Knowledge Organisers

Edexcel GCSE Business

Theme 2: Building a Business

Name:

How to use this booklet

This booklet contains knowledge organisers for each topic within *Theme 1: Building a Business*.

After each knowledge organiser, there is a blank page. This page is for you to use as retrieval practice.

Study the knowledge organiser. When you feel confident that you can recall the information on it, turn the page and write down everything that you can recall. You may do this by trying to recreate the knowledge organiser, or draw a mind map with colours and pictures that help you to organise your memories onto the page.

When you have spilled everything you can remember out onto the page, compare it with the knowledge organiser. Whatever you have missed out are the part that you need to keep on revisiting until it is locked into your long-term memory.

Of course, you can repeat this process as many times as you need. All you need to do is get 22 blank sheets of paper and staple them into a retrieval practice booklet.

Remember, repetition is key to being able to store your learning in long term memory for you to retrieve in the future… and it takes lots of practice! Now is the time to make memories!

Contents

Subject Content	What students need to learn?
2.1.1 Business Growth	Methods of business growth and their impact: • Internal (organic) growth: new products (innovation, research and development), new markets (through changing the marketing mix or taking advantage of technology and/or expanding overseas) • External (inorganic) growth: merger, takeover Public limited company (PLC) Sources of finance for growing and established businesses

Internal (Organic) Growth

Internal growth occurs when businesses choose to expand using their own initiative to increase sales. This could be:

- Through the creation of new products that have been researched
- Entering into new markets with an already existing product
- Changing the marketing mix (e.g. through advertisement)
- Take advantage of technological advancements to expand

External (Inorganic) Growth

Merger: An agreement between two firms who join to form a new company

Takeover: When one firm buys out the shares of another firm to incorporate them into their company

Advantages of Internal Growth

- More sustainable as slower
- Less risk than external growth
- Builds on a firm's existing strengths

Disadvantages of Internal Growth

- Growth based on the growth of the market
- Slow growth
- Hard to increase market share if a market leader

Sources of Finance

Selling Shares: Creating new shares that can be sold on the stock market

Retained Profit: Profit kept within the business that is not paid out in dividends to the shareholders. This source of finance is the best if the business wants to expand.

Bank Loan: This is an arrangement where the amount borrowed must be repaid over a clearly stated period, in regular instalments. The amount is paid back with interest.

Selling Assets: Selling items that the business owns to raise funds. For example, selling property or machinery.

Advantages of External Growth

- Quicker than internal growth
- May get rid of competition
- Can get new ideas and new expertise

Disadvantages of External Growth

- May be a clash of culture
- May be stopped by the competition authorities
- Increased costs in the short term

Public Limited Company

A company that sells its shares on the stock market

This makes it much easier to raise finance but makes the business prone to takeovers

Subject Content	What students need to learn?
2.1.2 Changing Aims and Objectives	Why business aims and objectives change as businesses evolve: In response to: market conditions, technology, performance, legislation, internal reasons. How business aims and objectives change as businesses evolve

Business Aims and Objectives

Business aims are the broad targets than an entrepreneur has at the back of their mind

Business objectives are clear, measurable targets of how to achieve business aims. (the stepping stones for how they are going to achieve them)

How Aims and Objectives Evolve

Focus on survival or growth: Some companies will need to change their objectives to focus on survival following an external factor e.g. a new competitor or economic collapse. Other firms will be currently successful but will want to capitalise on their position and aim to grow

Entering or exiting markets: New markets such as China or in Africa can provide new opportunities for businesses. However some businesses will want to leave the market if they are struggling e.g. Morrison's leaving the convenience market

Growing or reducing the workforce: Growing businesses may need to hire new staff in order to meet the new demand for their product, however others may be more likely to cut staff to become more efficient or spend more on machinery

Increasing or decreasing the product range: Growing organically can only be achieved in two ways, get customers to buy more existing products or create new products to sell. New products can open up new customers and markets which can help increase market share. However it is also worth reducing product ranges if the products are becoming obsolete or if it is becoming difficult to manage all products on offer.

S PECIFIC - Objectives should **specify** what they want to achieve. - i.e. one named person is responsible for delivering the objective

M EASURABLE - You should be able to **measure** whether you are meeting the objectives or not.

A CHIEVABLE - can the objectives be met?

R EALISTIC - Can you realistically achieve the objectives with the resources you have?

Aims and Objectives Change	Description:
Changing market conditions	Markets evolve over time. For example customers now want more luxury chocolate. As a result, Cadbury is now setting new objectives in relation to the
Changing technology	Due to advances in technology businesses have had to respond. For example Ted Baker's sales accelerated dramatically after introducing ecommerce.
Changing performance	If costs start to rise, profits will be squeezed. This is linked to the performance of the business or it could be the industry as a whole. When this happens
Changing legislation	Changes in legislation influence aims and objectives. Or example after Britain voted to leave the EU there was great uncertainty about what changes
Internal reasons for change	Aims and objectives are influenced by a change at the top of the business. If a boss is pushed out and a new one is appointed there will be changes to aims and objectives.

Subject Content	What students need to learn?
2.1.3 Business and Globalisation	The impact of globalisation on businesses Barriers to international trade How businesses compete internationally

Globalisation

Globalisation is the tendency for economies to trade increasingly with each other, creating opportunities for international and multinational companies.

Impact of Globalisation on Businesses

Imports: Globalisation allows businesses to be able to access wider markets, which increases the choice of suppliers. This allows businesses to find the cheapest supplier and lower their overall average costs

Competition from overseas: Due to the increased ability to operate in multiple countries it is now easier to move into new markets. This makes sales easier but also is likely to increase competition which can make smaller firms struggle.

Exports: Companies can now increase their number of sales by trying to sell their products overseas, this can increase revenue for the business and help the government pay for the imports that are brought in.

Changing business locations: Some countries are cheaper to operate in than the UK because they have less laws in place or more raw materials on offer. Globalisation allows businesses to open factories in multiple countries to take advantage of the cheapest places, this lowers costs and allows businesses to maximise profits

Barriers to International Trade

Tariffs: These are taxes imposed on imported goods, this increases the cost of the import which may be passed onto the consumer in the form of higher prices.

Trade Blocs: This is an agreement between countries to trade freely with each other behind a tariff wall that discourages outsiders. This makes trade within the bloc cheaper and provides easier access to bigger markets whilst potentially reducing competition of non trade bloc countries. However it a company operates outside the trade bloc it is much more expensive to trade with all countries within the bloc.

