GCSE (9-1) Business

Year 1 Revision Portfolio – Specification, Key Terms, Formulae and Exam Technique

Edexcel GCSE Business (9-1) Exam Information:

Paper 1: Investigating Small Business	Theme 1 ONLY 1 hr 45 minutes
Paper 2: Building a Business	Theme 2 ONLY 1 hr 45 minutes
PAPER FORMAT:	• Section A: No context (35 marks) • Section B: Case study and context (30 marks) • Section C: Case study and context (25 marks) • Multiple choice, calculations, short answer and extended writing questions. Calculators are permitted.

Revision Areas:

GCSE Business - Edexcel - BBC Bitesize

Access GCSEPod | Support for teachers, students and parents – Edexcel GCSE Business (9-1)

Student Resources - Business - Revision Resources - All Documents – Exam Papers, Knowledge Organisers and Key Terms/ Specification information.

(356) Edexcel GCSE Business Theme 1 Revision - YouTube – Videos to help revise key concepts from Theme 1

(356) Edexcel GCSE Business Theme 2 Revision - YouTube - Videos to help revise key concepts from Theme 2

Topic 1.1 Enterprise and entrepreneurship		☹	-	☺
1.1.1 The dynamic nature of business	Why new business ideas come about: ● changes in technology ● changes in what consumers want ● products and services becoming obsolete			
	How new business ideas come about: ● original ideas ● adapting existing products/services/ideas			
1.1.2 Risk and reward	The impact of risk and reward on business activity: ● risk: business failure, financial loss, lack of security ● reward: business success, profit, independence			
1.1.3 The role of business enterprise	The role of business enterprise and the purpose of business activity: ● to produce goods or services ● to meet customer needs ● to add value: convenience, branding, quality, design, unique selling points			
	The role of entrepreneurship: ● an entrepreneur: organises resources, makes business decisions, takes risks			

Topic 1.1:
Enterprise and Entrepreneurship

1.1.1 Dynamic Nature of Business

Key Vocabulary

Business – an organisation that seeks to satisfy the needs and wants and wants of consumers through the production of goods and services

Dynamic – continual change

Consumer – the end user of the product or service

Obsolete – outdated; a product that has declining sales or come to an end

Entrepreneur – an individual who comes up with a business idea and is willing to take a risk to develop it

Core Knowledge

The world changes constantly, and therefore so d consumer needs, and so businesses must therefore be dynamic to respond to these changes, or they risk failure.

Why? Business ideas come about because of:

1. Changes in technology
2. Changes in what consumers want
3. Products and services becoming obsolete

How? Business ideas come about because:

1. An entrepreneur has a completely original idea – this is invention
2. Adapting an existing idea – this is innovation

Adaptions to products can be:

- New flavours
- Different colours / pack sizes
- Online access to a product or service
- Offering personalisation

Don't be a "man on the street"

- Innovation and inventions are not the same thing
- Avoid statements like "ALL customer have….."; "NOBODY uses…."
- Don't assume that all products that have declining sales will become totally obsolete – some see revivals, e.g. vinyl records
- Don't assume that all ideas will be successful – unfortunately a lot do not succeed

Wider Business World

Apple – great example of business that continually adapts products

Iceland – changed from frozen only foods to non-frozen and non-food goods because this is what consumers want when they shop

Synoptic Links

Marketing – the product life cycle states that all products eventually need to be removed from sale

Technology – changes in technology have led to obsolete products and changes in consumer tastes

Role of enterprise – entrepreneurs are the individuals who develop new ideas

Topic 1.1:
Enterprise and Entrepreneurship

1.1.2 Risk and Reward

Key Vocabulary

Risk – something bad / negative that could happen

Reward – something good / a positive effect

Financial – related to money

Non-financial – non-money related

Profit – what a business has left from its income after paying all of its costs

Core Knowledge

Starting and running a business are risky activities. A large percentage of start-up businesses fail in the first five years.

Risks are things that can go wrong. These include:

- Business failure
- Financial loss
- Lack of security due to not having a regular income

Business can fail because:

- An entrepreneur does not know the market well
- Not having enough capital to start the business
- Poor decision making
- Competition from other businesses
- Not meeting the needs of customers

Rewards are what can be achieved through business success. These include:

- Profit
- Personal independence

Don't be a "man on the street"

- Although risks can cause a business to fail, careful planning and research can reduce risks
- Don't confuse the term 'security'. It is not about prevention from theft, but about regular income

Wider Business World

Thomas Cook, BHS – businesses that have failed. Find out why

Richard Branson – an entrepreneur worth billions, but he still takes risks when starting new ventures. Why would this be?

Synoptic Links

Role of enterprise – entrepreneurs are the individuals who take risks

Ownership – different types of ownership have different levels of risk for the owner

Customer needs – knowing what these are helps to reduce risk

Market research – doing this helps to reduce risk

Topic 1.1:
Enterprise and Entrepreneurship

1.1.3 Role of Business Enterprise

Key Vocabulary

Goods – physical items that a business can produce or sell

Services – non-physical products; things that you can experience, e.g. a haircut

Needs – the essential products that consumers need to survive: food, water, shelter, clothing, warmth

Wants – anything that is not a basic need. Often referred to as luxuries

Customer – the person who buys the product

Consumer – the person who is the eventual user of the product

Adding value – adapting a product so that the selling price is higher that the cost of creating the product

USP – Unique Selling Point

Factors of production – resources needed to produce goods and service: land, labour, capital, enterprise

Core Knowledge

A business will produce goods or services

Goods or services must meet the customer needs, or they will not sell

The entrepreneur is the uses and organises the four factors of production in order to produce goods or services.

A business can sell its product at a higher price than the cost of the manufacturing by adding value. This can be through:

- **Branding** – creating an image for a product that sets it apart, e.g. Apple logo
- **Quality** – for example using better cuts of meat in a pie
- **Design** – unique features and designs can lead to consumers paying higher prices
- **Convenience** – when something saves a customer time, this can lead to them paying a higher price, e.g. pre-prepared vegetables
- **USPs** – a characteristic or feature of a product that can not be replicated by an alternative

A business will be likely to use a combination of the above

Don't be a "man on the street"

- Not all businesses produce goods; some produce services
- WiFi is not a need
- Don't confuse the terms consumer and customer
- Customers will not always want the cheapest product
- Adding value does not meet making the price higher

Wider Business World

Gap, Nike, Gucci – examples of brands that cost a lot more than the actual cost of the materials

McCain – produce a lot of ready-meals and pre-prepared items that cost more than the ingredients

Synoptic Links

Customer needs – knowing what these are helps to ensure that that the business is satisfying them

Risk and reward – the entrepreneur takes risks, in order to achieve rewards

Marketing – the use of branding and USPs

Topic 1.2 Spotting a business opportunity

Topic	Content	☹	-	☺
1.2.1 Customer needs	Identifying and understanding customer needs: ● what customer needs are: price, quality, choice, convenience			
	● the importance of identifying and understanding customers: generating sales, business survival			
1.2.2 Market research	The purpose of market research: ● to identify and understand customer needs ● to identify gaps in the market ● to reduce risk ● to inform business decisions			
	Methods of market research: ● primary research: survey, questionnaire, focus group, observation ● secondary research: internet, market reports, government reports			
	The use of data in market research: ● qualitative and quantitative data ● the role of com media in collecting market research data ● the importance of the reliability of market research data			
1.2.3 Market segmentation	How businesses use market segmentation to target customers: ● identifying market segments: location, demographics, lifestyle, income, age			
	● market mapping to identify a gap in the market and the competition			
1.2.4 The competitive environment	Understanding the competitive environment: ● strengths and weaknesses of competitors based on: price, quality, location, product range and customer service			
	● the impact of competition on business decision making			

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Topic 1.2.1 Customer Needs

Key Vocabulary

Customer needs – the specific things that a buyer wants about goods and services

Customer reviews – feedback from customers, which can be online

Word of mouth – when a customer tells another person about a business

Repeat purchase – when a customer returns to the same business

Core Knowledge

Customer needs are the specific wants or needs that buyers have when purchasing goods

Different customers have different needs

If a business knows and understands its customers' needs it is in a better position to produce the products that customers want, in the way that they want them, leading to increasing sales, and so contributing to long term survival

Customer needs are:

- **Price** that reflects the quality of the product, and is low enough to match consumer incomes
- **Quality –** usually more important for those with higher income levels
- **Choice –** consumers like to select from a range of options, e.g. different flavours, colours or packet sizes
- **Convenience –** making life easier for customers
- **Efficient and reliable service –** such as having enough stock, or longevity of a product
- **Design –** how good a product looks

Don't be a "man on the street"

- Don't assume consumers always go for the cheapest option – they have other needs that may override price depending on the circumstances

Wider Business World

Aldi & Lidl versus Tesco – meet different need though the price level and choice available

Banks – a variety of ways to access your funds is convenience

Takeaways – offer convenience so we pay more than the cost of the ingredients

Synoptic Links

Market research – this is how a business finds out customer needs

Market segmentation – how we divide up customers into smaller groups with similar needs

Added value – meeting customer needs can allow a business to charge higher prices, i.e. add value to a product

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Topic 1.2.2 Market research

Key Vocabulary

Market research – the process of gathering, processing and interpreting information about consumers' behaviour

Secondary research – using research that has already been carried out for another purpose

Primary research – collecting new information

Qualitative data – research into opinions and views

Quantitative data – data that is numerical

Focus group – a small number of consumers who have a discussion

Market trends – an overall pattern related to products

Market gap – where demand is not being met by the existing products available

Bias – a one-sided view

Sample-size – the number of consumers that are involved in market research

Core Knowledge

The purpose of market research is:
- To identify and understand customer needs
- Identify market gaps
- Reduce risk
- Inform business decisions

Methods of research are:
- **Primary** – collecting brand new data to meet the specific needs of the business
- **Secondary** – using research that has already been gathered

	Benefits	Limitations
Primary	• Up-to-date information • Information secret from competitors	• Can be expensive • Can be time consuming • Results may be inaccurate
Secondary	• Easy to find • Cheap or free to obtain • Good overview of whole market	• May be inaccurate • Can be out-of-date • Likely to be unrelated to business needs

Social media has made it easier to collect data using comments, reviews, surveys, and online focus groups
Trends can be identified from tracking hashtags

Don't be a "man on the street"

- Don't assume that a market gap will guarantee success
- Remember that research can be unreliable if the sample size is too small, the wrong target market are questioned or the sample is biased

Wider Business World

Innocent Smoothies – conducted initial market research at a festival using two bins – Yes or No to launching their business

Survey monkey – a free online survey platform making it easier to conduct research

Synoptic Links

Market segmentation – how we divide up customers into smaller groups with similar needs

Customer needs – market research aims to find out what these are, if they are being met, and what else is wanted

Risk and reward – market research can reduce the risk

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Topic 1.2.3 Market segmentation and market mapping

Key Vocabulary

Market segmentation – splitting up all consumers into different groups that have similar needs or characteristics

Target market – the specific market segment a business aims to sell to

Demographics – customers based on statistical data relating to the population, e.g. resident or marital status

Market map – a diagram that positions all products within a market using two features, e.g. price and quality

Socio-economic group – a method of segmenting that uses income and class / occupation to classify people

Core Knowledge

Markets can be segmented by

- **Location**, i.e. where you live
- **Demographics**, e.g. targeting families rather than single people; home owners rather than renters
- **Lifestyle**, i.e. the choices made about how to spend free time and hobbies consumers have
- **Income**, i.e. by how much you earn, the job you do or your social class
- **Age,** i.e. by how old you are

A market map can be used to position and compare products in a market

Allows a business to identify the competition the business faces and any potential gaps in the market

BUT....this may be simplistic and is based on subjective opinion so may not be reliable

Don't be a "man on the street"

- Don't assume that a gap on a market map indicates a gap to be filled – it could be there because there is no demand for that type of product
- Be careful not to say ALL or WILL – adapt to MOST, MORE LIKELY, e.g. *Most* women are *more likely* to buy make-up than men

Wider Business World

Hotel market – consider the target market of the Savoy compared to a Premier Inn

Ford cars – products lots of products to target different segments

Taylor Wimpey – a house builder. They produce lots of varieties of new homes to target different groups in terms of income, location and family size

Synoptic Links

Market research – information gathered can help a business to identify which segments to target

Marketing mix – the elements of marketing. These will be different for different target markets

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Topic 1.2.4 Competitive environment

Key Vocabulary

Market – the potential buyers for one product; where goods and services are exchanged

Competition – where there is more than one business attempting to attract the same customers

Monopoly – a market where there is only one business

Oligopoly market – a market where there are a few firms that dominate the market

Competitive market – where there are lots of small firms offering very similar products

Differentiation – strategies and techniques that a business uses to make their product stand out

Market share – the percentage of sales within the market that one business has

Competitive advantage – where one business has 'the edge' over the others in a market

Core Knowledge

A business will need to compete in different ways depending on how competitive the market is. Some firms will choose to use differentiation to stand out from the others, e.g. through the use of branding or offering a USP.

