying its role and qualifications needed. This also includes identifying the right job benefits
2. Job description - a document containing detailed information about the job responsibilities, pay and working hours, based on the previous job analysis
3. Person specification - a document containing the qualities that are necessary in a candidate for the job, also based on the job analysis. This includes the experience and skills of the candidate.
4. Job advertisement - The method used to attract potential candidates. The advertisement should include the job description, salary and how to apply. Internal recruitment - email, newsletter and noticeboards External recruitment - job recruitment websites and social media
5. CV or application form - the document submitted by the candidate to the company
6. Interview - candidates are shortlisted by suitability for the job and are interviewed. This is to find out more about the candidate's work ethics and their personality.
7. Selection - Interviewers narrow down the candidate they think is most suited for the

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job
8. Check references - This is done to ensure the validity of the CV/resume.
9. Employment contract - This is a legal document detailing the duties of a worker and the policies of the job. This includes hours worked, pay and date of job commencement.

Part time vs Full time employees (for the business)

Part time	Full time
+ They have flexible work hours and can fill in for an absent full time worker\ + They can be paid less - High level of labour turnover due to lack sense of belonging - They are less likely to be trained	+ Recruiting a full time worker is cheaper than recruiting 2 part time workers + They are more motivated due to sense of responsibility - They require a higher pay - They require more training

Importance of training

To the business	To the employees
- Motivated workers will be more productive - Wastage due to mistakes are reduced which will minimise costs - Better worker skills will result in higher quality products	- Higher value of skills which can help apply for better jobs - Job satisfaction - Less likely for injuries to occur - Motivation

Types of training

Induction training - Welcome training to new employees, introducing the company procedures and other employees	**On the job training -** An experienced worker is tasked with teaching the new employee	**Off the job training -** Training outside of work hours conducted by a specialist
+ The employee can familiarise themselves with the workplace + It might be a legal	+ Work is done during the training + It is job specific + It is cheap - It may disrupt the	+ The training done is effective as the trainers are qualified + The training is done outside of work hours

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requirement - It is time consuming - Wages are paid despite no work done	work of the trainer - Bad habits may be passed down from the trainer to the employee	- It is not specific to the job - It is expensive

Why a workforce is downsized

- Closure of shops
- Automation (introduction of machinery)
- A decrease in demand
- Relocation of a business

Legal controls over employment issues (factors that an employee is legally protected from)

1. Unfair dismissal
2. Discrimination
3. Health and safety
4. Legal minimum wage

2.4 - Internal and external communication

Key definitions:

Effective communication - A message where the information is received and understood by the sender.

Why is effective communication important?

- Decisions are made faster
- Chances of mistakes and accidents are reduced
- Changes in the market are responded to quicker
- Strengthening teamwork between workers
- Increasing employee motivation

Types of communication:

1. Internal communication - communication between members of a business
2. External communication - communication between the business and 'outsiders' e.g suppliers

Communication methods:

name	example	advantages	disadvantages
Visual	Pie charts Graphic drawings	+ Aesthetically appealing	- Information may not be clear

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	Line graphs	+ A visual idea of a project is clear	- Information is not detailed
Oral	Face to face communication	+ Allows immediate feedback + Two way communication	- There may be problems with the receiver - There is no permanent record
Written	Letters Notes	+ Permanent record + Message can be detailed + Can be sent to multiple receivers	- No personal contact - No immediate feedback - Time consuming
Electronic	Emails Text messages Phone calls	+ Permanent record (for some) + Can be sent to multiple receivers	- No personal contact - Must have access to the internet

Communication barriers

Name	**Problems caused**	**How to reduce/remove these barriers**
Type of medium	The message may not allow instant feedback or may be easily ignored by the recipient	Consider: - The importance of the message - The need for permanent record - The cost of the medium - The confidentiality of the medium - The number of recipients
Language	The recipient may not be able to understand the message and it may be unclear even after translation	Ensure the language used for the message is suitable, or, hire a translator for reliability
Length of message	The receiver may not be able to take in a large amount of information, or the main message may be lost	Keep the message short and concise where necessary, getting the key points across
Problem with recipient	The recipient may not want to listen to the sender due to grudges or a personal issue	Ensure relaying the message to a suitable recipient, or ask for immediate feedback to ensure the