How Businesses Compete Internationally

Use of internet and ecommerce: Small businesses are able to use the internet to access a much wider range of customers without the added cost of setting up physical shops in these countries. This makes it possible for small businesses to achieve global success on the back of one trend or even a short term fad. For larger businesses, the internet can help to lower costs and allows the business to become more dynamic.

Changing the Marketing Mix to Compete Internationally

If a business is now operating in multiple countries it will need to adapt its 4 Ps to accommodate. Product will need to be adapted to fit with the laws in different countries e.g. H+S. Pricing may be different in different countries to account for popularity. Promotion will change based on what the country uses most, e.g. TV advertisement is much bigger in the US. Place will change based on the development of the country, e.g. ecommerce is popular in the UK but will be less popular in Africa, so companies will need to adjust their distribution channels.

Name of the Trade Bloc	Trading Bloc Members	Main Features of the Bloc
EU (European Union)	27 members (after UK withdrawal) led by Germany and France	Free movement of goods and labour with a single market backed by common, EU-wide legislation
ASEAN (Association of South East Asian Nations)	Ten members including Thailand and Vietnam, but excluding China	Free movement of goods; started in 1965 with five members; members have enjoyed high economic growth
NAFTA (North American Free Trade Association)	America, Canada and Mexico	Free movement of goods; just three members; 2 rick and one much less so (Mexico)

Subject Content	What students need to learn?
2.1.4 Ethics, the environment and business	How ethics influence business activity How environmental considerations influence business activity The potential impact of pressure groups on the marketing mix

Ethics and Profit

A business may have to accept lower profits when behaving in a socially responsible way, however this may only be a short term issue as the positive publicity gained may increase reputation and customers which could increase profits in the long term.

Although there may be a positive effect in the long run which may counteract any reductions in short run profits, in the short run there is likely to be a trade off between ethics and profit. It is up to the business to decide whether it would rather do what is right and lose profits or continue maximising profits and ignore ethics.

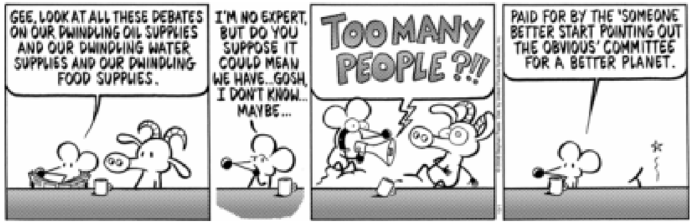
Pressure Groups

A pressure group is an organised group of people that seeks to influence government policy, legislation and business behaviour e.g. Greenpeace, Amnesty International or Searchlight.

If a business behaves in a way that a pressure group disagrees with, the media may turn against the company. This could lead to consumers boycotting the business, damaging profits and upsetting shareholders.

Pressure Groups and the Marketing Mix

If a pressure group targets a particular business, the business has little alternative but to respond, this may involve changes to their marketing mix e.g. product. Examples may include the movement away from real fur in clothing or the reduction in sweat shops due to pressure groups.



Ethics

Weighing up decisions or actions on the basis of morality, not personal gain

Ethics and Ethical Considerations

In business it is easy to confuse ethics with ethical considerations. Ethics is the real thing—acting to do what is morally right. Ethical considerations may mean no more than thinking about how to make money out of the appearance of being ethical. Proof that a decision is ethical comes when the business accepts a hit to its profits.

Ethics and the Environment

One particular aspect of ethics that is important in todays society is the environment. Due to the increase in pressure groups such as Greenpeace there is a strong need for businesses to consider their influence on the environment. As such many businesses are now changing their distributions channels to reduce their carbon footprint

Sustainability

All manufacturing requires resources. Plastics, paints and detergents are made from oil, steel requires iron ore and coal and paper is made from wood. Note the difference however. Wood is sustainable, more trees can be planted whereas oil, iron and coal are very different, they take millions of years to be made and so are essentially irreplaceable.

Sustainability: Whether or not a resource will inevitable run out in the future; a sustainable resource will not.

Trade-offs between Environment, Sustainability and Profit

It should be natural for a business to see sustainability and profit going hand-in-hand. To keep making profits year after year there needs to be raw materials to make the product. However short term profits can something be chosen at the expense of sustainability, e.g. R+D into new, more sustainable processes may increase profits in the long term, but are likely to reduce profits in the short term due to the cost.

Some business will operate normally whilst trying to dress up their actions as being environmentally friendly, this is known as 'greenwashing'.

Subject Content	What students need to learn?
2.2.1 Product	The design mix The product life cycle The importance to a business of differentiating a product/service

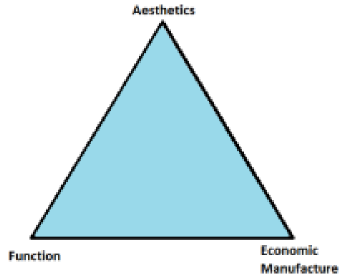
Design and the Design Mix

The design mix uses a pyramid diagram to encourage managers to decide on the main design priorities for a new product.

Economic manufacture: Making sure that the design allows the product to be made cost effectively

Function: The design must make sure that the product works well and works every time

Aesthetics: How well does the product appeal to the senses?



The Importance of Differentiating the Product/Service

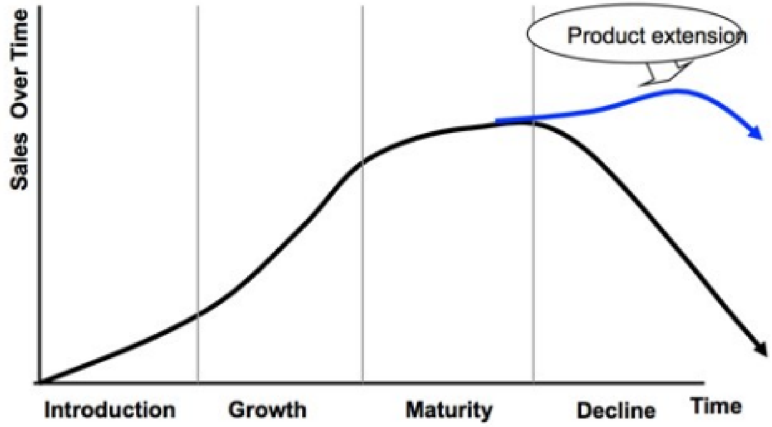
Product differentiation means making a product stand out from the competition. This can help the product become a market leader, may allow the business to charge higher prices or may encourage a loyal customer base.

The design of a product will play a crucial part in this process, either through the branding, the distinctive looks or making it appealing to wear, which increases brand awareness and ensures the product is different from its competitors.