Ways to compete:

- **Price** – offering lower prices can increase demand, but reduces profit margins, and can increase costs. Other businesses may do the same and result in a price war
- **Quality** – improving the quality of raw materials or ingredients, but this increases costs, although customers may be willing to pay higher prices
- **Location** – can attract customers if it is easy to access, has parking, or has a lot of passing trade. However, good premises cost more
- **Product range** – offering lots of choice to the consumer or specialising to provide a better service
- **Customer service** – through great staff, although this costs to train them, or excellent after-sales service

A business may be able to gain a competitive advantage though one of these methods to order to encourage repeat custom and great reviews

Don't be a "man on the street"

- Don't confuse the term 'market' in a business sense with an actual street market
- Don't assume that a new business can simply compete by offering lower prices – larger firms can negotiate better prices from suppliers
- Remember than improving quality will increase costs

Wider Business World

Holiday market – very few firms now, especially following the collapse of Thomas Cook. An example of an oligopoly

London Underground – a monopoly market because there is only one tube firm

Hairdressers – very competitive market

Synoptic Links

Customer needs – many of the ways businesses compete are the same as customer needs

Marketing mix – this will need to be adapted depending on the level of competition

Market mapping – what are your competitors offering? Knowing this can help a business decide on how to compete

Topic 1.3 Putting a business idea into practice		☹	-	☺
1.3.1 Business aims and objectives	Business aims and objectives when starting up: ● financial aims and objectives: survival, profit, sales, market share, financial security ● non-financial aims and objectives: social objectives, personal satisfaction, challenge, independence and control. Why aims and objectives differ between businesses.			
1.3.2 Business revenues, costs and profits	The concept and calculation of: ● revenue ● fixed and variable costs ● total costs ● profit and loss ● interest ● break even level of output ● margin of safety			
	Interpretation of break even diagrams: ● the impact of changes in revenue and costs ● break even level of output ● margin of safety ● profit and loss			
1.3.3 Cash and cash-flow	The importance of cash to a business: ● to pay suppliers, overheads and employees ● to prevent business failure (insolvency) ● the difference between cash and profit			
	Calculation and interpretation of cash-flow forecasts: ● cash inflows ● cash outflows ● net cash flow ● opening and closing balances			
1.3.4 Sources of business finance	Sources of finance for a start-up or established small business: ● short-term sources: overdraft and trade credit ● long-term sources: personal savings, venture capital, share capital, loans, retained profit and crowd funding			

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Topic 1.3.1 Business Aims & Objectives

Key Vocabulary

Aims – a long term goal a business wants to achieve

Objectives – more specific measurable steps

Financial aims – goals related to money, e.g. survival, profit levels

Non-financial aims – goals related to non-monetary aspects, e.g. ethical or environmental issues

Survival – having enough sales to cover costs and still be trading

Profit – when revenue is greater than costs

Sales volume – the number of products sold

Market Share – the percentage of total sales that one business has

Ethical – morally correct

Shareholder – an individual who owns part (a share) of company

Dividend – the percentage of profit that is paid to shareholders of a company each year

Core Knowledge

What is an Aim?

Aims are long term goals. Objectives are more specific measurable, time constrained steps. The best objectives are **SMART**.

SMART – **S**pecific, **M**easurable, **A**chievable, **R**ealistic, **T**ime-framed

Examples of Aims:

- **Financial** Aims: Survival, maximise or increase profit, growth, increase dividends to shareholders
- **Non-financial** aims: ethical, e.g. no animal testing, achieve customer satisfaction, achieve a personal challenge or independence

Why set objectives?

Objectives help a business to have a focus, allow them to monitor progress, and to set individual objectives for employees to motivate them

Don't be a "man on the street"

- All businesses aim to make a profit – not true! Social objectives can be important and so can personal objectives
- Businesses will change their objectives over time – don't assume that they always are aiming for the same thing

Wider Business World

Tesco – used to aim to have more than 50% of its revenue from non-food. Changed after Aldi and Lidl gained 10% market share between them

M&S – aims are about environment and sustainability not profit

Dyson – James Dyson had a personal objective: to be successful rather than profitable

Synoptic Links

Enterprise – the non-financial rewards for entrepreneurs are similar to non-financial objectives

Financial data – understanding the difference between survival (break-even) and profit

Ownership – only companies will have shareholders; smaller businesses are more likely to have personal objectives

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Topic 1.3.2a Revenue, Costs and Profit

Key Vocabulary

Revenue – Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

Demand – a business term for the quantity of products sold

Fixed costs – costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

Variable costs – costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

Total costs – All costs added together

Profit – when revenue is greater than costs

Loss – when revenue is lower than costs

Interest – a percentage charge on borrowed money / percentage reward for saving money

Core Knowledge

Fixed costs	Variable costs
Rent Rates Electricity / heating / phone bills Salaries	Raw materials Packaging Delivery costs

Revenue = Number of items sold x Selling price per unit

Total Variable cost = variable cost per item x number sold

Total costs = Total variable cost + fixed costs

Interest charged = amount borrowed x (interest rate ÷ 100)

Total amount repaid = amount borrowed + interest charged

Monthly payments = Total amount repaid ÷ (years of loan x 12)

% interest charged = (total repayment – borrowed amount) ÷ borrowed amount x 100

Don't be a "man on the street"

- Interest is not about how much people like your product!
- Revenue and profit are VERY different
- Loans are not paid at the end of the term – they are paid in instalments each month
- Borrowing money is debt. Debt is *not* a bad thing unless, the business can not pay it back

Wider Business World

Amazon – has no high street retailers so has fixed costs than a lot of other businesses

Bank of England – sets the base rate for interest that other lenders then use

Synoptic Links

External factors – changing interest rates can have an impact on consumer spending

Breakeven – when total costs is exactly the same as total revenue

Cash flow – unpredictable or inconstant revenue can impact on cash flow

Sources of finance – interest is charged on borrowing

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Topic 1.3.2b break even

Key Vocabulary

Revenue – Also called **Turnover**, **Income** and **Sales**. This is the money generated from selling your products

Output – quantity of products produced

Fixed costs – costs that do not change as the level of production changes. They must be paid even if output/sales are zero, e.g. rent, rates

Variable costs – costs that change in direct relation to the amount sold or produced by a business, e.g. raw materials, packaging

Total costs – All costs added together

Profit – when revenue is greater than costs

Loss – when revenue is lower than costs

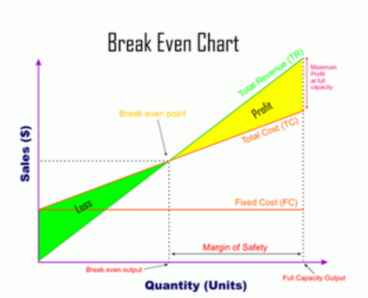
Breakeven point – when total revenue = total costs

Breakeven output – the number of products needed to break-even

Margin of safety – number of products produced above breakeven

Core Knowledge

Calculating breakeven allows a business to use all its costs to calculate how many products it must sell to cover ALL costs.



The contribution method is a quicker, more accurate way to calculate breakeven:

Break-even = Fixed costs ÷ (Selling price – variable cost)

Don't be a "man on the street"

- A business can easily lower the breakeven point by reducing costs - this may not be true. Fixed costs are out of the control of the business, and buying lower cost materials can affect quality
- Increasing price will make more profit for a business – not always! Increasing the price, will lower the breakeven point, BUT may lead to lower sales

Wider Business World

Gordon Ramsey – watch any of his 'Nightmare' shows to see how he talks about knowing the break-even number of meals, and the importance of costing each meal

High street retailers – consider the impact of COVID19 on the breakeven point of most retailers: what were their costs and revenue during this period

Synoptic Links

Costs – knowing the difference between fixed and variable costs and being able to calculate costs and revenue

Aims – breakeven (survival) is an aim for a start-up business, or one in a struggling market

Business plans – this information is needed in the plan to present to investors

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Topic 1.3.3 Cash flow forecasting

Key Vocabulary

Cash – the money a business holds in notes and coins and in its bank accounts

Cashflow – the movement of money in and out of a bank account

Insolvency – when a business lacks the cash to pay its debts

Overdraft – the amount of an agreed overdraft facility that a business uses; when a business has a negative bank balance

Overdraft facility – the maximum amount that a business is allowed to into negative balance on its bank account

Cash inflows – money entering the bank account, e.g. from sales

Cash outflows – money leaving the bank account, e.g. bills for supplies

Net cash flow – inflows minus outflows

Opening balance – the amount of money at the start of the month

Closing balance – the amount of money at the end of the month; Opening balance ADD net cash flow

Core Knowledge

A business will **predict** the amount of money that will enter and leave the business each month.

This allows the business to identify any periods of shortfall, to plan how to deal with this.

Businesses need cash to pay suppliers, employees and all the overheads.

Difficulty can arise if businesses allow customers to pay on **credit**.

Cash needs to be managed by arranging an overdraft, keeping costs down, keeping inflows up

Improve cash flow by cutting stock levels, increase credit from suppliers, reduce credit to customers

	Aug	Sept
Cash inflows	0	85
Cash outflows	185	75
(A) Net cash flow	-185	10
(C) Opening Balance	250	65
(B) Closing balance	65	75

(A) Net cash flow = inflows - outflows

(C) Closing Balance = Opening + Net Cash flow

(B) Opening Balance = last month's closing balance

Don't be a "man on the street"

- Do not confuse cash & profit – they are very different things
- A cash flow forecast is a prediction not what has happened
- An overdraft does not mean the business will fail – it simply means that in that month outflows exceeded more than inflows. Debt is not always a bad thing!
- Lots of cash in the bank is not always a good thing – this could be invested to improve the business

Wider Business World

Retailers – they often have seasonal or unsteady cash flow as they need to buy stock before they can sell it

Hotels / restaurants - may have seasonal business, so it will be important to build up a balance to support them through periods of low sales

Synoptic Links

Costs & Revenue – know which items are revenue (inflows) and which are costs (outflows)

Sources of finance – if outflows are greater than inflows, short term finance is needed

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Topic 1.3.4 Sources of finance

Key Vocabulary

Interest – the charge on borrowing money

Share capital - the investment raised from selling shares (part of the company) to investors

Dividends – the part of the profit that is paid to shareholders as a reward for their investment

Loan – borrowing an amount of money from the bank which is paid back in monthly instalments at a fixed rate of interest

Mortgage – a type of loan that is secured on property. Interest can be fixed or variable

Venture capital – a combination of share and loan capital providing by an investor willing to take a risk

Retained profit – profit kept by the business from previous years

Crowdfunding – raising capital online from lots of small investors

Overdraft – having a negative bank balance

Trade credit – buying goods and paying for them at a later date

Core Knowledge

A business will need finance at three key times:
- At start-up to help fund start-up costs, e.g. initial stock
- During periods of expansion to fund new buildings, legal costs, etc
- During periods when cash flow is poor

Short term finance (trade credit and overdraft) are for small amounts and short periods of time. Long term sources are for longer periods and larger amounts.