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		recipient understands
Problem with environment	The message can get lost if the environment is noisy and distracting	Along with a suitable medium, choose an appropriate environment

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SECTION 3 - Marketing

3.1 - Marketing, competition and the customer

Key definitions:
Marketing - identifying customer wants and satisfying them profitably

The role of marketing
- Identifying customer needs
- Satisfying customer needs
- Maintaining customer loyalty
- Building customer relationships

Why consumer spending patterns may change
- Shift in market trends
- Change in disposable income
- An ageing market
- Developments in technology

Why some markets have become more competitive
- Globalisation, so new cultures are introduced and more start-ups are set up
- Developments in transport, so it is easier to import goods internationally
- The rise of e-commerce and its convenience, so more start-ups are set up and goods are sold to a wider consumer base
- Privatisation of public companies, so business objectives shift to profit, and a larger amount of private business compete

How businesses can respond to changing spending patterns and increased competition
- Maintain customer loyalty through promotional programmes
- Introduce new products that align with customer wants/needs
- Improve existing products
- Use the right pricing methods

Niche VS Mass marketing

	Definition	**Benefits**	**Limitations**
Niche	Identifying a small segment of a market and selling products catered to its consumers	+ Less competition + Customers are likely to be more loyal + If there is a	- Less profit due to a smaller consumer base - The success of a niche business

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		demand for it, niche businesses can be lucrative	may attract competition - Niche products could fail
Mass	Satisfying the needs and wants of an entire market by selling similar products to competitors	+ Often large amounts of sales + Economies of scale + Easier to expand the business due to high profits + A large product line can spread the risk (if one product fails, another can still profit)	- Competition is very high - Cost of marketing is higher - As the product is not unique, there is less customer loyalty

Market segmentation: splitting a market into groups based on specific characteristics of customers

How markets can be segmented by

- Demographic (age, gender, income)
- Location
- Psychographic (consumers with the same interests and lifestyle)

Benefits of segmentation

- Advertising can be targeted
- Businesses can know what to produce
- Businesses can know how to price
- More profit is made

3.2 - Market research

Methods of market research

Primary - Data collected by a firm in real time

method	advantages	disadvantages
interviews	+ Immediate feedback + Is specific to the business + Detailed responses with elaborations can be collected	- Expensive - The sample size is often small

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questionnaires	+ Cheaper + The sample size is often large + It is very quick to conduct	- Questions must be very clear - Responses are not detailed
observations	+ Cheap and quick + A large sample can be collected due to the simplicity of this method	- May not be as useful - Does not have worded input, so not as detailed
focus groups	+ Detailed responses can be collected + The research is highly specific to the business + Immediate feedback + It is cheaper than individual interviews	- Expensive - One person may dominate the discussion - Opinions of the sample may be influenced/biassed - The sample may not be an accurate representation of the target market

Secondary - Data collected through research of past sources

	Advantages	**Disadvantages**
Government publications **Newspapers** **The internet**	+ It is often reliable + Sample size used is often large + Not expensive + Quick	- May be out of date - May not be specific to the business - The data can also be accessed by competitors

Market oriented business - a business that produces goods/services based on customer demand and needs.

Product oriented business - a business that focuses on the production of a good/service before testing for demand.

Factors influencing the accuracy of market research data

- The size of sample used
- The age of the data used
- The people being used as a sample
- The clarity of the question
- The anonymity of the method

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3.3 - Marketing mix

There are 4 Ps in a marketing mix - Product, Price, Place and Promotion

Product

Why is developing products important?

- To stand out against competition (USP - having a unique selling point)
- Spreading the risk
- Aids in business growth by growing into new/existing markets
- To increase profit

Risks:

- Time consuming to conduct market research
- The product might fail if demand is low
- Company reputation could be risked
- Costs a lot to develop a new product + prototypes

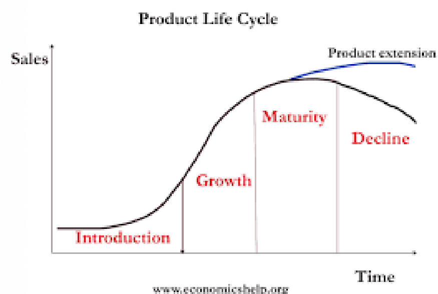
Why is brand image important?