Extension Strategies

Firms may try to prevent sales going into decline by using extension strategies, here are some examples of possible strategies:

- Find new uses for the product e.g. Lucozade
- Change the appearance, format or packaging e.g. Coca cola
- Encourage use of the product on more occasions e.g. cereal not just for dinner or ice cream in winder
- Adapt the product; make it new and improved e.g. iPhone 6S



Product Life Cycle

A product's life cycle is the amount of time a business expects the product to sustain profitable sales.

1. Introduction: After the product has been well researched, tested and prepared, it will be launched. Sales are low because it is an unknown product, distribution will be low because suppliers will not know if it will be successful, costs will be high due to advertising and production costs. If the product has a USP there is likely to be a high price.
2. Growth: The product becomes more known in the market. Sales, distribution and profits are likely to be rising . Costs will still be high due to advertising still being needed and the price is likely to still be high.
3. Maturity: the market has become more saturated with copycat products. Sales have reached a peak and are likely to flatten out, distribution will be wide as the product is more known and successful. Costs will be low as there will be less need for advertising and profits are likely to be high assuming the product is still popular compared to competitors
4. Decline: the product is no longer popular, it is not offering what customers want anymore. Sales and profits are declining and suppliers are no longer wishing to display the product. Businesses need to make a choice about whether to try an extension strategy or to scrap the product all together. Costs will depend on the level of advertising and profits are likely to little to none.

Subject Content	What students need to learn?
2.2.2 Price	Pricing strategies Influences on pricing strategies; technology, competition, market segments and the product life cycle

Pricing Strategies

Broadly there are two different types of pricing:

- Pricing low for high volume but low profit margins
- Pricing high for low volume but high profit margins

The choice between these two will depend on a range of factors however the biggest influence will be branding. Strong brands are able to set their own prices, whereas weaker ones have to follow the lead set by others

Pricing Strategy for Different Market Segments

Mass Market

Mass market products are aiming their products at a wide range of customers and are likely to be experiencing high levels of competition. As a result pricing is likely to be ensure that they can compete. Due to the wide number of customers there is still a good likelihood of profit overall, even though profit per item will be low.

Examples include New Look, Primark, Lidl and Aldi.

Niche Market

A niche market is based on a particular type of customer who wants something different from the majority. Due to this difference there is likely to be less competition and customers will be more willing to pay more which ensures that although there are low sales volumes, profits can still be made.

Examples include Alpro or Jaguar

"I like it, but I'm looking for more of a status symbol. Any way you can double the price?"

How Technology Influences Pricing Strategies

Due to the access of ecommerce there is more ability to shop around and try to get the best deal on products, which means that firms have more competition than just their local area and need to be more price competitive.

On the other hand, ecommerce has also expanded the market making it easier to attract customers, this means that some businesses can charge more for their products because the demand is higher

Pricing Strategies at Different Stages of the Product Life Cycle

Introduction

Lots of businesses will choose a low price initially to encourage customers to try their product, especially if it is an unknown product or brand. If the product is popular the price will start to rise. However some businesses will start with a high price if they are looking to create an image of quality and expense rather than cheap. In addition products with good branding, especially technology will start expensive to ensure high profit margins from the keen before lowering the pricing for everyone else.

Growth

In the early stages most businesses will be looking to keep prices low to ensure sales continue to grow and increase prices once the growth is more established.

Maturity

When growth is at an end, new pricing decisions may be needed. If during growth prices were kept low to encourage sales there may be an incentive to raise prices to try and improve profit margins now that sales are no longer growing so fast. This may be important if new products are needed before the current product goes into decline, meaning investment.

Decline

During decline, profits will be falling, this means that firms need to make a decision about pricing. If an extension strategy is being planned such as adapting the product there may be a basis to increase the price. If there are loyal customers to the product but few new customers, the business may be able to increase prices assuming the loyal customers will still want the product. However some businesses may choose to put deals into place to encourage last ditch sales before it is taken off the market.

Subject Content	What students need to learn?
2.2.3 Promotion	Appropriate promotion strategies for different market segments The use of technology in promotion

The Use of Technology in Promotion

Targeted Advertising Online

In 2015, UK spending on digital advertising far outstripped TV advertising. By 2017 more than half of all promotional spending in the UK was on digital advertising. Through the use of 'cookies' and other ways of capturing information advertisers today know much more about customers spending habits than previously. As a result advertising can be much better targeted, reducing waste and ensuring that firms are reaching their customers. For mass market products such as Coca Cola, TV advertising can still be cost effective due to the large number of customers they have. Targeting a much smaller customer range means online advertising is much more cost effective.

Viral Advertising via Social Media

It is easy to see why great video advertisements can 'go viral', in other words get passed on from person to person via Tweets and other social media. However it is difficult to get a campaign to go viral and many businesses have tried and failed. This is something that can be difficult to rely on as a form of advertising.

E-Newsletters

If you buy a cinema ticket online, you are likely to end up receiving the cinema's weekly newsletter. It will tell you about the major new films and offer discounts. From a companies point of view this form of advertising is virtually free. Some businesses will want to spend more on e-newsletters in order to make them more interactive however it is only the initial cost that is likely to increase.

Promotional Strategy for Different Market Segments

Advertising

In the mass market the role of advertising is often to achieve name recognition and little more. For example Just Eat advertises widely on TV in order to foster trust with their customers and ensure that customers are willing to use them. All mass market businesses aim to achieve a level of brand awareness like Audi who are able to sell their products at a premium because of their brand. In niche markets TV advertising is less appealing due to the cost. For example G-Star RAW aim their products at under 25s and have focused on digital advertising to improve street credibility.

Sponsorship

Sponsorship means paying to have your brand or company name attached to an activity that has credibility with your customers. Often this involves sport or music. For example Red Bull have sponsored extreme sports and Formula 1 giving it a risk taker image and help it compete with Monster and Relentless. This is an expensive form of promotion and so is unlikely to be used by niche market products.

Branding

Branding means giving your product or service a name that helps recall and recognition and gives a sense of personality. Successful branding can mean that an image stays with people years, event decades after the reality has changed. For example Heinz are still the go to product for baked beans, even though there are competitors out there.

Product Trials

A product trial means giving potential customers a free taste—or longer trial—of your new product. This approach is used when there is known to be a hurdle that is likely to prevent customers from making a purchase of their own. This is very expensive, not just due to lost products but also due to the amount of labour required to ensure it works well. Social media can help to reduce this if videos are made and posted online. E.g. Pepsi and Coca Cola taste testing.