	Benefit	Limitation
Overdraft	Flexible – only use what you need when you need	High interest rates
Trade Credit	Free; helps cash flow	Might not be granted
Personal savings	No interest to repay	Might not have enough
Retained profits	No interest to repay	New businesses won't have any
Venture capital	Advise and support provided	Have to share profit
Share capital	No need to repay	Have to share profit
Loan	Fixed monthly payments helps cash flow	Time to arrange and may not be granted
Crowdfunding	Risk is shared among many people	May not raise enough

Don't be a "man on the street"

- Being in debt is not a bad thing and won't always lead to business failure
- The interest rate, is not to do with the number of people who want to buy, but the charge you pay on borrowing money
- Remember you pay back loans and mortgages each month, not at the end of the time period

Wider Business World

Dragon's Den – the Dragons are venture capitalists

Go Fund Me – an example of a crowdfunding website

Synoptic Links

Interest – calculating and understanding the interest rate will help to understand which sources are cheaper

External factors – influences on businesses include the interest rates

Ownership – remember that only LTDs can sell shares

Costs & breakeven – interest and loan payments are fixed costs

Topic 1.4 Making the business effective

Topic 1.4 Making the business effective		☹	-	☺
1.4.1 The options for start-up and small businesses	The concept of limited liability: ● limited and unlimited liability ● the implications for the business owner(s) of limited and unlimited liability			
	The types of business ownership for start-ups: ● sole trader, partnership, private limited company ● the advantages and disadvantages of each type of business ownership			
	The option of starting up and running a franchise operation: ● the advantages and disadvantages of franchising			
1.4.2 Business location	Factors influencing business location: ● proximity to: market, labour, materials and competitors ● nature of the business activity ● the impact of the internet on location decisions: e-commerce and/or fixed premises			
1.4.3 The marketing mix	What the marketing mix is and the importance of each element: ● price, product, promotion, place			
	How the elements of the marketing mix work together: ● balancing the marketing mix based on the competitive environment ● the impact of changing consumer needs on the marketing mix ● the impact of technology on the marketing mix: e-commerce, digital communication			
1.4.4 Business plans	The role and importance of a business plan: ● to identify: the business idea; business aims and objectives; target market (market research); forecast revenue, cost and profit; cash-flow forecast; sources of finance; location; marketing mix			
	The purpose of planning business activity: ● the role and importance of a business plan in minimising risk and obtaining finance			

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Topic 1.4.1 Business Ownership

Key Vocabulary

Unlimited liability – where the owner's responsibility for debts has no limit, so personal possessions are at risk

Limited liability – owner's responsibility is limited to the amount of the original investment

Sole trader – a business owned and run by one person

Partnership – a business jointly owned by 2-20 people

Silent partner – a person who invests into your partnership but does not run it

LTD – a private limited company

Shareholder – someone who owns part of a company (LTD or PLC)

Employees – people who work for your business

Franchising – allowing others to use your business name

Franchisee – someone who buys into a franchise

Franchisor – a person or business who allows others to buy into their franchise business

Incorporated – where the business is a separate legal entity to the owners

Core Knowledge

There are various ways a business can be owned, amongst them

- Sole traders
- Partnerships
- Private limited companies
- Franchise

	Advantages	Disadvantages
Sole trader	Easy to set up Keep all profits Make all decisions	Unlimited liability Long hours and few holidays Unincorporated
Partnership	More ideas Can share workload / specialise More start-up capital	Unlimited liability Unincorporated Possibility of disagreements Need to share profits
LTD	Incorporated Limited liability Easier to raise capital	More expensive to set up Must publish accounts every year Profits shared between shareholders
Franchise	Already successful Support with training Easier to obtain finance	Rules about what you can sell and how Start-up fee and % of revenue have to be paid to franchisor

Don't be a "man on the street"

- Not all businesses are called companies
- Not all business owners are shareholders
- Limited liability means you don't need to pay bills; this is <u>only</u> the case in the event of the business failing
- Sole traders <u>can</u> still have employees

Wider Business World

Franchise examples include Subway, BSM, JoJingles

LTDs include New Look, Eddie Stobbart

Synoptic Links

Risk and reward – an entrepreneur will need to consider the risk of financial loss

Business growth – why a business might choose to change ownership

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.4.2 Business Location

Key Vocabulary

Location – where a business operates

Proximity – nearness to; how near you are to something

Market – the customers / people and businesses who will buy your products

Labour – staff who work for you

Raw materials – the things a business needs to make its products

Primary sector – businesses that extract and provide raw materials from the land, sea or air

Secondary sector – businesses that convert raw materials into a finished product

Tertiary sector – service-based businesses

Core Knowledge

Business location is where the business operates. This may be a fixed location on online.

For some businesses the location is more important that others. A business will need to consider

- The nature of the business
- What sector it operates in
- The market / customers' needs
- Type and amount of labour required, i.e. near to labour if skilled labour is needed, and concentrated in a specific area
- Type, size, amount of materials required to produce the product
- Competitors – locate close when customers visit an area for a specific purpose, e.g. a town centre for a night out
- Costs – city centre locations are more expensive than out of town locations

The internet has had a significant impact on location. Small businesses can now use online sites such as ebay and etsy.

Using e-commerce can reduce fixed costs, and allow a business to offer a greater choice, but the business must have efficient distribution systems and an effective returns service

Don't be a "man on the street"

- Not all retailers sell online as well
- Ebay is for business sellers as well as second hand items
- Cheapest location is not always best

Wider Business World

Amazon – arguably the most successful internet based business

Primark – most of the stores in large town centres to benefit from being near customers

Beauticians / hairdressers – often set up close to competition to benefit from passing trade

Medical research – often located near to a large university

Synoptic Links

Technological influences – the introduction of the internet meant that businesses no longer needed a fixed premises

Marketing mix – location costs can affect price; internet affects the place element

Globalisation – some businesses can now choose to locate in different parts of the world

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.4.3 Marketing Mix

Key Vocabulary

Product – the actual specific item produced by the business

Price – what the customer will pay for the product

Promotion – the mix of methods that are used to persuade customers to buy

Place – how and where the product gets to the consumer from the supplier

Customer – person or business that buys the product

Consumer – the end user of the product

Retailer – a business that buys from the manufacturer and sells then onto the customer

Wholesaler – a business that buys in bulk from manufactures and sells in smaller quantities to retailers

e-tailer – an online retailer

USP – unique selling point; something that is unique to that product and makes it stand out against the competition

Target market – the specific group of customers a business is targeting in terms of gender, income, lifestyle, age

Core Knowledge

Also referred to as the 4Ps. All factors must work together to enable a product to be successful.

- **Product** – this must meet the customer needs and be developed based on market research. A business will need to consider its range, brand and USP. The design, aesthetics and function must all work together
- **Price** – what will be charged. This must be appropriate for the target market, and quality of the product. Usually high quality products have higher prices.
- **Promotion** – the combination of activities that create awareness, boost sales, build a brand and communicate features, including advertising, special offers, publicity and public relations
- **Place** – the methods that are used to get the product from the manufacturer to the consumer, for example through a specialist shop, the internet or a general retailer

Changing customer needs will impact on a marketing mix. For example, an increase in customers wanting plant-based food, will mean that food manufacturers will need to develop new products.

Changes in technology, have impacted on all aspects of the marketing mix: a business can use social media to conduct research to develop products; customers can compare prices more easily; promotion can be digital.

Don't be a "man on the street"

- Place is not the same as location
- Promotion is not just advertising
- Lower priced products do not always sell more; quality is also important

Wider Business World

Apple – price, place, product and promotion all link

Chanel – will not allow Superdrug of cheaper retailers to stock its perfume

RyanAir / EasyJet – their prices are much lower than other airlines. Consider how their product and promotion reflects this

Synoptic Links

Technological influences – the introduction of the internet has affected the place

Customer needs – the product needs to meet these

Market research – will need to be effective for the business to decide on each P

External influences – may affect customer income, affecting the price a business can charge

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.4.4 Business Plans

Key Vocabulary

Business plan – a detailed documents setting out the marketing and financial thinking behind a proposed business

Entrepreneur – an individual who combines the factors of production to create a product, often taking risks

Aims – the long term goals of a business

Target market – the specific group of consumers a business is aiming to sell their product to

Revenue – the income from sales of the products

Costs – items such as rent, rates that a business must pay

Profit – revenue minus costs

Cash flow forecast – a prediction of the inflows and outflows of money the business will have each month

Sources of finance – places, businesses or people that a business can get money from in order to pay start-up and running costs

Location – the place where a business operates

Marketing Mix – a combination of the 4 Ps; product, price, place and promotion

Core Knowledge

Why plan?

- To reduce risk of failure
- To encourage investors
- Forces the entrepreneur to consider all aspects of the business
- Provides something to refer to and provide direction

Contents

1. The business idea
2. Aims and Objectives of the business
3. Target market
4. Forecast revenue, costs and profit
5. Cash flow forecast
6. Sources of finance
7. Location
8. Marketing Mix

Limitations

Planning does not guarantee success

Problems can arise if the plan is not flexible and include contingency plans

Don't be a "man on the street"

- A plan will guarantee an investment – not the case. Banks and venture capitalists are experienced and will be able to spot unrealistic forecasts
- A lot of research will need to go into a plan. An entrepreneur can not write one overnight or without extensive research

Wider Business World

Watch Dragon's Den – who has a business plan? Are they more likely to get investors?

Synoptic Links

Aims and Objectives – what is the purpose of writing these

Marketing Mix – need to be included

Market research – types that can be done and reasons why it is necessary

Risks and rewards – planning reduces the risk to an entrepreneur

Topic 1.5 Understanding external influences on business		☹	-	☺
1.5.1 Business stakeholders	Who business stakeholders are and their different objectives: ● shareholders (owners), employees, customers, managers, suppliers, local community, pressure groups, the government			
	Stakeholders and businesses: ● how stakeholders are affected by business activity ● how stakeholders impact business activity ● possible conflicts between stakeholder groups			
1.5.2 Technology and business	Different types of technology used by business: ● e-commerce ● social media ● digital communication ● payment systems			
	How technology influences business activity in terms of: ● sales ● costs ● marketing mix			
1.5.3 Legislation and business	The purpose of legislation: ● principles of consumer law: quality and consumer rights ● principles of employment law: recruitment, pay, discrimination and health and safety			
	The impact of legislation on businesses: ● cost ● consequences of meeting and not meeting these obligations			
1.5.4 The economy and business	The impact of the economic climate on businesses: ● unemployment, changing levels of consumer income, inflation, changes in interest rates, government taxation, changes in exchange rates			
1.5.5 External influences	The importance of external influences on business: ● possible responses by the business to changes in: technology, legislation, the economic climate			

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.5.1 Stakeholders

Key Vocabulary

Stakeholder – anyone with an interest in the business

Shareholder – someone who owns part of a company (LTD or PLC)

Employees – people who work for your business

Customer – someone who buys from your business

Manager – someone with a position of responsibility within a business organisation

Supplier – someone or a business that provides stock or materials to a business

Local community – the people who live around the business

Pressure group – an organisation that will campaign for something specific, e.g. workers rights, environmental protection

Government – political power that can set laws and regulations that a business must follow

Conflict – when stakeholders groups do not want the same thing from a business

Core Knowledge

Stakeholders are anyone interested in the activities of a business.

Each group is interested for different reasons, e.g. employees want to be paid a reasonable income and have job security.

Stakeholders are affected by business activity, e.g. local community is affected by the noise, pollution and traffic congestion, but may gain job opportunities or community sponsorship.

Each stakeholder group can influence a business, e.g. customers can write reviews of the business

Stakeholder groups may want different things and so there may be conflict between their needs. A business will need to manage this to try to satisfy as many stakeholder groups as possible.