- Can increase added value
- Can help consumers recognise and differentiate the business from competitors
- Can help build a loyal customer base

What is the role of packaging?

- Keep the product fresh
- Protect the product
- Help differentiate the product from competitors by showing brand image
- Helps attract new customers
- Provides legal information (such as ingredients)
- To make transportation convenient

Product lifecycle



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Extension strategies:
- Change or add features to the product
- Change the place that the product is sold at
- Change the promotional method
- Change the price of the product

Price

Methods of pricing:

Skimming	The price is first set high and is lowered as demand falls and time goes by. E.g. luxury brands
Penetration	The price is first set low to test demand and is increased according to demand. E.g. when new innovative products are introduced into a market
Promotional	When the price of a product is coupled with deals along a set period of time to attract customers. E.g. Discounts on the purchase of a second item
Competitive	Pricing a product similar to other competitors or lower in order to remain competitive.
Cost-plus	Setting the price of a product based on the cost of production + the profit the business wants to make (profit margin)
Psychological	Setting the price of a product to make it look attractive. E.g. $19.95 instead of $20.00

Price elasticity:
Elastic pricing - E.g. luxury bags (goods/service where demand changes in response to price)

Inelastic pricing - E.g. rice (goods/service where demand is not very affected by change in price)

Place

Distribution channels: the flow of products from manufacturer to consumer

	Advantages	**disadvantages**
Manufacturer → consumer	+ Profit is all kept by manufacturer + Face to face interaction with consumer	- Storage of goods has inventory costs - Advertising must be done by manufacturer

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Manufacturer → wholesaler → consumer	+ Wholesaler pays for storage costs + Wholesaler does the advertising	- Middleman added so the manufacturer loses some control over marketing mix - Some profit taken away by wholesaler
Manufacturer → wholesaler → retailer → consumer	+ Retailer does the advertising + Wholesaler/retailer pays for storage costs + Retailer is located more conveniently to customers	- Another middleman added so more of the marketing mix is not controlled - More profit taken away - No face to face contact with customer - Some retailers sell competitor products at the same time

Promotion

4 types of promotion - methods to increase business exposure

Advertising	Using methods such as TV adverts, billboards and social media to increase show off the business products. This increases brand awareness, attracting customers.
Public relations	Promotion of the business through the involvement in positive events such as charities to build reputation.
Sales promotion	Using deals to attract customers along a set duration of time (similar to promotional pricing). E.g offering free products to customers after a set amount is spent
Personal selling	Building a relationship with customers to push them into purchasing. This occurs through one to one interactions with a customer.

E commerce

+ And – of integrating e-commerce into a business

For the business

Opportunities	**Threats**
+ Access to a global/larger market + Costs of running is low	- Customers can easily access competitor sites to compare prices

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+ Can list a large range of products that may not be able to be displayed in a retail store + A good website can cause a customer to purchase more than intended	- No face to face contact with the customer - Not everyone has access to the internet - Reliance on 3rd party delivery services may damage reputation - It is expensive to hire specialist web designers

For the consumers

Opportunities	**Threats**
+ There is no need to go to the destination to purchase the goods + Access to international businesses + As there are many options, goods may be priced more competitively (cheaper)	- Delivery costs may be expensive - There is no chance to inspect the product before purchase - Delivery may take a long time

3.4 - Marketing strategies

A completed marketing strategy makes use of all the 4Ps: product, price, place and promotion

Impact of legal controls on marketing strategy

- Laws to protect consumers from faulty products
- Laws to protect consumers from false advertising
- Laws to protect consumers from dangerous goods

Problems of entering new foreign markets

Problems	**How to overcome them**
- Language barriers - Differences in laws - Differences in market trends - Difference in product pricing	- Hire specialists - Conduct detailed market research beforehand - Form a joint venture with a business from the country of interest

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SECTION 4 - Operations management

4.1 - Production of goods and services
Key definitions:
Production: Managing resources effectively to produce goods and services
Productivity: The measure of how efficiently resources are combined and utilised in the firm.
Inventories: Raw materials, unfinished components and finished goods ready to be sold or moved

Productivity formula: Quantity of output / Quantity of inputs
Labour productivity: Output (over a given period of time) / number of employees

How to increase efficiency:
1. Training to work productively and waste less resource
2. Introducing automation
3. Motivating employees
4. Improving quality control and assurance systems

Why businesses hold inventories
1. To be able to meet spikes in customer demand
2. The time is takes to reorder supply has lead time, so existing stock must be kept

Types of wastage:
- Overproduction
- Waiting
- Transportation
- Moving around of employees and machinery
- Over-processing
- Defects

Lean production - techniques deployed by companies to reduce wastage and increase efficiency

Kaizen :
The technique of creating employee discussion groups to suggest methods to maximise efficiency. E.g. arranging a production line so the position of machinery is the most efficient.