Special Offers

Special offers should be regarding as the last resort. No company wants to 'give away' product, as with a BOGOF offer. Special offers can undermine the brand even if there will be short term gains in profit. There are occasions when special offers work best; after Christmas, a new competitor has arrived, launching a new product and so adding it into a deal with your best selling product.

Subject Content	What students need to learn?
2.2.4 Place	Methods of distribution; retailers and e-tailers (e-commerce)

Definitions

Distribution: How ownership changes as a product goes from producer to consumer

E-tailer: An electronic retailer; in other words purchasing electronically, either by e-commerce, or m-commerce

Retailer: A shop, usually selling from a building in a high street or shopping centre

Methods of Retail Distribution

There are 3 main ways to get products from the producer to the consumer:

The Traditional Channel: The producer sells in bulk to wholesalers, who sell in smaller quantities to small and independent retailers. Without wholesalers, small shops couldn't exist as it would be too expensive for the producer to deliver to all the different shops.

The Modern Channel: This is very important for the grocery sector. The producer delivers huge quantities directly to a supermarket's distribution depot which sends the product to all local supermarkets. This can help the supplier get a higher profit because they are closer to the customer

The Direct Channel: Buying directly from the producer, e.g. the original mail order services or more currently using e-commerce or m-commerce.

Gaining Retail Distribution

First time entrepreneurs are often surprised to find that getting retail distribution is hard, and keeping it is harder. To gain distribution a company need to:

- Show that its brand offers something different for customers
- Show strength in marketing
- Provide a high level of profit to the retailer

To keep stock over a period of years the company will need to:

- Provide regular promotional support to keep sales moving
- Make sure sales continue to grow by advertising

E-tail Distribution or Ecommerce

There are two main types of e-commerce

- Direct sales from producer to consumer such as buying a MacBook computer direct online from Apple
- Sales through an e-tailer such as ASOS

Direct sales are great for the producer, who received the full retail price instead of having to make do with the wholesale price. E-tailers are more important today though. Their shops display products online and have efficient systems to make it easy to purchase, deliver and return products. Because the e-tailer is saving the cost of a physical shop they choose to live with the higher number of returns than a physical shop would get.

	Advantages	Disadvantages
Physical Retail Distribution	Customers can touch, hold, smell and wear products before buying You can choose exactly the type of product you want, e.g. food	Going shopping is time consuming, especially if shopping around is needed Choice can be overwhelming, leading to too much time being spent
Online Retail Distribution	The convenience of being able to order from home or on the move No time wasted driving, parking or shopping	Encourages a lazy nature, it might be better to go outside Delivery charges may increase prices

Subject Content	What students need to learn?
2.2.5 Using the marketing mix to make business decisions	How each element of the marketing mix can influence other elements Using the marketing mix to build competitive advantage How an integrated marketing mix can influence competitive advantage

How each Element of the Marketing Mix can Influence other Elements

The key to the marketing mix is that it should all fit together in a way that works for the target market. E.g. all aspects must be improving the brand image and ensuring the customer is getting the right message.

How The Marketing Mix Informs Business Decisions

A successful business understands its customers and therefore knows what products or services they want and how best to communicate with them. Using all 4 Ps can help the business understand its demand and how predict trends of demand for the future, this can help the business make decisions on expansion especially after a successful launch phase.

Other ways the marketing mix can inform a business decision:

- Having a firm understanding on how price changes will affect demand
- Understanding how strong a brand image which can inform decisions about marketing new products
- Understanding how customers receive their products and using this to focus marketing on distribution channels that are most successful.

How The Marketing Mix can be used to Implement Business Decisions

Once a decision has been made, it is time to put it into practice. That's where decisions on the marketing mix come into play.

What is needed is a 3 step process:

1. Identify the decision objectives
2. Agree how the 4Ps are to be used to achieve those objectives. Often this will require more money; in other words, the business may have to provide a bigger budget for marketing.
3. Carry out the plan; in other words, make the required changes to the product, price promotion and place.

Once the plan is in action, well-run companies analyse their sales figures to check whether it is working well and then adjust accordingly.

Drawing the Right Conclusions

Good business decisions can take several years to show their merits. That is fine as long as the business has long term objectives. But whether the decision making is long term or short term, it is only likely to come good if the business truly understands its customers. That is where the marketing mix comes in—especially market research and the marketing mix.

Key Term	Definition
Budget	A ceiling on the amount of money that can be spent; a marketing budget of £1 million means the marketing manager can spend up to that figure, but no more
'Inform' Decisions	Evidence that can be used to make a better decision; a company can gain a better understanding of its customers through the 4Ps, which helps in decision making.

Subject Content	What students need to learn?
2.3.1 Business Operations	The purpose of business operations Production processes Impacts of technology on production

The Purpose of Business Operations

Operations is the name given to the section of the business that provides the customer with the goods or services he or she has ordered.

When the product is produced in a factory, every part of the factory is part of 'operations', so too is the delivery process.

Services such as window cleaning also require operations—that is, a process from website or app ordering through to appointments being made and kept, and perhaps a quality control system to make sure that customers are happy.

Flow Production

Flow production is continuous output of identical products. The worlds biggest baked bean factory is in Wigan ; it produces 3 million tins of Heinz Beans a day, working 24/7 for the past 70 years.

Flow production allows a factory to be highly automated

Examples:

- Cadbury's Dairy Milk
- Cadbury's Crème Eggs
- Nissan Jukes and BMW Minis

Mix of Job, Batch and Flow?

There often is a mix between job, batch and flow production depending on the type of product made.

For example there may be a batch of wedding cakes made, however each one may be decorated to fit with the customers requirements.

Although Mini are made using flow production, each car has a specific set of specifications that the customer has requested e.g. roof colour or patterns.

Job Production

Job production is one-off production for a one-off order. It is tailor made to the specific requirements of a single customer and therefore requires a high input of labour rather than machinery

Examples:

- A loft conversion in an unusually shaped house
- A tailor made suit for Prince Harry
- A babysitter for Mrs Jenkins between 19.30 and 23.30 on Friday night

Batch Production

Batch production means producing a limited number of the same item. It might be a huge batch of 10,000 or a small batch of 4. Small batches may be useful for mixing the same ingredients and making goods that have a short life span, larger batches are useful for businesses that may need different sizes, so doing 1 size all together is easier and cheaper.