Don't be a "man on the street"

- Don't confuse stakeholders and shareholders
- Stakeholders are not one collective group
- Managers and owners are not the same thing
- Not all business owners are shareholders

Wider Business World

Plane Stupid is a pressure group that campaigns against increasing air travel

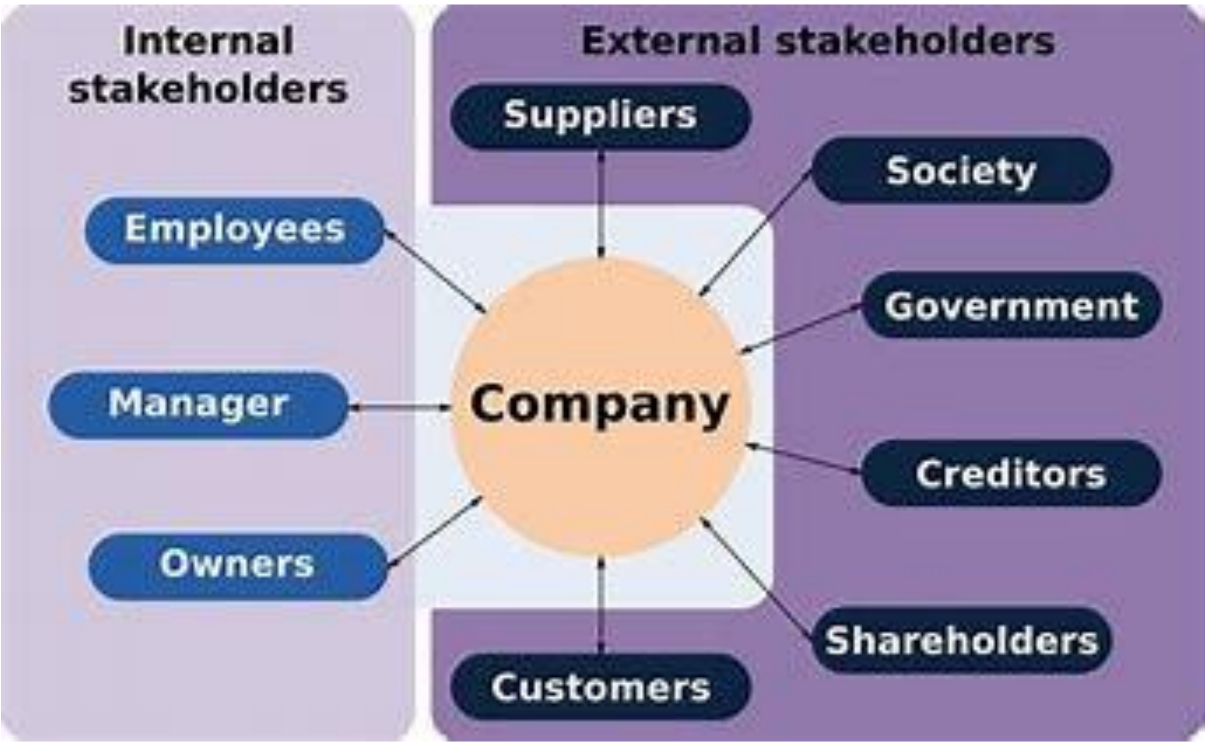
Greenpeace is a well-known environmental pressure group

Synoptic Links

Ownership – sole traders and partnerships have owners / LTDs have shareholders

Customer needs – meeting these is important

Ethical & environmental considerations – pressure groups can influence these



BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.5.2 Technology

Key Vocabulary

e-commerce – buying and selling of goods/services online

m-commerce – using a mobile device to trade online

social media – interactive channels of communication, via words, photos or videos, such as blogs, Facebook or Instagram

digital communication – messages or conversations conducted via email, text or social media

digital payment systems – ways of paying electronically, e.g. online payments, contactless and mobile payments

debit card – a payment method where the money is taken direct from the customers bank account

credit card – a payment method where the business gets paid, but the consumer owes the money to a credit company

Core Knowledge

Technology has enabled businesses to develop in three main areas:

- **Trading** – being able to buy and sell online through their own websites or websites of a third part, allowing a business to reach a wider market
- **Communicating** – using websites, email, video conferencing allow business to communicate more regularly with consumers
- **Payments** – businesses can accept payments in more ways, attracting more consumers than before

Impact on Sales – businesses are likely to sell more because they can reach a wider market, BUT it is easier for consumers to compare prices, so small local businesses may suffer

Impact on costs – keeping up-to-date and installing technology is expensive and so increases costs, especially in the short term. BUT if a business can replace stores or staff with technology this can reduce costs in the long run

Impact on Marketing Mix

- **Product** – innovation needs to increase to keep up with changes
- **Price** – greater efficiency can reduce prices; consumers can compare so a business must be competitive
- **Place** – a business does not need a physical store. Trading can now be 24/7 365 days a year
- **Promotion** – quicker and cheaper; social media can be used; a business may encourage viral marketing

Don't be a "man on the street"

- Don't assume everyone has technology or uses social media
- Don't assume that some social media is less popular than others just because you don't use it!
- Don't use brand names, such as Apple Pay or PayPal
- Not all businesses need to sell online to be successful – consider Primark

Wider Business World

Primark – a business that does not have an e-commerce site, yet is successful

e-bay – auction site that enables small businesses to trade without a physical store

amazon – biggest e-commerce site

Synoptic Links

Marketing Mix – e-commerce has affected all aspects of the 4 Ps

Location - e-commerce allows businesses to trade without a physical presence

Customer needs – technology helps to meet the need of convenience for the customer

Costs, Revenue & profit – technology affects costs, revenue and profit in both short and long term

Globalisation – technology has enabled more businesses to sell all over the world

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Topic 1.5.3 Legislation

Key Vocabulary

Legislation - laws

National Minimum Wage – the lowest amount an employee can be paid by law

National Living Wage – the minimum amount per hour for a 25-year-old or older

Equality Act 2010 – Main employment legislation that replaced lots of other laws. Makes it illegal to discriminate against anyone, e.g. because of race, religion, gender

Health & Safety at Work Act – law that helps to ensure that all risks to employees are minimised and properly controlled

Consumer Rights Act – law that covers how goods and services are sold

Discrimination – treating one person differently to others because of a specific trait such as their gender

Red tape – the term for extra administration needed to meet legal requirements that affects the business acting as it wants to

Core Knowledge

Employment legislation protects the rights of employees from any actions of their employers

Consumer legislation protects the rights of consumers from any harm that might be caused by using or consuming a product or through transaction with a business

Businesses must pay the at least the minimum wage, or they are breaking the law. This can increase costs. BUT paying a rate above the minimum can lead to good publicity and more staff wanting to work for you.

All goods must be **fit for purpose, match the description** and be of **satisfactory quality.** If they are not, the consumer can ask for a **Refund**, **Repair** or **Replacement**.

Impact on costs - Meeting legal requirements increases costs – better quality materials, checking adverts are correct, extra time for staff to complete and check paperwork, training staff

Impact on sales – meeting or going above legal requirements can improve reputation and therefore increase sales through recommendations, repeat custom and positive reviews

Consequences – breaking the law can lead to fines, bad publicity or even a jail term

Don't be a "man on the street"

- Remember you cannot get a refund if you simply change your mind – many retailers offer this but is not illegal to refuse
- Health & Safety is the responsibility of the employee as well as the employer – if safety clothing is provided you MUST wear it by law
- You do have different rights when you buy online
- If the item is faulty it is the retailer's responsibility, not the manufacturer

Wider Business World

Lidl – pays more than Living Wage

Which – consumer association brand name. A group that raises awareness of consumer rights

Synoptic Links

Marketing Mix – legislation has affected the Product, Price and Promotion elements

Costs, Revenue & profit – legislation increases costs for a business

Recruitment – employment legislation affects the way a business can advertise vacancies

Globalisation – a business will ned to be aware of different legislation if it trades in multiple countries

Ethics – some businesses will go further than the minimum legal requirements

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 1.5.4 Economic Influences

Key Vocabulary

Economic climate – overall performance of an economy

GDP – Gross Domestic Product. A measure of the total value of goods produced in an economy

Consumer income – the money an individual has left after paying taxes and essential living expenses

Unemployment – a measure of the number of people without a job who are actively seeking one

Corporation Tax – charge on the profits of a business

VAT – Value Added Tax. A charge on good sold

Income Tax – a tax paid by individuals from their wages / salaries

Inflation – a general rise in prices over time

Interest Rate – the charge for borrowing money or the reward for saving money

Exchange rates – the value of one currency against another

Recession – a period of economic downturn

Boom – a period of economic prosperity

Core Knowledge

The more a country produces, the more consumers can buy – this makes the economy stronger

Consumers will spend more when they have a higher income. As incomes rise more money is spend on luxury goods

Unemployment is bad for the economy. High unemployment means less people have jobs, so incomes are lower. Businesses will sell less, employ less people and invest less. The government will receive less taxes and pay more benefits.

There are 3 main types of taxes:
- Those businesses pay – corporation tax
- Those the employed pay – National Insurance and Income Tax
- Those consumers pay – council tax, VAT, Duties, Road Fund Licence, etc

Increases in taxes reduce consumer spending and raise costs for businesses, but do raise finance for the government

An increase in interest rates will raise the cost of borrowing, so reduce consumer income, leading to a fall in consumer spending

Inflation is an increase in prices, so in *real terms*, consumers will be worse off if income does not rise at least as much as inflation. So inflation will lead to a fall in consumer spending.

Exchange Rates affect the cost of importing – remember **SPICED** (**S**trong **P**ound, **I**mports **C**heaper, **E**xports **D**earer)

Don't be a "man on the street"

- Remember it is the Banks that set interest rates not the government
- Taxes are decided by the government
- Not ALL business are affected by changes in the same way – a fall in income for example can help Poundland but not a luxury brand

Wider Business World

Poundland / 99p shop – discounters who will do well in recession

Aldi / Lidl – increased their market share in last recession

Synoptic Links

Breakeven – changes to taxes, inflation, exchange rates and interest rates can all increase the costs of a business

Ownership – only companies pay Corporation Tax, sole traders and partnerships pay income tax

Sources of finance – changes to interest rates increase the cost of borrowing, e.g. loans, overdrafts, mortgages

Globalisation – changes to exchange rates can make selling abroad more or less attractive

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Topic 1.5.5 Business response to external influences

Key Vocabulary

Obsolete – out of date or not used anymore. An impact of not adapting to new technology

Core Knowledge

Responses to technology:

- Merge with other businesses
- Install similar technology – increasing costs in short term
- Change production methods or product

Responses to changes in legislation

- Employ more staff to deal with paperwork / red tape
- Cut back or scrap an area of business
- Invest in technology to meet requirements

Responses to changes in the economic climate:

- Hire staff, invest in equipment, develop new products during good economic times
- Adjust marketing mix
- Spread risk through operating in more than one country or producing a variety of goods that match different consumer needs

Don't be a "man on the street"

- Remember that businesses have to continually adapt and change in order to be successful
- Not all consumers or businesses will be affected in the same way by changes, so use words such as 'most' when analysing

Wider Business World

Sainsbury – bought Argos in 2016 to take advantage of their 'click and collect' service

Independent newspaper – now only online

Jaguar Land Rover – spread production across world to minimise effect of exchange rates

Synoptic Links

Technology – the way in which technology has changed

Legislation – three main areas of law affect businesses

Economic influences – changes to economic factors can affect consumer income, therefore affecting spending

Globalisation – moving production overseas can be a way to minimise impact

Topic 2.1 Growing the business		☹	-	☺
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			
	The types of business ownership for growing businesses: ● public limited company (plc)			
	Sources of finance for growing and established businesses: ● internal sources: retained profit, selling assets ● external sources: loan capital, share capital, including stock market flotation (public limited companies)			
2.1.2 Changes in business aims and objective	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: ● focus on survival or growth ● entering or exiting markets ● growing or reducing the workforce ● increasing or decreasing product range			
2.1.3 Business and globalisation	The impact of globalisation on businesses: ● imports: competition from overseas, buying from overseas ● exports: selling to overseas markets ● changing business locations ● multinationals			
	Barriers to international trade: ● tariffs ● trade blocs			
	How businesses compete internationally: ● the use of the internet and e-commerce ● changing the marketing mix to compete internationally			
2.1.4 Ethics, the environment and business	The impact of ethical and environmental considerations on businesses: ● how ethical considerations influence business activity: possible trade-offs between ethics and profit ● how environmental considerations influence business activity: possible trade-offs between the environment, sustainability and profit ● the potential impact of pressure group activity on the marketing mix			

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 2.1.1 Business Growth

Key Vocabulary

Organic Growth – growing through internal growth

Innovation – adapting existing products to develop improved versions

R&D – research and development. The activities to research and develop new products

Marketing Mix – the 4 Ps: Price, Place, Product, Promotion

Inorganic growth – growing through mergers or takeovers

Merger – when two firms mutually join together

Takeover – when one firm buys another one

PLC – Public Limited Company. A business that sells its shares on the stock exchange

Retained profit – profit left after the business has paid dividends and taxation

Selling assets – the sale of items the business owns

Loan capital – finance received from a bank when taking out a loan

Share capital – the money invested into a business by shareholders

Core Knowledge

A business can grow internally by expanding its own activities, i.e. opening more outlets, selling more, targeting new markets or increasing the range of products.