JIT (just in time inventory control) :

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The technique where inventory usage is mitigated through ordering supplies just in time for production (reducing lead time) and delivery to customers, so inventory does not have to be held.

Benefits

- Lower production costs
- Can lower prices to remain competitive
- Can make more profit
- Can increase productivity

Main methods of production

Job - often done by smaller firms or specialised firms E.g custom cake business

+	-
+ Requirements of the customer is met, customer satisfaction + A variety of jobs are given to employees	- Since materials are special to order, cost of production maybe high - Output is slow - Skilled labour is expensive

Batch - often done by small to medium sized firms E.g candle making business

+	-
+ If one machine breaks down, there are other goods that can still be made + A variety of jobs are given to employees + More than one good is produced at a time so variety is given to customers	- Each batch of goods require their own materials which may cost a lot - Machines have to be catered to each batch of goods

Flow - often done by larger firms E.g bottled water business

+	-
+ Output is often high + Economies of scale + As it is usually done by the aid of machinery, labour costs can be reduced + Machinery can run for extended periods of time	- Repetitive jobs demotivate employees - Initial cost of set up is very high - A high amount of materials are needed for production which is expensive - If one machine breaks down, the production line is halted

4.2 - Costs, scale of production and break even analysis

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Costs:
Fixed - unchangeable amount of money that must be paid monthly E.g rent
Variable - costs that vary per month E.g cost of materials based on output
Average - Total Cost / Total output (average cost per output)
Total - Fixed + Variable

Economies of scale -
When cost of production per unit output decreases as product output increases

Purchasing	**Risk-bearing**	**Financial**	**Managerial**	**Technical**
As the firm grows, they buy inputs in bulk, and can negotiate for discounts to reduce cost of materials.	As the firm grows, they spread the risk over the market by producing new products. They don't have to rely on the profit of 1 product.	Large firms can borrow large sums of money for lower interest rates as they are deemed “safer” to invest in by banks.	Large firms can afford to hire specialists such as business analysts and accountants.	Large companies will have the finance to utilise machinery, making employees redundant to save costs.

Diseconomies of scale -
When cost of production begins to increase as product output increases (happens after economies of scale)

Poor communication	**Lack of employee commitment**	**Weak coordination**
As production increases and the firm grows, the number of employees get too large, causing problems with relaying messages.	Due to the addition of automation, employee motivation is decreased and labour turnover increases.	This is also related to the growth in the number of employees in a firm. Too many employees cause delays in communication and conflicts.

Break even analysis:
A break even graph is used to analyse the amount of output necessary to meet the cost per output. Firms may also use this as a method to help price goods/services.

Break even - the point in which profit and costs are equal

Margin of safety - the amount of output and sales a business has over its break even point (the value of output/sales it has before meeting break even point)

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Limitations of break-even analysis

- It assumes 0 inventory
- It assumes that variable costs can be depicted in a straight line
- It assumes that all goods are sold
- It assumes that fixed costs are always fixed

4.3 - Achieving quality production

Quality - when a good or service is more than satisfactory in multiple areas such as function, aesthetics and material under the judgement of consumers.

Why is quality important in businesses?

- To maintain brand image
- To maintain customer loyalty
- To attract new customers
- To beat competitors

Quality control - when a business hires inspectors to check and remove defective products that are not of quality at the end of production.

Quality assurance - Inspectors and workers check for defective products during and after production in order to identify the reason for the defect.

Total Quality Management - Workers are pushed to maintain quality always and are trained to find ways to cut wastage. This method is written out in documents and is carried out throughout the whole of the production, ensuring that mistakes do not happen in the first place.