Examples:

- The production of 1 million Cadbury Screme Eggs for Halloween
- 10 crispy bread rolls followed by 10 soft baps
- A meals-on-wheels lunch service for 20 elderly people in Leeds

	Advantages	Disadvantages
Job Production	Highly flexible (fit to customer needs) Satisfying work for the individual as it re-	Expensive to make the product Skills may be hard to find so staff
Batch Production	Gain a cost advantage from producing several items at once yet still able to offer a range of colours/sizes	Limited scope for automation—labour is expensive
Flow Production	Can automate production fully—more cost effective Customers value consistency—all products	Expensive to set up and inflexible Modern customers like products tailored to their needs

Subject Content	What students need to learn?
2.3.1 Technology, Productivity and Production	Impacts of technology on production

Measuring Productivity

Productivity is a measure of efficiency, usually output per person per time period

Productivity allows a business to gain a competitive advantage, by lowering costs and making products quicker this allows businesses to maintain a competitive price and potentially push out other competitors.

Technology can help to increase productivity, especially if it is the latest technology.

The Benefits of Technology

Successful production involves 3 main things:

- Producing the right quantity at the right time
- Producing to high standards of consistency and quality
- Producing cost efficiently

High-tech equipment can help with all three. Automation (produced by machines) is especially effective at ensuring consistent quality and low labour costs per unit.

On the Other Hand

Traditionally factory design has been the main reason why efficiency has not been as high as it should. Companies such as Nissan and Toyota are efficient because they make sure their working environment is as constructive to efficiency as possible.

Sometimes efficiency requires new technology, but surprisingly often improvements come from reorganising the workplace based on staff ideas. This is known as Kaizan.

	Pay	Output	Labour Cost per Brick
Gavin	£120	800	120/800 = £0.15 (15p)
John	£120	400	120/400 = £0.30 (30p)

Impact of Technology on Production

Customers want products that fit their needs and wants at a price they can afford. If technology can help achieve this, it is valuable.

However technology does have its downsides—it has ensured that we can transport fruit from further away with longer sell-by dates, however this has negatively effected the taste of the product.

A well run business will aim to use technology in a balanced way to match the needs of the customer and the needs of the business. There are 4 elements that need to be considered:

- Production costs, which has a knock on effect on the price of the product—technology can help to automate a process which makes it cheaper to operate in the long term
- Productivity can be boosted by mechanising some parts of the production process. Higher productivity means lower labour costs per unit and therefore a lower cost per unit. This means the business can either cut prices or enjoy higher profits
- Quality is important for all businesses to ensure that they are meeting customer needs. Technology can help with this as it ensures that all products are the same. This allows a business to reduce the waste they create which increases their overall efficiency
- Flexibility is important, it allows businesses to meet the needs of the customer and this ensure that they are receiving happy customers and good profits. However technology can prevent a business from being flexible, if the technology cannot be changed to meet the needs of the customer the business is likely to lose out on sales.

Subject Content	What students need to learn?
2.3.2 Working with Suppliers	Managing stock The role of procurement

Managing Stock

Stock are items held by a firm for use or sale, for example components for manufacturing or sellable products for a retailer.

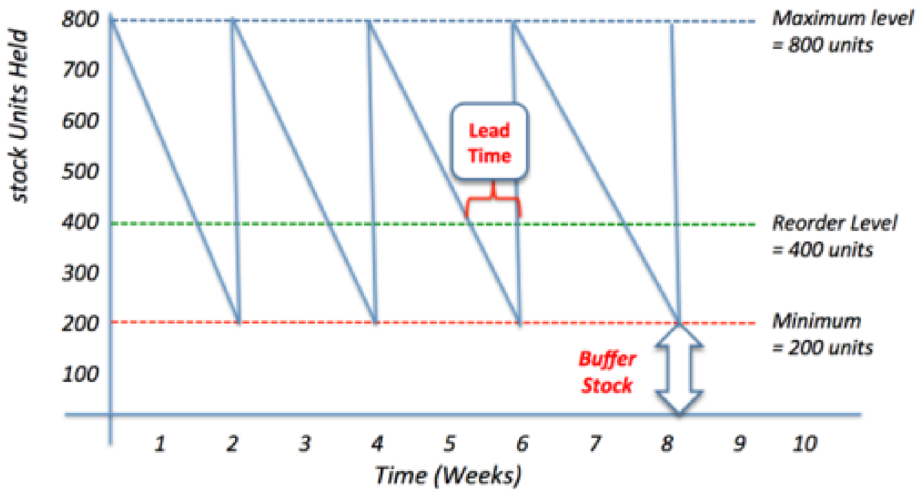
Without stock sales cannot happen. Manufacturers and retailers need to make sure they supply the right amount of goods to keep the shelves full.

Simply ordered lots of stock carries other risks, however. Too much and you have excess stock which needs to sold off, usually at discounted prices.

Bar Gate Stock Graphs

Successful stock management requires the right balance between reliability and cost. The traditional approach is shown below.

It shows the level of demand for the product, how much buffer stock is required (minimum held in storage to stop running out) and a how often to order from the supplier.



Subject Content	What students need to learn?
2.3.3 Managing Quality	The concept of quality and its importance in the production of goods and services and allowing businesses to control costs and gain a competitive advantage

Quality Control

Quality control is a system of inspection to try to make sure that customers don't experience a poor quality product or service.

This is usually done at certain points of the production process and is controlled by the managers of the business

This is good because it is very systematic and ensures that a clear routine is followed, in addition it means that only a few employees (usually managers) need to be trained in quality control which reduces the training costs of the business.

However this does not solve the problem of quality, it only identifies issues at certain points in the production process. Employees are rarely involved and any issues usually result in the product being scrapped as it is too late to fix.

Quality, Cost Control and Competitive Advantage

High quality production means things are right first time; this means the job has got to be done once only. This means:

- Less wastage on raw materials
- Lower wage bills, less overtime needed as jobs are done right first time
- Fewer managers as staff are more self sufficient and don't need to be constantly looked over to check the quality

This allows a business to achieve a competitive advantage, quality can be a USP and lower costs can mean cheaper prices than competitors.

Quality Assurance

Quality assurance attempts to build quality into the system rather than something that occurs at the end. This means that every employee has quality responsibilities.

Once employees see quality as their own responsibility, they are more motivated to improve the system and are more likely to be able to find better ways of doing things.

Quality assurance is used to try and build a quality culture, which means the accepted attitudes and practices of staff at a workplace

This is good because it puts the responsibility on everyone so that products are more likely to be consistently good quality, thus reducing waste and also there may be more new ideas as more people are considering quality in their day to day jobs.

However changing the culture of a business takes a long time, and can be very expensive. This is because there will be lots of training needed to ensure that all employees know how to check the quality of their work.