External growth is quicker but more expensive and riskier.

Mergers & takeovers could be between competitors, suppliers, customers or unrelated businesses.

A business may choose to finance growth through becoming a PLC and selling shares on the stock exchange.

A quicker way to open lots of outlets is through offering franchises – when you allow entrepreneurs to use your business name.

Larger firms benefit from economies of scale, so can reduce their unit costs.

Growing too large can increase costs and lead to diseconomies of scale.

Don't be a "man on the street"

- Not all businesses are companies
- Not all companies are PLCs
- Not all takeovers and mergers are allowed to happen

Wider Business World

The planned merger of Sainsbury and ASDA – was not allowed

Iberia and British Airways merger

Sainsbury and Argos merger

Quote from the founder of Iceland "businesses can't stand still"

Synoptic Links

Ownership – knowing what a private limited company is

Sources of finance for small businesses – most of these are available for growing businesses too

Interest rates – the rate will affect the cost of borrowing

Economic influences – the state of the economy will impact whether a business can grow

Marketing Mix

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 2.1.2 Changing business aims and objectives

Key Vocabulary

Aim – something the business is trying to achieve

Objective – a more specific breakdown of an aim

Survival – generating enough revenue to cover costs and therefore continue to trade

Workforce – the number of employees a business has

Product range – the variety and number of products a business sells

Entering markets – when a business decides to open up in a market it hasn't been in before, e.g. If McVities starting making crisps

Exiting markets – choosing to leave a market, e.g. when Tesco sold all their optical stores

Core Knowledge

A business has to continually change and evolve over time. Therefore, what it is attempting to achieve will also change. Aims change because of:

- Changing **market conditions** – an increase or decrease in the number of competitors
- Changing **technology** – the rise of e-commerce led to businesses introducing online sales; click and collect, self-service tills
- Changing **performance** – if a business is not making as much profit as before, it will need to change its aims
- Changing **legislation** – new laws can affect costs and so a business may need to change aims
- **Internal** reasons – an arrival of a new CEO can affect the direction of the business

How aims change:

- Focus on survival or growth
- Entering or exiting markets
- Growing or reducing a workforce
- Increasing or decreasing a product range

Don't be a "man on the street"

- Remember that businesses have to continually adapt and change in order to be successful
- Remember that reducing the workforce by making staff redundant will have a large short-term cost

Wider Business World

Tesco – changed focus back to food after rise of Lidl and Aldi

Iceland – increasing non-food range to be more competitive

Kodak – an example of company that did not keep up with technology and left the camera market

Synoptic Links

Dynamic nature of business – business has to continually evolve

Aims and Objectives – the difference between the two, examples and how they might be suitable

External influences – the factors outside a business's control that can influence their actions

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 2.1.3 Globalisation

Key Vocabulary

Globalisation – tendency for economies to trade with each other and buy global goods

Export – selling goods or services to consumers in another country

Import – buying goods or services from businesses in another country

MNC – Multinational Company. A business that has operations in more than one country

Free trade – trading between countries with no barriers

Trade barriers – an action put in place to discourage free trade / protect the businesses of a specific country

Tariffs – taxes changed on imports

Trading blocs – a group of countries that have agreed free trade within external tariff walls, e.g. the EU

e-commerce – buying and selling goods online

Core Knowledge

Types of imports into the UK:

- Goods we cannot grow or produce, e.g. olive oil
- Goods that require a lot of labour, so is cheaper to make where wages are lower
- Goods that are made in the UK, and elsewhere, but consumer may prefer a foreign produced item, e.g. Audi cars

To export successfully a business must:

- Keep costs down to be competitive
- Produce original, well-designed and well-made items
- Deliver on time and provide excellent service and after-sales service

Barriers to international trade can be set as a government might want to protect domestic industry and reduce competition. On way is to charge a tax or tariff on all imported goods increasing the cost of imports

How to compete internationally

- Use of the internet and e-commerce
- Changing the marketing mix
  - Different products for different counties, e.g. left- and right-hand drive cars
  - Charging different prices based on popularity and reputation
  - Adapting promotion to reflect cultural differences
  - Using retailers in countries where e-commerce is not well established

Don't be a "man on the street"

- Remember that income levels, technology access etc is widely different across the world, so don't fall into the trap of "everyone has the internet" – in some countries less than 10% do
- Remember that the names or goods, images of people using it or the promotion may need to be adapted to fit local culture and traditions

Wider Business World

Jaguar Land Rover – has factories in China, Brazil, Austria and Slovakia

McDonalds – has different menus in different countries, e.g. no beef in India

Synoptic Links

Technology – made e-commerce easier, increasing globalisation

Exchange rates – changing rates affect the cost of importing and exporting

Growth – expanding overseas is easier due to globalisation

Customer needs – a business must understand the needs of different countries / cultures

Marketing mix – there is an impact on all 4 Ps

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 2.1.4 Ethics and Environmental constraints

Key Vocabulary

Ethical considerations – thinking about ethics, which may lead to making morally valid decisions or lead to the manipulation of customer attitudes

Ethics – weighing up decisions or actions based on morality not personal gain

Fair Trade – a social movement whose goal it is to help producers in developing countries achieve better trading conditions and promote sustainability

Trade-offs – having more of one thing may force you to less of the other

Environment – condition of the natural world that surrounds us which is damaged when there is pollution

Environmental considerations – factors relating to green issues, such as sustainability and pollution

Sustainability – whether or not a resource will inevitably run out in future. A sustainable resource will not

Core Knowledge

Ethics are moral guidelines – it is doing MORE than the legal minimum.

Ways for a business to be ethical:

- Pay a fair wage to workers
- Pay suppliers a fair price and on time
- Ensure production does not harm the environment, animals or people
- Label products clearly and correctly

Ways to consider the environment:

- Reduce / minimise pollution
- Only use sustainable resources
- Reduce packaging

Being ethical and environmentally friendly can increase costs leading to a reduction in profit. This can be considered a trade-off.

Benefits can include improving customer image and easier recruitment

Don't be a "man on the street"

- Remember that Fair Trade is NOT a brand name or a business
- Avoid the 'all', 'everyone' comments, e.g. 'everyone will pay more for ethical goods'; some will, some simply can not afford to or will choice to ignore ethics

Wider Business World

Body Shop – never tested products on animals; had a bottle recycling scheme

Marks & Spencer – Plan A for environmental sustainability

Starbucks – saw a drop in sales after it was announced it avoided paying UK taxes

Synoptic Links

Aims and Objectives – social objectives

External influences – changes to legislation can encourage a business to be more ethical or environmental

Customer needs – consumers have more interest in ethical products

Marketing mix – aiming to be more ethical or environmental can affect element of the 4 Ps

Topic 2.2 Making marketing decisions		☹	-	☺
2.2.1 Product	The design mix: ● function, aesthetics, cost			
	The product life cycle: ● the phases of the product life cycle ● extension strategies			
	The importance to a business of differentiating a product/ service			
2.2.2 Price	● pricing strategies ● influences on pricing strategies: technology, competition, market segments, product life cycle			
2.2.3 Promotion	● appropriate promotion strategies for different market segments: advertising, sponsorship, product trials, special offers, branding			
	● the use of technology in promotion: targeted advertising online, viral advertising via social media, e-newsletter			
2.2.4 Place	● methods of distribution: retailers and e-tailers (e-commerce)			
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			

BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 2.2.1 Product

Key Vocabulary

Design mix – the combination of aesthetics, function and cost that are the combined design priorities for a product

Aesthetics – how things appeal to the senses, i.e. look, smell, sound

Function – how well the product or service works for the consumer

Economic manufacture – making a product cheaply enough to make it profitable

Product life cycle – the theory that every product goes through the same stages

Introduction phase – phase of the product life cycle when a product is developed and launched onto the market

Growth phase – phase of the product life cycle where sales are growing; costs will be very high

Maturity phase – phase where sales and revenue is at the highest point

Decline phase – phase when sales are dropping

Extension strategy – an attempt to prolong sales of a product to avoid the decline phase

Product differentiation – the extent to which consumers see your product as distinct from rivals

Core Knowledge

The **design mix** is a diagram to show how a business must consider the aesthetics and function of a product as well as the cost.

When creating a product, a business will want it to stand out from rivals. This is known as **product differentiation**. Businesses can use **branding** or **USPs**.

The **Product life cycle** shows the stage that every product goes through. A business will use **extension strategies** to extend the life cycle (see below).

Don't be a "man on the street"

- Don't assume everyone prefers branded products – some consumers will consider cost more important
- Remember that all products will see a decline in sales, eventually, but the time this takes will differ
- Just because a product is in decline does not mean it must be withdrawn – it may still contribute a considerable amount of revenue

Wider Business World

Apple – use of branding and extension strategies

Kellogg's – developed new products such as cereal bars to meet customer needs

KitKat – launched different flavours and sizes as an extension strategy

Synoptic Links

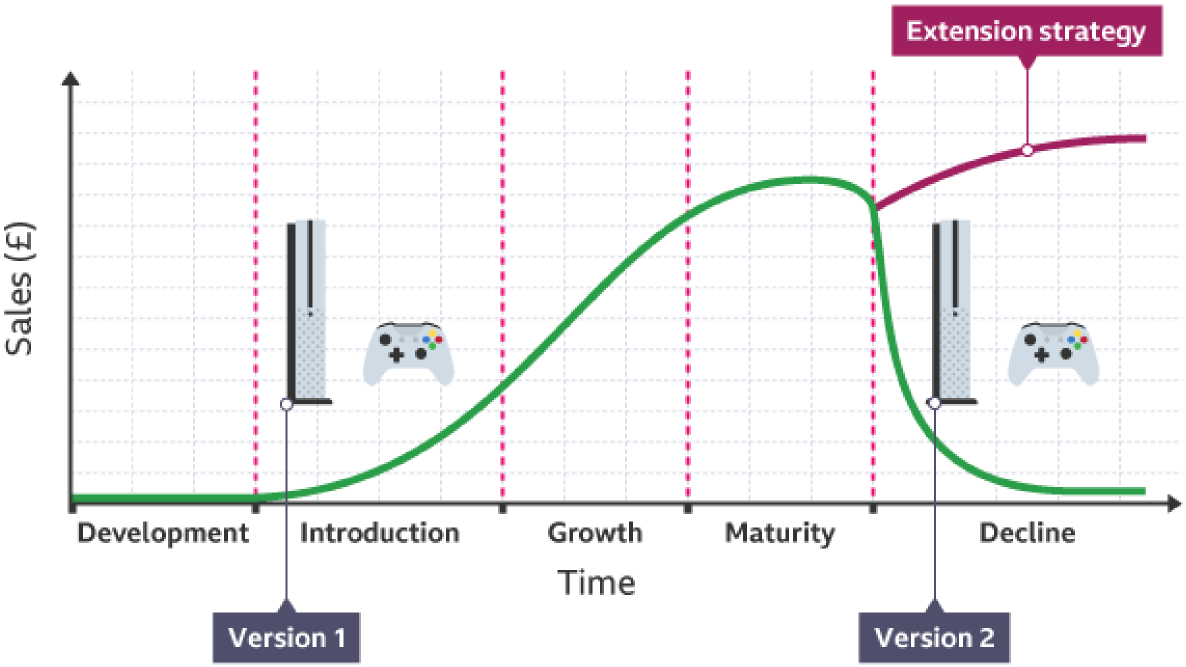
Customer needs – if these change products will need to change