4.4 - Location decisions

Factors a business could consider when deciding where to locate operations

- Distance from market
- Distance from suppliers
- Cost of rent
- The availability of labour
- Location of competitors
- How good the transport links are

Why businesses may want to locate operations overseas

- Cheaper labour costs
- Cheaper rent

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- Availability of skilled labour
- To operate closer to its market (thus avoiding import tariffs and trade barriers)
- To locate closer to suppliers/resources
- To expand operations into a new market

The role of legal controls on location decisions

- Grants and subsidies (money paid to a business by producing what is asked of the government)
- Some laws may not permit working near urban areas
- Some laws may not permit working near natural areas

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SECTION 5 - Financial information and decisions

5.1 - Business finance: needs and sources

Key definitions:
Internal source of finance - finance that is sourced from the business E.g owners savings and retained profit
External source of finance - finance that is sourced from outside the business E.g bank loans
Trade payable - money owed by a business to a 3rd party for purchasing on credit (E.g trade payable to suppliers)
Trade receivable - money owed to a business from a 3rd party who purchased on credit

Why do businesses need finance?
- They need it to pay for day-to-day expenses to run the business E.g inventory (**working capital**)
- They need it to purchase non current assets (**capital expenditure**)
- To pay for expansion such as developing new products and opening new shops
- To be able to pay to set up the business when first starting (**start-up capital**)

Short term VS long term finance needs
- Short term finance is used to pay wages, rent and needs that need to be paid for often (to improve a business' cash flow for the time being)
- Long term finance is used to fund purchases often used for >1 year (e.g machinery or finance to expand the business)

	Owner's Savings	Retained profit	Bank loan	Trade credit
Type of finance	long/short term	long/short term	long/short term	Short term
What is it?	The business owner's personal money that they are willing to invest into the business	It is the profit left over after taking away expenses from the sale of goods/inventory	A sum of money borrowed from a bank that must be paid back.	The delaying of payment to suppliers to improve the cash position of a business.
+	No interest or debts owed. It is instant finance	No interest or debts owed.	It is a source of instant finance, and large businesses can benefit from economies of scale	It does not require interests or debts.
-	May not be enough to fund large expansions	May not be enough, and using this would also take	The money has to be paid back, and interest must also be	A supplier may no longer want to supply to the business due to the risk

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		away some of the owner's profits	paid regularly.	of payments not being made subsequently.

	Overdraft	**Micro-finance**	**Debt factoring**	**Leasing**
Type of finance	Short term	Short term	Short term	Long term
What is it?	When a bank allows a business to spend over what is in their bank account	Organisations provide finance to small businesses, usually in less developed areas.	Where a business hires specialised debt collectors to collect debts owed to the business by customers who have paid by credit.	Where a business pays sums of money to use assets such as machinery without purchasing it.
+	It is cheaper than a loan	It could be an alternative for businesses who cannot get approval from the bank for a loan.	Instant finance is provided	It is cheaper than purchasing the asset itself
-	The money has to be paid back as well as interest. The bank can ask for the money to be paid back suddenly.	Interest may have to be paid and the money will need to be paid back for at intervals.	The specialists take some of the money as their pay, so the full amount is not paid back.	Overtime, the total of the payments from leasing could amount to over the cost of the asset.

	Crowdfunding	**Issue of share**
Type of finance	Short term	Long term
What is it?	It is where a business collects money from the general public and their donations	This is applicable for limited organisations who can sell shares to the public for capital.
+	It does not involve debts and paying back.	Instant finance and no debts involved.
-	It is not a reliable source of finance as it is slow and the goal may not be met.	There is less control over the business as more % is lost.

5.2 - Cash-flow forecasting and working capital

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Key definitions:
Cash - the money, physically and in the bank, that a business has.

Why is cash important to a business
- To ensure that the business can survive and pay their expenses
- If they cannot pay for their debts, they will have to sell their assets to make these payments.