Quality and its Importance in the Production of Goods and Services

Quality of initial impact

- Goods—well packaged and well presented
- Services—food looks and smells great or hotel room is clean

Quality in usage

- Goods—Reliable and hardwearing from the start
- Services—Everything works/tastes good/comfortable

Subject Content	What students need to learn?
2.3.4 The Sales Process	Knowing the sales process The importance to business of providing good customer service

Customer Service

To be effective, customer service must be:

- Rooted in a clear understanding of what customers really care about
- Practical and cost effective enough to ensure it can be sustainable
- Based on a genuine wish to help, rather than an attempt to seem helpful
- Offered at the right time, in the right way at the right place

The Sales Process

Great customer service is a wonderful thing, however there is far more than that to the sales process. To be successful businesses need to provide:

- Strong product knowledge and therefore helpful advice
- Speedy and efficient service
- Customer engagement
- Responses to customer feedback
- Excellent post sales advice

Product Knowledge

Customers expect employees to have good knowledge of the products and services being offered.

Some things need to be covered to ensure good product knowledge:

Good training, loyal staff that have been with the business for years and staff who are committed to customers

Speed and Efficient Service

Good service is designed for the customer, not the business and ensures the customer fees cared for.

Efficiency service gets products to the customer exactly when you want them, in good condition and if there is a problem it will be sorted out as soon as possible and in the right spirit.

Customer Engagement

Customers need be interested in the company and that cannot happen if they are not contacted regularly. Social media ensures that this is much easier now but emails are also very important for some businesses. Customer engagement can also come in lots of other ways, from word-of-mouth to information received via post.

Response to Customer Feedback

Due to social media and the internet, customer feedback is much more public. This means that businesses need to be seen to respond so that customers aren't put off by the complaints made by others. TripAdvisor is a good example of this.

Subject Content	What students need to learn?
2.4.1 Business Calculations	The concept and calculation of gross profit and net profit Calculation and interpretation of gross profit margin, net profit margin and average rate of return

Gross Profit Margin

Gross profit is the difference between the selling price of the product and what it costs to make. It shows the amount of money that contributes towards paying off fixed costs. It uses the following formula:

Gross profit = Sales Revenue—Cost of Sales

Gross profit margin puts this information into a percentage, showing what percentage of the selling price goes towards paying off fixed costs. It uses the following formula:

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100$$

It is important for gross profit margin to be for all products sold so that it takes into account sales as well as products sold at full price.

The aim is to get as high a gross profit margin as possible as this will ensure a high net profit margin.

Net Profit Margin

Net profit is what is left over after all the fixed costs are taken away from the gross profit. It is calculated using the following formula:

Net Profit = Gross Profit—Operating Costs

Net profit margin puts this information into a percentage, showing what percentage of the sales revenue is left over after all costs have been taken into consideration. It uses the following formula:

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales Revenue}} \times 100$$

The net profit margin will always be lower than the gross profit margin.

The higher the net profit margin is, the happier the shareholders of the company will be.

How to Improve Net Profit

- Remove levels of management
- Cut back on fixed costs spending e.g. marketing costs
- Reduce bonuses paid to directors or dividends to shareholders

How to Improve Gross Profit

- Increase the price customers have to pay
- Cut the price paid to the supplier by:
  - Negotiating with the existing supplier
  - Get cheaper materials or redesign the product

Average rate of return

Businesses will need to make a choice about how they spend their money. In order to make the best decision they can use ARR which shows the average amount of profit a project will make over its lifetime. The formula:

$$\text{Average Rate of Return} \quad \frac{\text{Average Yearly Profit (including initial cost)}}{\text{Initial Investment}} \times 100$$

Subject Content	What students need to learn?
2.4.2 Understanding Business Performance	The use and interpretation of quantitative business data to support, inform and justify business decisions The use and limitations of financial information

Bar Charts

Data represented so that the height of the bar represents the quantity involved; good for making comparisons.

It can be represented horizontally or vertically, and is used to compare different information for groups , good if you want to compare competitors or a market.

Line Graphs

Data represented as lines, making it easy to identify trends, especially if time is on the horizontal axis.

Trends are important for businesses to notice so they can make decisions about the future of the company in the hopes of being successful.

Pie Charts

Data presented in a circle, with each slice of the pie representing a proportion of the whole; good for proportions of a total.

This is particularly good for comparing market share or sales in a market as it shows which companies have the most sales.

The Use of Financial Information

Businesses can use financial information to analyse their current position in the market and work out what they are going to do in the future to survive and succeed.

The Limitations of Financial Information

- Raw data may be biased or inaccurate
- Data is only quantitative, qualitative data can be more insightful
- Data doesn't help if businesses don't take the time to analyse it properly, they need to be patient.

	Line Graphs	Bar Charts	Pie Charts
Advantages	Good for data shown over many time periods Good for looking how one factor affects another	Good for data shown over a few time periods Good for comparing the size of different items	Good for showing proportions Size of circle can show the size of the market
Disadvantages	Too many lines can be confusing Risk of oversimplifying	Cannot compare lots of time periods Too much data can be confusing	Small changes are hard to see Cannot show trends over time

Subject content	What students need to learn:
2.5.1 Organisational structures	Different organisational structures and when each are appropriate: • hierarchical and flat • centralised and decentralised

Key vocabulary

Centralised structure	An organisation where most decisions are made at head office not within the branch
Decentralised structure	An organisation that allows staff to make decisions at a local level
Flat structure	An organisation with few layers of hierarchy
Hierarchical structure	An organisation with many layers of management, therefore creating a tall organisational pyramid
Organisation chart	– a diagram that shows the internal structure of an organisation
Span of control	The number of people a manager is directly responsible for in an organisation
Subordinate	The term for people underneath another in an organisation chart

Evaluating a tall structure	
Strength	Regular promotion opportunities
Strength	Easier to maintain standards / check everyone's work
Strength	Each person's job role is clear
Weakness	Very hard for lower levels to communicate with the top
Weakness	Decision making may be slow due to many layers
Weakness	Long chain of commands may lead to poor communication
Weakness	Large span of controls may make managing staff difficult/stressful

Evaluating flat structure	
Strength	Fewer managers needed
Strength	Workers have more responsibility
Strength	Communication is quicker and more efficient
Weakness	Each manager is responsible for more people
Weakness	Fewer promotion opportunities
Weakness	Spans of control may be large
Weakness	