Market research – how a business finds out customer needs

External influences – will lead to changes in 4Ps

Operations – need to be able to make the product

Breakeven – understanding the link between costs and economic viability



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Topic 2.2.2 Price

Key Vocabulary

Profit margin – profit as a percentage of the selling price; the difference between total costs and selling price

Mass market – a broad market segment that includes most consumers buying within a market

Niche market – a small sub-section of a larger market in which customers share similar needs

Price – what the consumers pay for the product

Freemium – used mainly for digital products, when something is offered for free with charges for additional features

Core Knowledge

Price is what consumers pay for the product. It is essential that the price charged is appropriate for the product and for the **target market**

A business can use a variety of strategies:

- **Penetration** – setting a low price to start with to enter a market
- **Skimming** – setting a high price to start to recoup research costs
- **Competition based** – setting a price based on what rival products are charging

Influences on pricing strategies:

- **Technology** – consumers can compare prices easily so it is important a business is competitively priced
- **Competition** – the fewer rivals a business has, the more they are able to set their own price
- **Market segments** – the business needs to consider the income levels of their customers and how sensitive they are to price changes
- **Product life cycle** – price will change throughout the life cycle of the product

Don't be a "man on the street"

- Remember that putting the price up will not always lead to more revenue and profit for a business, as some customers will not pay the extra
- Don't assume that everyone looks for the lowest price – sometimes other factors are more important

Wider Business World

Apple – use price skimming when launching new products

Supermarkets – often sell basics at a loss to encourage customers in

Synoptic Links

Revenue & costs – price affects the revenue received

Break-even – price rises, lower the break even point

Competitive environment – the more competition a business faces, the more competitive their price will need to be

Market segmentation – the price a business charges will need to be appropriate for the target market

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Topic 2.2.3 Promotion

Key Vocabulary

Promotional strategy – a medium to long term plan for communicating with customers

Sponsorship – paying to have a brand associated with an individual, event or team

Branding – giving your product or service a name that helps recall and recognitions and gives a sense of personality

e-newsletters – updates on the activities of a business sent electronically

Viral advertising – when people start to spread your message for you through social means

Sales promotion – a short term strategy such as BOGOF

Pressure group – a group of people who join together to try to influence government policy or business policy for a particular cause

e-commerce – buying and selling on-line

product placement – when a business product or brand is seen in tv shows or films

publicity – promotion that is not paid for, e.g. being discussed on a TV show

Core Knowledge

Promotion methods are used to inform consumers about products and persuade them to buy them.

Mass market products can use mass media, such as Television, national newspapers or radio. These are expensive, but *cheap per customer*. **Niche market** products, or smaller businesses can use local radio, local newspapers or social media.

Businesses may use **sponsorship** to build their **brand** through selecting a business that reflects their values, e.g. Red Bull sponsors extreme sports.

New products may offer **product trials**, e.g. free tastes or samples.

Impact of technology:

- Targeted advertising online through the use of cookies
- Viral advertising via social media, e.g. the Ice bucket challenge to raise awareness and donations to ALPS
- Apps for engaging with customers
- E-newsletters and emails

Don't be a "man on the street"

- Remember promotion is not just advertising – it includes lots of other strategies as well
- Don't just say "TV" or "in a newspaper" – be specific, i.e. which channels? Which programs? What time? Link to the target market
- Social media is not "free" – it costs in time and in search optimisation

Wider Business World

Football teams – sponsored by businesses, as are sporting events such as the FA cup

Echo Falls – a wine brand that sponsored a cooking program; an example of linking the product to the likes of the target market

Synoptic Links

Technology – made it easier to advertise on social media

Legislation – adverts must be true and meet regulations

Market Segmentation – a business will need to know the target market well to know where to advertise

Break-even – promoting will have a cost implication, therefore raising the break-even point

Globalisation – will the promotion work in all countries?

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Topic 2.2.4 Place

Key Vocabulary

Distribution – how ownership changes as a product goes from producer to consumer

Producer – the business or individual who makes the product / service

Wholesaler – a business that buys in bulk from a producer and sells onto to retailers in smaller quantities

Retailer – a shop or chain of shops, usually selling from a building on the high street or shopping centre

Agent – a business that sells something on behalf of the producer but never owns the product, e.g. a travel or estate agent

Customer – the person or business who buys the product

e-tailer – an electronic retailer

Mark-up – the additional amount added to the price of the product as it moves through the distribution channel

Third-party platform – an e-commerce website or service that is run by an unrelated business where businesses can sell their products

Core Knowledge

Place is NOT to be confused with location. *It is about how the product gets to the consumer and which other businesses it needs to pass through, not the physical location of the premises.*

The more third parties in the channel, the greater the mark-up and so the higher the price for the consumer

Don't be a "man on the street"

- Remember that not ALL customers have access to the internet or like online shopping, so selling exclusively online may not be appropriate for all businesses
- Amazon is a third party – a significant number of its products are produced by other businesses

Wider Business World

Amazon – an example of a third party retailer

Booker – an example of a wholesaler

NEXT – a business that is a retailer and e-tailer

ASOS – an e-tailer

Synoptic Links

Technology – has enabled more businesses to become e-tailers, and for small businesses to use third-party platforms

Globalisation – using third party platforms enables more businesses to sell worldwide

Customer needs – channels can meet needs of convenience

Market segmentation – the channel needs to be appropriate for the market segment

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Topic 2.2.5 Marketing Mix and business decisions

Key Vocabulary

Marketing mix – the four elements that work together to make the marketing of a business or product successful

Product – the actual product the business produces / sells. Cost, aesthetics and function need to work together

Price – what the customer is charged for the product

Promotion – the methods used to inform customer about a product and persuade them to buy it

Place – the distribution methods used to get the product from the producer to the consumer

Competitive advantage – something a business does that is better than all of its rivals

Core Knowledge

Each element of the marketing mix can influence another

- **Product** design can influence the **price** charged, especially if costs increase
- The type of **product** will affect the distribution channel (**place**) used; if e-tailing is to be used, the **product** will need to be designed so that posting is easy
- If the business wishes to charge a premium **price**, it will need to use premium retailers (**place**) and use **promotion** strategies that enhance this message of quality
- **Promotional** offers may lower **price**
- A **distribution channel** that uses wholesalers and retailers will increase the **price**

Building competitive advantage:

- **Product** – unique features, quality, design
- **Price** – selling at the cheapest price in a market
- **Promotion** – creating a memorable or catchy campaign can make a product stand out
- **Place** – more stores that rivals, effective websites

Don't be a "man on the street"

- Remember that each element must be considered
- Marketing decisions must be linked to the business overall objectives
- Marketing decisions must be relevant to the individual business and the market it is in – just doing more promotion, or lowering price will not guarantee success

Wider Business World

Dyson – has a competitive advantage due to uniqueness of product

Lindor chocolate – unique product, higher price, promotion suggests luxury / handmade, sold in department stores as well as supermarkets. An integrated mix.

Synoptic Links

Customer needs – each element of the marketing mix, must meet needs

Market research – needs to be completed to understand customer needs

Market segmentation – identifying different groups of people

Finance – a budget must be agreed for Marketing

Objectives – the marketing mix will depend on what the business wants to achieve

Topic 2.3 Making operational decisions		☹	-	☺
2.3.1 Business operations	The purpose of business operations: ● to produce goods ● to provide services			
	Production processes: ● different types: job, batch, flow ● the impact of different types of production process: keeping productivity up and costs down and allowing for competitive prices			
	Impacts of technology on production: ● balancing cost, productivity, quality and flexibility			
2.3.2 Working with suppliers	Managing stock: ● interpretation of bar gate stock graphs ● the use of just in time (JIT) stock control			
	The role of procurement: ● relationships with suppliers: quality, delivery (cost, speed, reliability), availability, cost, trust ● the impact of logistics and supply decisions on: costs, reputation, customer satisfaction			
2.3.3 Managing quality	The concept of quality and its importance in: ● the production of goods and the provision of services: quality control and quality assurance ● allowing a business to control costs and gain a competitive advantage			
2.3.4 The sales process	The sales process: ● product knowledge, speed and efficiency of service, customer engagement, responses to customer feedback, post-sales service. The importance to businesses of providing good customer service			

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Topic 2.3.1 Operations

Key Vocabulary

Good – a tangible item that exists in a physical sense, e.g. a car

Service – an experience or non-physical item, e.g. a trip to a theme park

Job production – one-off production of a one-off item for each individual customer

Batch production – producing a limited number of identical products

Flow production – continuous production of identical products, which gives scope for high levels of automation

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

Automation – using machines that can operate without people

Robots – machines that can be programmed to do tasks that can be done by humans, e.g. spray painting

Flexibility – the ability to switch quickly and easily from one task to another

CAD – Computer Aided Design

CAM – Computer Aided Manufacture

Core Knowledge

The purpose of production is to create **goods** and **services**.

Production Method	Advantages	Disadvantages	Examples
Job	• Unique products • High quality • Higher prices	• Need highly skilled workers • Lengthy process • Higher cost per unit	Tailoring, bridges, Olympic Stadium
Batch	• Variety and choice for customers • Materials purchased in bulk, lowering production costs	• Work is repetitive • Equipment must be cleaned after each batch	Bread, clothing
Flow	• Bulk buyer leads to lower unit costs • Production 24/7 • Consistent quality	• High capital investment • Less flexibility to adapt products • Very repetitive work	Canned food, bottled drinks

Impact of technology:

- Lower costs in long term due to lower labour costs; improved quality so less wastage
- Increased productivity due to no breaks or holidays
- Improved quality / consistency
- Lower costs can lead to competitive prices

Don't be a "man on the street"

- Remember not all production happens in a factory: a bakery is also manufacturing
- Introducing technology does not lower costs immediately: in the short term there are high costs and this will affect cash flow and profit margins

Wider Business World

Morgan cars – produced by job production

Ford cars – considered to be the first mass produced car in the world

Synoptic Links

Technology – has had an impact on production

Marketing – creates the demand for the product

Finance – introducing technology will incur costs and affect cash flow

Human Resources – if staff lose their jobs they will be entitled to redundancy payments

Legislation – operations will need to follow Health & Safety law

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Topic 2.3.2 Working with suppliers

Key Vocabulary

Stock – items held by a firm for use or sale. Also called inventory

Bar gate stock graph – a diagram to show changes in the level of stock over time

Maximum stock level – highest level of stock to be held by a business

Minimum stock level – also called buffer stock level. The lowest level of held to avoid running out

Re-order level – the level of stock that will trigger the business to order more

Lead time – number of days or weeks that it takes from ordering stock until it arrives

Order quantity – the number of items ordered by the business

JIT – Just in Time. Running the business with so little stock that supplies have to arrive 'just in time' before they run out

JIC – holding buffer stock levels, 'just in case' there is a sudden increase in demand

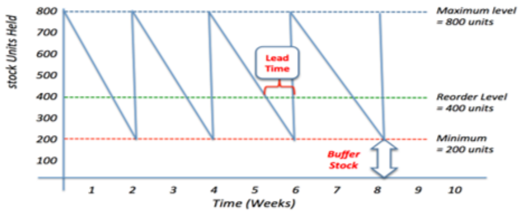
Procurement – obtaining the right supplies from the right supplier

Logistics – ensuring that the right supplies will be ordered and delivered on time

Core Knowledge

The operations department has a role to ensure that there is enough stock to meet demand, so they must work closely with suppliers as well as managing the stock that is in the business effectively.