Cash flow forecast - the money expected to flow in and out of a business

How to overcome a problem in short term cash-flow
1. Apply for an overdraft
2. Delay payment to suppliers (trade credit)
3. Ask debtors to pay more quickly (collecting trade receivables)
4. Sell business assets

Why is working capital so important?
- To be able to pay for short term expenses
- To ensure that the business has enough finance to continue running so they won't have to sell assets

Example of a cash flow forecast:

Cash flow of a cookie business	**January**	**February**	**March**	**April**	**May**	**June**
Cash inflows						
Payments from customers	3,000	4,000	1,000	2,000	2,000	3,000
Loans	0	0	10,000	0	0	0
Total cash inflow	3,000	4,000	11,000	2,000	2,000	3,000
Cash outflows						
Purchase of ingredients	1,000	2,000	1,000	1,000	1,000	1,000
Other	500	800	200	400	500	500

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expenses						
Total cash outflow	1,500	2,800	1,200	1,400	1,500	1,500
Net flow	1,500	1,200	9,800	600	500	1,500
Opening balance (last month's closing balance)	1,000	2,500	3,700	13,500	14,100	14,600
Closing balance (opening balance + net flow)	2,500	3,700	13,500	14,100	14,600	16,100

5.3 - Income statements

Key definitions
Gross profit - the money leftover after deducting costs from a revenue
Operating profit - gross profit - overheads (day to day expenses)
Retained profit - The money leftover after deducting expenses (including taxes) and dividends (shareholder's share of profit) from operating profit.

Profit = revenue - cost of production
Operating profit = gross profit - overheads
Retained profit = operating profit – tax – dividends

Importance of profit to private sector businesses
1. It is a reward for risk taking/enterprise
2. It is a source of finance
3. It is a way to measure success

Profit VS Cash
Cash is all the money that is available to a business physically and in the bank, not including deducted costs and debts. Cash may not be profit as some cash may be used to pay trade payables example. Profit is the money available after deduction of these costs and expenses.

Income statement - this shows how well a business is doing financially and the value of the business' income and expenditures (spendings)

Example of an income statement:

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Gross profit	60,000
<u>Overheads:</u> Rent Salaries Water	 2,000 5,000 1,000
Operating profit	52,000
Less: Corporate Tax (15%)	7,800
Net profit after tax	44,200
<u>Distribution of profit:</u> Dividends to shareholders (20%) Retained profit	 8,840 35,360

5.4 - Statement of financial position

Key definitions:
Assets - items that are owned by a business
Non-current assets - assets that are owned by a business for more than a year E.g vehicles, machinery
Current assets - assets in a business that are not held for more than a year E.g inventory, cash
Liabilities - debts owed to creditors by a business
Non-current liabilities - liabilities that will be repaid in more than one year
Current liability - liabilities that will be repaid in one year or less

Balance sheet - used by stakeholders to measure the stability of the business

Example of a balance sheet:

Machinery	30,000
Equipment	10,000
Total non-current assets	40,000
Cash	100,000
Inventory	50,000
Total current assets	150,000

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(-) Current liabilities: Overdraft	2,000
Working capital	145,000
Total assets	185,000
(-) Non-current liabilities: Bank loan	30,000
Net assets	155,000
<u>Capital and Reserves</u> Share Capital Accumulated Profit	 100,000 55,000

Share capital - the money raised by a business through issuing shares
Accumulated profit - money after dividends are given out to shareholders

5.5 - Analysis of accounts

Key definitions:
Profitability - Measuring how successful a business is
Liquidity - the ability for a business to pay back current liabilities (the more liquid the more likely debts can be paid back)

Formulas:

1. <u>Profitability Ratios -</u> the higher the % the more successful

Gross profit margin = Gross profit/Sales revenue * 100
Net Profit margin = Net profit before tax/Sales revenue * 100
Return on capital employed = Operating profit/Capital employed * 100

2. <u>Liquidity Ratios -</u> >1 is good liquidity

Current ratio = Current assets/Current liabilities
Acid test ratio= (current assets - inventory)/Current liabilities

Why are accounts used?

- They are used by **shareholders** to recognise the value of their profits made and how large the return on investment is.
- They are used by **employees** to recognise if they are working for a profitable business, and if they can push for higher wages.
- They are used by **banks** to recognise if they should loan money to a business and if the money will be paid back.
- They are used by **suppliers** to recognise if a business has enough money to continue funding them.

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- They are used by **potential investors** to recognise if they should invest in a business, and if so, how high the return on investment may be.
- They are used by the **government** to recognise if the business is doing well, as a successful business pays more taxes to the government and reduces unemployment.