Evaluating a centralised structure	
Strength	Decisions taken with an overview of whole company
Strength	Consistent policies and decisions
Strength	The whole organisation follows the same goals/objectives
Weakness	Reduces delegation, so local managers can not respond to changes quickly
Weakness	Less job satisfaction
Weakness	Workers may resent having to follow orders from 'head office'
Weakness	Discourages independence

Evaluating a de-centralised structure	
Strength	Involvement in decision making by more staff
Strength	Can adapt to local conditions
Strength	Problems can be dealt with quickly at a local level
Weakness	Managers will need more training
Weakness	A mistake in one branch could impact reputation
Weakness	
Weakness	

Exam tips

- When counting a span of control, only include those directly underneath, not all staff
- Delegating work and having more responsibility can make staff more motivated – they feel valued. Don't assume employees want to do as little work as possible
- Consider the level of skills of the workers – more skilled generally need less supervision so flatter structures can work well

Wider Business world	
Sainsbury's	An example of a centralised business where local branch managers have little power over decision making
NHS, police force	Examples of tall hierarchical structures
Morrison's and Tesco	Each supermarket has a store manager who can make certain decisions concerning areas like staffing, sales promotions.

Subject content	What students need to learn:
2.5.1 Organisational structures	The importance of effective communication: • the impact of insufficient or excessive communication on efficiency and motivation • barriers to effective communication.

Communication methods	
Key idea 1	Verbal – meetings, telephone, digital methods such as Zoom
Key idea 2	Written – letters, reports, posters
Key idea 3	Digital – email, instant messenger, texting, social media

Links to other topics

Motivation – too little, or too much can lead to poor motivation

Technology – has enabled more methods to be available

Stakeholders – different groups will need to be communicated with in different ways

Globalisation – being able to use electronic communication has helped with globalisation

Communication problems	
Key idea 1	Too little communication – can lead to employees being unaware of what is happening, leading to mistakes and inefficiency
Key idea 2	Too much communication so employees are overloaded
Key idea 3	Other information or activities act as barriers to communication

Exam tips

- When counting a span of control, only include those directly underneath, not all staff
- Delegating work and having more responsibility can make staff more motivated – they feel valued. Don't assume employees want to do as little work as possible
- Consider the level of skills of the workers – more skilled generally need less supervision so flatter structures can work well

Barriers to communication	
Key idea 1	Written – illegible handwriting, poor spelling and grammar, poor font or presentation
Key idea 2	Verbal – language not understood, accent not understood, speaking too fast or slow, not pausing when speaking
Key idea 3	Receiver – poor attitude, not listening
Key idea 4	General – timeliness, structure of communication not clear, cultural differences, use of jargon, technical issues, no opportunity for feedback

Key vocabulary

Communication	The passing of information from one person or organisation to another
Insufficient communication	Too little communication which may leave some staff under-informed and demotivated
Excessive communication	Too much communication, causing overload for staff; a particular problem with email
Barrier to communication	Something that prevents the flow of communication
Jargon	– technical or obscure words used by a particular group of people that may not be understood by everyone

Wider Business world	
Microsoft	Research by Financial Times identified Microsoft as having excellent communication
Volkswagen	VW told all its staff to not check emails on weekend

Subject content	What students need to learn:
2.5.1 Organisational structures	Different ways of working: • part-time, full-time and flexible hours • permanent, temporary, and freelance contracts • the impact of technology on ways of working: efficiency, remote working

Types of employment	
1	Full time
2	Part time
3	Flexible hours

Types of contract	
1	Permanent
2	Temporary
3	freelance

Links to other topics

Technology – has enabled more remote working and can contribute to improvements in efficiency

Recruitment – the type of contract offered may impact where and how the vacancy is advertised

Training – more likely for permanent staff

Benefits of part time/full time contracts	
Benefit 1	Stable earnings and high degree of job security
Benefit 2	Regular contributions towards pension
Benefit 3	Likely to receive holiday and sick pay, providing more security
Benefit 4	More likely to be sent on training courses to improve skills

Wider Business world	
Remote working	due to COVID-19 there has been a huge increase in people working this way
Amazon	– reputation for poor working conditions with excessive monitoring

Impact of technology on ways of working	
Impact 1	Has made it easier to work with people without being physically close to them
Impact 2	Can be used to monitor staff, e.g. productivity, breaks, accuracy
Impact 3	Can be used to improve efficiency by doing repetitive jobs more consistently and accurately
Impact 4	Remote working has pros and cons – a lack of natter and banter could mean good ideas are missed

Exam tips

- Remember not all self employed people are super rich and
  successful entrepreneurs
- Self-employed workers will not get holiday pay, sick pay or contributions by their employer into their pension
- Flexible working may sound ideal to some, but for others it would not work. Don't assume everyone wants to work as little as possible!

Key vocabulary

Full time work	35-40 hours per week
Part-time	Less than 35 hours and usually predictable hours /days
Flexible hours	Where days and hours vary from week to week
Zero hour contract	A type of flexible working where employees are not guaranteed any work from week to week
Freelance contract	An agreement over one job between a business and a self-employed worker
Permanent contract	An agreement between a business and an employee that work and income will be provided consistently into the long-term future
Remote working	Working away from the office, typically at home
Temporary contract	An agreement between a business and an employee that work and income will be provided for a specific time period, e.g. six months

Subject content	What students need to learn:

2.5.2
Effective recruitment
	• Different job roles and responsibilities:
	  ○ key job roles and their responsibilities: directors, senior managers, supervisors/team leaders, operational and support staff.
	• How businesses recruit people:
	  ○ documents: person specification and job description, application form, CV
	  ○ recruitment methods used to meet different business needs (internal and external recruitment).

Documents used in the recruitment process

Job description, person specification	created by the business so they are clear about the job that is needed to be filled and what the ideal candidate would be like
Job advert	this can be placed in various places, such as job centre, recruitment agency, online, internal notice board or email, newspapers or specialist magazines
Application form, CV, letter of application	completed by the candidate to provide all the information required by the business
References	supplied by people who know the candidate to support an application A candidate can be chosen through an interview, assessments, further tests or tasks

Internal recruitment

Benefit 1	Quicker and cheaper
Benefit 2	Motivational for employees knowing that they could be promoted to other roles within the business
Benefit 3	Business knows the candidate well
Weakness 1	Existing workers may not have necessary skills
Weakness 2	Creates a new vacancy that may not be filled from internal candidates

External recruitment

Benefit 1	Wider range of applicants to choose from
Benefit 2	External applicants will bring new ideas and skills to the business
Weakness 1	Expensive and time consuming process
Weakness 2	Not guaranteed to find a suitable candidate

Wider Business world

McDonald's	Only recruit online
B&Q	One of many business that no longer accept CV's, only application forms
Merlin entertainments	Require candidates to attend assessment centres.