The amount of stock held is shown in a bar gate graph:



Benefits of JIT	Limitations of JIT
Less storage space needed saving costs Fresher produce due to more frequent deliveries Less capital tied up in stock	Greater risk of running out and disappointing customers No bulk-buying discounts

Don't be a "man on the street"

- Remember not all business that hold stock are shops – it could be a factory, restaurant, bakery
- The cheapest supplier may not be the best if they are not reliable
- Not all businesses will be able to get trade credit from a supplier – trust may need to built first

Wider Business World

Supermarkets – most run JIT systems to have more selling space and save costs on storage

Restaurants – may limit their menu choices to ensure ingredients are fresher and less stock is wasted

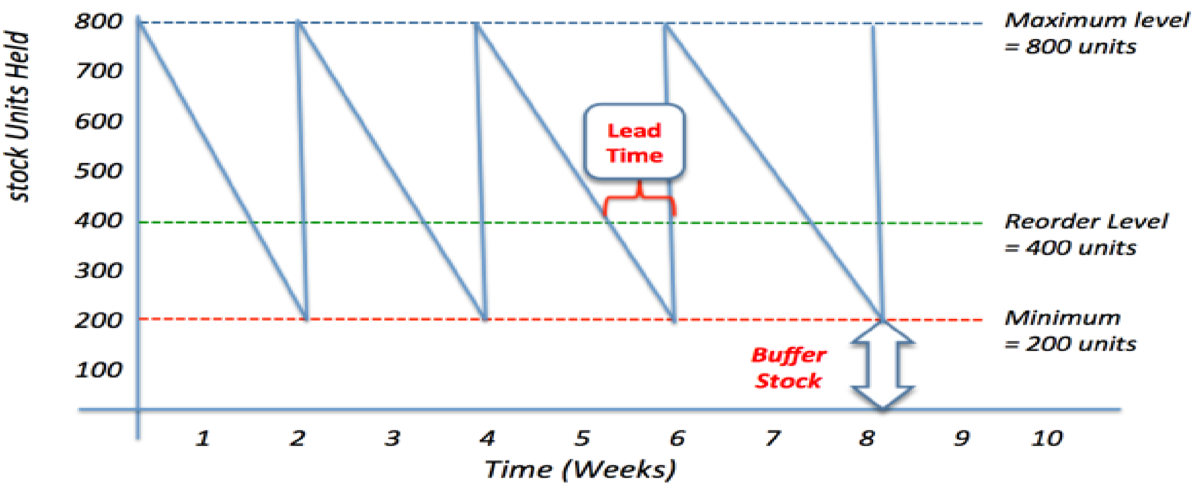
Synoptic Links

Cashflow – holding less stock improves cashflow because the stock is more likely to be sold before payment to suppliers is due

External factors – changes to economic factors can affect the type of products consumers demand

Customer needs – if quality is a concern more than price, this will need to be considered when choosing a supplier

Location – this could affect the logistics for a business



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Topic 2.3.3 Managing Quality

Key Vocabulary

Quality control – putting measures in place to check that the customer receives an acceptable level of quality

Quality assurance – a system based on preventing quality problems by involving all staff within the production team to understand their role in maintaining highest quality standards

Warranty – the guarantee by a producer that it will repair any faults in a product for a specific period of time

Core Knowledge

Quality is about meeting a minimum standard to satisfy customer expectations

Quality control

- Finished goods are inspected
- Checks for defects rather than preventing them
- Costly as it can lead to a high level of wastage
- Workers less involved in process so may be less motivated

Quality assurance

- Quality is checked at every stage in the production process – more time consuming, but defective products are dismissed before being completed
- Aims to prevent defects
- Staff need training – costly in short term; more motivating in long term

Importance

- Lowers costs through less wastage
- As production costs lower, profit margins increase
- Quality can improve reputation and build brand loyalty leading to a competitive advantage

Don't be a "man on the street"

- Remember quality is important for goods as well as services
- Don't confuse quality control and quality assurance
- Quality assurance can not be put in place quickly – staff need to be trained and it takes time to be embedded into the culture of the business

Wider Business World

Gordon Ramsey – in his restaurant the Head Chef will check every plate of food before it is sent out

Hotels – have a check list for cleaners to ensure that all rooms are same standard

Synoptic Links

Motivation – motivated staff are more likely to deliver a high-quality service

Customer needs – quality is one of the needs of customers

Promotion – quality can be used as a promotion tool

Consumer law – products must be 'fit for purpose'; a minimum quality measure

Technology – led to an increase in reviews online, which impacts a firm's reputation

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Topic 2.3.4 Sales Process

Key Vocabulary

Sales process – the process of persuading a customer to buy the products

Product knowledge- how well staff know the features of the products and service issues, e.g. such as the precise terms of a warranty

Customer engagement – the attempt to make a customer feel part of something rather than an outsider

Customer feedback – comments, praise or criticisms given to the company by customers

Post-sales service – anything provided after you have paid for and received the product, e.g. updates, perhaps because something has gone wrong or a way of promoting customer engagement

Core Knowledge

To succeed in the sales process the following need to be provided:

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

Benefits of good customer service:

- Customers feel valued, are loyal and more likely to repeat purchased
- Harder for competitors to steal customers if they are loyal
- Satisfied customers tell others – this could attract more customers to the business
- Satisfied customers can create a positive working environment and make a business a reputable employer
- Developing a reputation for good customer service can develop into a competitive advantage

Don't be a "man on the street"

- Do not assume that negative reviews will make a business fail – th can be ignored or people may have little choice
- Remember that not everyone uses social media so this may not be a good way to get customer engagement for some businesses

Wider Business World

Kia – have a 7 year warranty on new cars

Pizza Hut – have a guarantee of receiving your starter within so many minutes of ordering

Burberry – send regular email updates to customers to make them feel part of the brand, rather than just a customer

Synoptic Links

Customer needs – the sales process is about meeting those needs

Recruitment – to provide excellent service the right staff need to be employed

Training – staff will need to be trained about products

Quality and operations – information about the product will need to be provided

Technology – more customer feedback is available

Topic 2.4 Making financial decisions		☹	-	☺
2.4.1 Business calculations	The concept and calculation of: ● gross profit ● net profit			
	Calculation and interpretation of: ● gross profit margin ● net profit margin ● average rate of return			
2.4.2 Understanding business performance	The use and interpretation of quantitative business data to support, inform and justify business decisions: ● information from graphs and charts ● financial data ● marketing data ● market data			
	The use and limitations of financial information in: ● understanding business performance ● making business decisions			

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Topic 2.4.1 Busines Calculations

Key Vocabulary

Revenue – the money that a business receives from selling its goods and services. Also called Turnover or Income

Cost of sales – the name for the costs that are directly involved in the making of a product for a manufacturer or the provision of a service for a service provider

Gross profit – the amount left after the cost of buying or making the product ha been deducted from revenue

Expenses – costs of the business that are not directly involved in the making of the product, e.g. rent, rates

Net profit – overall profit made by a business. What is left after deducting all costs.

Gross profit margin – expressed gross profit as a percentage of sales revenue

Net profit margin – expresses net profit as a percentage of sales revenue

ARR – Average Rate of Return. Expresses the average yearly profit as a percentage of the sum invested. Shows profitability and can be compared with interest rates on bank deposits

Core Knowledge

Key formulas:

Gross profit = Revenue – cost of sales

Net Profit = Gross profit – expenses

Gross profit margin = (Gross profit ÷ Sales revenue) x 100

Net profit margin = (Net profit ÷ Sales revenue) x 100

ARR = (lifetime profit ÷ years the investment will last) ÷ initial investment x 100

In all cases the higher the number the better, BUT these must be compared to other businesses and previous performance

Don't be a "man on the street"

- Remember not all investments will be profitable
- Even if an investment is not profitable, this does not mean a business should dismiss it – it may be needed to maintain a competitive position
- A business can not lose profit – it makes a profit OR a loss
- A loss in one year does not always indicate failure – this may be due to high one-off costs

Wider Business World

RyanAir – has a greater Net profit margin than other airlines as it keeps costs down by not offering meals on board

Synoptic Links

Revenue & costs – knowledge of these terms is built on in this topic; fixed costs are expenses; variable costs are cost of sales

Income Statement for

Bella's Gowns Ltd

For year ending 31 March 2017

	£000	£000
Revenue		300
Cost of Sales		
Opening Stock	40	
Plus Purchases	120	
	160	
Less Closing Stock	(30)	
		(130)
Gross Profit		170
Minus Expenses		
Wages	48	
Insurance	2	
Rent and Rates	41	
Advertising	25	
Depreciation	6	
Other	2	
		(124)
Net Profit		46

Gross Profit

Gross profit is the profit made after the cost of making and selling products has been deducted from total revenue. It does not take into account the costs involved with running the business.

Gross Profit = Total Revenue – Cost of Sales

= £300,000 – £130,000

= £170,000

Net Profit

Net profit is gross profit minus operating expenses, such as wages, rent and insurance. It is the actual profit after all costs have been paid.

Net Profit = Gross Profit – Operating Expenses

= £170,000 – £124,000

= £46,000

Calculating Profit Margins

Profitability ratios are used to measure the performance of a business.

Gross Profit Margin

The **gross profit margin** is the gross profit as a percentage of sales revenue.

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

The gross profit margin for Bella's Gowns Ltd is calculated as follows:

$$\text{Gross Profit Margin} = \frac{170{,}000}{300{,}000} \times 100$$

$$= 56.67\% \text{ (2 d.p.)}$$

Net Profit Margin

The **net profit margin** is the net profit as a percentage of sales revenue.

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

The net profit margin for Bella's Gowns Ltd is calculated as follows:

$$\text{Net Profit Margin} = \frac{46{,}000}{300{,}000} \times 100$$

$$= 15.33\% \text{ (2 d.p.)}$$

Average Rate of Return (ARR)

The **average rate of return (ARR)** on an investment is the amount of profit a business makes or loses each year as a percentage of the original investment.

The ARR can be calculated using the following formula:

$$\text{ARR} = \frac{\text{Average Annual Profit}}{\text{Initial Investment}} \times 100$$

An investment must bring a good return if it is to be worthwhile.

Example

Emelia is considering investing £60,000 in a five-year franchise for an auto repair business. Using the figures in the table below, calculate the average rate of return on her investment.

	Profit
Investment	**–£60,000**
Year 1	£13,400
Year 2	£17,300
Year 3	£18,600
Year 4	£26,100
Year 5	£28,400
Total Profit	**£43,800**

Remember to include the initial investment (-£60,000) when calculating the total profit.

1. The first step is to work out the **average annual profit.**

$$\text{Average Annual Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{£43{,}800}{5} = £8{,}760$$

2. The ARR can now be calculated.

$$\text{ARR} = \frac{£8{,}760}{£60{,}000} \times 100 = 14.6\%$$

Emelia's investment will make an ARR of 14.6% per year. She can now compare this figure to other investment options to determine which one offers the greatest returns and is likely to be the most profitable. The higher the ARR percentage, the more profitable the investment.

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Topic 2.4.2 Understanding Business performance

Key Vocabulary

Line graph – shows data represented as lines, making it easy to identify trends

Bar graph – data represented so that the height of the bar represents the quantity involved. Good for making comparisons

Pie chart – shows data represented in a circle, with each slice of the pie representing a proportion of the whole, e.g. market share

Core Knowledge

Data can be figures or visually represented. The most common types of visual representation are graphs.