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SECTION 6 - External influences on business activity

6.1 - Economic issues

The business cycle

1. Growth - Rising GDP
2. Boom - Highest GDP
3. Recession - Falling GDP
4. Slump - Low employment levels and low GDP value

Impacts on businesses if there's a change in …

	Employment levels	**Inflation**	**GDP (gross domestic product)**	**Balance of payment**
Definition	The percentage of people who are looking for work but are not employed	The increase in the prices of goods/service due to a rise in demand	The total value of goods and services produced in a country in a duration of time (1 year)	This is the difference between a country's exports and imports
Impact	As employment levels increase, inflation may occur due to more disposable income. Employees can also push for pay raises due to the lack of labour availability, as most people are already employed.	Purchasing power of the public decreases as goods and services are now too expensive (cost of living rises). Businesses begin to struggle, which may cause a rise in unemployment.	As the GDP increases, this means that there is a high level of country output and spending, suggesting high employment. A falling GDP may be a result of inflation, and results in unemployment and reduced spending.	Exports and imports should aim to be equal. If exports exceed imports (trade surplus), there is not much benefit to the country. If imports exceed exports, a depreciation in the country's exchange rate will occur.

Government objectives over the economy:

	Why?	**How businesses might respond**
Increase in taxes and decrease in government spending	Taxes are usually increased to reduce spending in an economy and to discourage high production. This may cause unemployment to rise. However, this is often used to mitigate rises in inflation, and spending rises exponentially.	They may reduce the level of output to prevent overproduction and to cut on inventory costs. As profit falls, plans for expansion must also be halted. Prices of products may also be lowered.
Decrease in taxes and	Reducing taxes will increase	Output levels may increase in

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increase in government spending	spending in an economy, and by investing more in the country (increasing government spending), this encourages production for an increased GDP value. Employment will increase.	order to meet demand.
Change in interest rates	Interest rates may increase, which will cause GDP and employment to decrease. This is often done to reduce inflation, discouraging spending.	Decrease spending and decrease/increase production in accommodation to demand.

6.2 - Environmental and ethical issues

How business activity can impact on the environment

- Increased air pollution
- Increased land pollution
- Increased water pollution

How businesses can be ethical

- Use recyclable materials in packaging and products
- Source resources from an ethical source
- Use renewable energy in production and reduce fossil fuel usage
- Set up environmentally friendly campaigns
- Recycle any waste produced

Ethical issues VS Profit

Reasons to be ethical	**Reasons to not be ethical**
- Fear of pressure groups (groups that fight for a cause by signing petitions and boycotting) - The business can build a better reputation as consumers may prefer environmentally friendly businesses - Owner's preference	- It is cheaper to produce non environmentally friendly goods - Profit margin will decrease - Increasing prices may be unattractive to customers

6.3 - Business and the international economy

Key definitions:

Globalisation - the increase in communication and interactions between countries and their people

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Import tariffs - Taxes imposed on imports
Import quotas - A limit imposed on the number of imports allowed in to a country
Multinational company - A company that operates in multiple countries E.g Gong cha
Exchange rate - the value of a country's currency in comparison to another country's currency

Cause of globalisation:
- Developments in technology
- Developments in transport

Why do import tariffs and quotas exist?
- This is important for the government to prevent MNCs from monopolising (taking over the largest market share, and controlling most of the customers in an area), so local businesses can still continue to run.

Benefits to a business becoming a multinational:

For the business	For stakeholders
- Access to new markets - Operating closer to the market - Cheaper operation costs in other countries - Avoid trade barriers (import tariffs and quotas) - Easier access to high quality goods - Ideas are shared around the world	- Increased profit!!!

Threats
- Multinational companies may monopolise markets, driving local business out - It may be hard to adapt to a new market - Repatriation of profit (MNC send profit back to home country and thus don't pay taxes in that country)

Benefits to an economy where a multinational company is located
- Consumers have a wide range of products to choose from
- Competition will increase which will bring in ne technology and developments
- Increased employment
- More taxes are paid by MNCs
- Increased GDP

Impacts of exchange rate changes

When depreciation occurs E.g if $1 = MYR8	When appreciation occurs E.g if $1 = MYR2

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- Imports from other countries become more expensive, so less people from a country are able to afford them - Exports become cheaper so people from other countries can purchase the goods	- Imports become cheaper, so more people from a country are able to afford them - Exports become more expensive, so people from other countries cannot afford them.

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