Links to other topics

Organisational structures – HR will need to know where a vacancy fits within the hierarchy

Legislation – there are laws regulating how employees can be recruited

Motivation – offering internal promotion opportunities can be non-financial motivation

Key vocabulary

Directors	people who make the biggest decisions faced by the business, e.g. aims and objectives
Managers	the people wo organise others to carry out tasks
Supervisors/ team leaders	these people ensure that the staff below them do what they are supposed to do
Operational staff	a member of staff who has specific responsibility for meeting for meeting a target set by the business that is focused on achieving the business's aims and objectives
Support staff	staff who provide help to operational staff, providing assistance with computer networks, administration task etc
Person specification	a description of the type of person who would best fit the job: their character, their experience and skills
Application form	a series of questions a job-seeker must fill in when trying to get an employer interested in interviewing them
CV	curriculum vitae. Sets out the person's experience, qualifications and other relevant facts
Job description	a short account of the main features of the job
Internal recruitment	appointing someone from within an organisation
External recruitment	appointing a new employee who does not work for the business

Subject content	What students need to learn:
2.5.3 Effective training and development	• How businesses train and develop employees: ○ different ways of training and developing employees: formal and informal training, self-learning, ongoing training for all employees, use of target setting and performance reviews. • Why businesses train and develop employees: ○ the link between training, motivation and retention ○ retraining to use new technology.

Why train staff?	
Key idea 1	Has a motivating effect on staff who will feel appreciated and valued
Key idea 2	Staff will familiarise themselves with working practices and ways of working in the organisation
Key idea 3	Trained staff can better meet the needs of the business's customers

Types of training	
1	Formal training
2	Informal training
3	On the job training
4	Off the job training
5	Ongoing training throughout your career

Benefits and drawbacks of providing training for staff	
Benefit 1	Improvements to efficiency and quality
Benefit 2	Wider range of staff skills allows a business to respond to market changes quickly
Benefit 3	Boosts motivation of staff and they feel valued
Drawback 1	Paying to send staff on courses or bringing in external providers can be expensive
Drawback 2	Staff who are training can not do normal work so cover may be required
Drawback 3	Staff may leave for better jobs after receiving training

Exam tips

- Remember training does need to have a formal qualification linked to it
- Remember to analyse training benefits from the employer's point of view, not the employees

Wider Business world	
New Beckfoot staff	All staff receive induction training such as SIMs, use of IT, tour of building, etc…
Doctors	an example of on-the-job training as part of their medical degree and after
Aldi	offer a training program for all new branch managers

Links to other topics

Motivation – providing training can motivate staff by making them feel valued

Aims – performance targets usually relate to the overall aims of the business

Technology – an investment in new technology will be wasted if staff are not trained to use it

Sales process – effective training leads to better customer service, part of the sales process

Key vocabulary

Formal training	the official training program, e.g. a 2 year graduate training program
Informal training	the unexpected, unplanned extra advice of demonstrations that come form colleagues or occasionally from customers
On-the-job training	training that occurs in the workplace whilst doing the job, e.g. on an apprenticeship
Off-the-job training	training away from the workplace, e.g. in a college
Induction training	training that occurs when you first start a job or join a new business
Self-learning	teaching yourself, perhaps by thinking why a problem occurred and making sure you learn from your mistakes
Ongoing training	regular, perhaps weekly training sessions for all staff
Target setting	when you are set goals by a manager and your job is to achieve them
Performance review	discussion between you and your line manager about how well you are working towards the targets set for you
Retention	calculation of how many staff stay loyal rather than leaving

Subject content	What students need to learn:

2.5.4
Motivation
	• The importance of motivation in the workplace:
	  ○ attracting employees, retaining employees, productivity.
	• How businesses motivate employees:
	  ○ financial methods: remuneration, bonus, commission, promotion, fringe benefits
	  ○ non-financial methods: job rotation, job enrichment, autonomy.

Benefits of motivating staff	
Key idea 1	Higher productivity
Key idea 2	Attracts the best employees to apply for vacancies
Key idea 3	Lower staff turnover, so lower recruitment costs
Key idea 4	Better quality production or customer service, leading to repeat customers and less wastage
Key idea 5	More ideas from staff

Costs of demotivated staff	
Cost 1	Unhappy workers – demotivated workers are less satisfied and therefore this will impact their work
Cost 2	Poor customer service because they are likely to take less care when dealing with customers
Cost 3	Low productivity – output per worker will drop as effort levels will be lower
Cost 4	Higher staff turnover because demotivated workers will be looking to leave the business
Cost 5	Low or no profits

Methods of motivation	
Financial methods	**Non-financial methods**
Wages or salaries	Job rotation involves the movement of employees through a range of jobs in order to increase interest and motivation.
Fringe benefits e.g. company car, free laptop, free gym membership	Job enrichment means giving an employee additional responsibilities previously reserved for his manager or other higher-ranking positions
Bonuses – annual or monthly bonuses based on performance or meeting targets	Autonomy means giving workers greater freedom to make their own decisions
Commission – a % or lump sum received per sale	Job enlargement means increasing the scope of a job through extending the range of its job duties and responsibilities generally within the same level
Promotion – this involves moving into higher roles often at higher pay	

Links to other topics

Costs & revenue – remuneration impacts on fixed costs; commission on variable costs, therefore affecting profit margins

Training – employees who are invested in tend to be more motivated

Business aims – bonuses can be related to targets, which usually relate to the business aims

Exam tips

- Remember earning more money does not motivate staff to work
  harder – they may be pleased but won't do any more
- Financial rewards cost the business, so can affect profit margins, unless greater sales and revenue can be generated or cost savings
- Don't confuse job rotation and job enrichment
- Don't assume that staff want to do the littlest amount of work

Key vocabulary	
Motivation	The desire to do the best you can.
Renumeration	All the financial rewards received from work, both direct and indirect.
Fringe benefits	Rewards you get from work that are non-financial such as a company car or free membership of a club.
Salary	An annual amount paid to employees, usually divided into 12 equal payments.
Wage	An hourly rate.
Overtime	Working more than your contracted hours. Sometimes paid at a rate above your normal pay.
Bonus	Extra payments over and above your basic wage, often related to a target.
Commission	Being paid a percentage of the value of a sale you made.
Promotion	Being given a more important job in the organisational structure.
Job rotation	Having several tasks to do at work to remove the boredom of doing the same thing all the time.