	Line graphs	Bar charts	Pie charts
Pros	Good for data shown over many time periods and for comparisons with how one factor affects another	Good for data over 2-3 time periods Good for comprising size / number of serval different items	Good for showing proportions
Cons	Too many lines can be confusing Assumptions can be made about trends continuing	Cannot be easily used to compare data over many time periods	Show big differences clearly but not small differences Cannot show trends over a number of years

A business can use a variety of data:

- **Financial data** – profit margins, profit levels, ARR, break-even point, cash flows
- **Marketing data** – analysis of sales figures, market research data
- **Market data** – analysis of data such as market size, changes in market size, figures for difference segments

Limitations of data:

- A need to understand why trends are happening and the causes of these trends
- Bias can be in place when interpreting data
- Some numbers will be estimates not facts

Don't be a "man on the street"

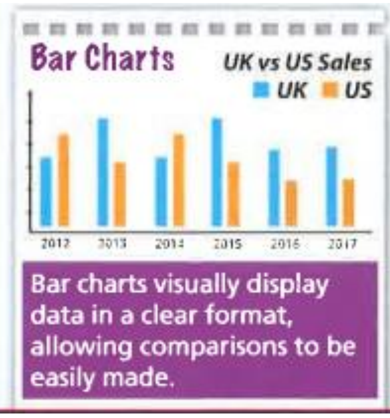
- Remember that data may be biased or unreliable – always check the source
- One set of data along is not much help – a business will need to compare to previous years or competitors to put the data into context
- Financial data alone is not the whole picture – consider what external factors may have caused a change, as well as HR and Marketing data
- Don't confuse market data and marketing data

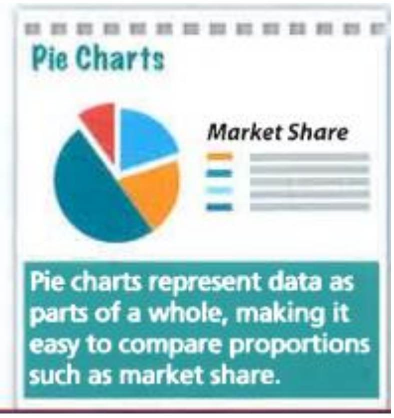
Wider Business World

Government – use line charts to show changes in taxation, inflation etc; pie charts to show how taxation is distributed

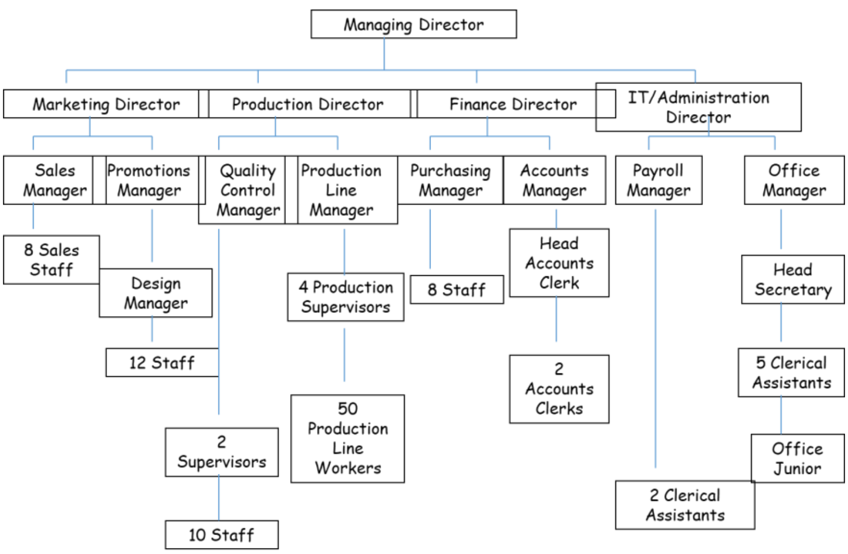
Synoptic Links

Business calculations – profit and profit margin calculations can be used to access financial performance
HR – data on staff retention and performance can be used
Operations – productivity and quality data can also be measures of performance
Marketing – data on sales figures and market research
External influences – economic factors may affect a business performance
Aims – the importance of each measure can be different depending on the aims of the business





Topic 2.5 Making human resource decisions		☹	-	☺
2.5.1 Organisational structures	Different organisational structures and when each are appropriate: ● hierarchical and flat ● centralised and decentralised			
	The importance of effective communication: ● the impact of insufficient or excessive communication on efficiency and motivation ● barriers to effective communication			
	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			
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)			
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 review			
	Why businesses train and develop employees: ● the link between training, motivation and retention ● retraining to use new technology			
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			



BUSINESS: ***Creating informed, discerning employees, consumers and future leaders***

Topic 2.5.1a Organisational structures

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

Core Knowledge

An example of an organisation chart.
Each box represents an employee or set of employees.
The vertical lines represent lines of communication.

	Benefits	Limitations
Tall hierarchical	Regular promotion opportunities Easier to maintain standards / check everyone's work	Very hard for lower levels to communicate with the top Decision making may be slow due to many layers
Flat	Fewer managers needed Workers have more responsibility	Each manager is responsible for more people Fewer promotion opportunities
Centralised	Decisions taken with an overview of whole company Consistent policies and decisions	Reduces delegation, so local managers can not respond to changes quickly Less job satisfaction
Decentralised	Involvement in decision making by more staff Can adapt to local conditions	Managers will need more training A mistake in one branch could impact reputation

Don't be a "man on the street"

- 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 – an example of a centralised business where local branch managers have little power over decision making

NHS, police force – examples of tall hierarchical structures

Synoptic Links

Recruitment – an organisation structure shows the roles within a business

Finance – more managers increases costs for the business

Motivation – responsibility is a non-financial factor

Growth – as businesses expand so will their structures. This can include adding in or removing layers

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Topic 2.5.1b Communication

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

Core Knowledge

Communication methods:

- **Verbal** – meetings, telephone, digital methods such as Zoom
- **Written** – letters, reports, posters
- **Digital** – email, instant messenger, texting, social media

Communication problems:

- Too little communication – can lead to employees being unaware of what is happening, leading to mistakes and inefficiency
- Too much communication so employees are overloaded
- Other information or activities act as barriers to communication

Barriers to communication

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

Don't be a "man on the street"

- Remember that not all people have the internet or social media, so don't assume this is always the best way to communicate
- Remember that email is not free communication – its is cheaper than traditional methods, still costs in terms of connections and time to compose / send and monitor

Wider Business World

Microsoft – research by Financial Times identified Microsoft as having excellent communication

Synoptic Links

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

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Topic 2.5.1c Different ways of working

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

Core Knowledge

3 main types of employment: full-time, part-time and flexible hours

3 main types of contract: permanent, temporary and freelance

Benefits of a full or part-time contract are:

- Stable earnings and high degree of job security
- Regular contributions towards pension
- Likely to receive holiday and sick pay, providing more security
- More likely to be sent on training courses to improve skills

The impact of technology:

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

Don't be a "man on the street"

- 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!

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

Brompton bikes – uses automation and robotics alongside skilled workers

Synoptic Links

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

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Topic 2.5.2 Effective recruitment

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

Job description – a short account of the main features of the job

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

References – people such as teachers or previous bosses who are willing to answer questions about the qualities of a job applicant

Internal recruitment – appointing someone from within an organisation

External recruitment – appointing a new employee who does not work for the business

Core Knowledge

In a large business there are 5 main job roles:

- Directors
- Senior Managers
- Supervisors / team leaders / junior managers
- Operational staff
- Support staff

Documents used in the recruitment process:

- **Job description** and **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

	Benefits	Limitations
Internal	Quicker and cheaper Motivational for employees Business knows the candidate well	Existing workers may not have necessary skills Creates a new vacancy
External	Wider range of applicants New skills and ideas	Expensive and time consuming processes

Don't be a "man on the street"

- Don't confuse Directors or Mangers with owners of a business
- Not all businesses will have all job roles – it will depend on the structure and size of the business
- Not all vacancies will be advertised in the same way, or place. It will depend on the role and urgency

Wider Business World

McDonald's – only recruit online

Merlin entertainments – require candidates to attend assessment centres

B&Q – one of many businesses that no longer accept CVs, only application forms

Synoptic Links

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

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Topic 2.5.3 Effective training and development

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

Core Knowledge

Benefits of providing training	Costs of providing training
Improvements to efficiency and quality	Paying to send staff on courses or bringing in external providers can be expensive
Wider range of staff skills allows a business to respond to market changes quickly	Staff who are training can not do normal work
Boosts motivation of staff	Staff may leave for better jobs

Training can be:

- Formal and informal
- Self-learning
- On-going throughout your career

A formal method to ensure staff develop throughout their career, and to ensure staff contribute to the business aims is to set targets for staff each year. These are reviewed in performance reviews or appraisal meetings.

Why train?

- Motivate staff therefore improving retention
- Introduction of new technology or working practices

Don't be a "man on the street"

- 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

Teachers – must have a minimum of 5 training days per year (INSET)

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

Synoptic Links

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

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Topic 2.5.4 Motivation

Key Vocabulary

Motivation – the desire to do the best you can

Remuneration – 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 usual 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

Job enrichment – being given a range of activities and responsibilities, some more complex than others

Autonomy – the independent power to decide what you are going to do at work

Core Knowledge

Having staff who want to work, want to do the best job possible and are committed to the success of the business is important because

- Higher productivity
- Attracts the best employees to apply for vacancies
- Lower staff turnover, so lower recruitment costs
- Better quality production or customer service, leading to repeat customers and less wastage
- More ideas from staff

Why is motivation important?

motivated workers → high productivity → increased output → higher profits ☺
unhappy workers → low productivity → low output → low or no profits ☹

Financial methods

- Payment, i.e. a wage or salary
- Fringe benefits (more likely in private sector)
- Bonuses
- Commission
- Promotion

Non-financial methods

- Job rotation
- Job enrichment
- Autonomy

Don't be a "man on the street"

- 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

Wider Business World

Avon – sales representatives are paid a commission rate

Clothing retailers – use job rotation, e.g. time on tills, time on changing room, time on shop floor

Synoptic Links

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

The list below gives formulae for use in this qualification. Formulae will not be provided in the examinations for Paper 1 or Paper 2.

Total costs

TC (total cost) = TFC (total fixed costs) + TVC (total variable costs)

Revenue

Revenue = price × quantity

Break even

$$\text{Break even point in units} = \frac{\text{fixed cost}}{(\text{sales price} - \text{variable cost})}$$

Break even point in costs / revenue = break even point in units × sales price

Margin of safety

Margin of safety = actual or budgeted sales − break even sales

Interest (on loans)

$$\text{Interest (on loans) in \%} = \frac{\text{total repayment} - \text{borrowed amount}}{\text{borrowed amount}} \times 100$$

Net cash-flow

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

Opening and closing balances

Opening balance = closing balance of the previous period

Closing balance = opening balance + net cash-flow

Gross profit

Gross profit = sales revenue − cost of sales

Gross profit margin

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

Net profit

Net profit = gross profit − other operating expenses and interest

Net profit margin

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

Average rate of return

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

Calculation video links:

Revenue:	What is Revenue? The Concept and how to Calculate Revenue in Business Explained!	Break Even & Margin of Safety:	Break-Even Analysis | How to Calculate the Break-Even Point Explained.
Total Costs:	Fixed, Variable & Total Costs | Business Costs	Cash Flow/ Opening and Closing Balance:	Cash Flow Forecasting Explained | How to Complete a Cash Flow Forecast Example
Profit:	Calculating Profit and Loss in Business	Average Rate of Return:	Average Rate of Return Explained | How to Calculate the ARR Method of Investment Appraisal
Gross Profit & Net Profit Formulas and Margins:	Net Profit and Gross Profit | Formulas, Margin Calculations and How to Interpret Figures Explained		

GCSE Business (9-1) Exam Technique:

How do I structure a paragraph?

Point... | Because.... | Leading to.... | Therefore...

Chains of Analysis Builder:

1. **This leads to** an increase in sales volume and **therefore** an increase in sales revenue.
2. **This leads to** an increase in sales revenue and **therefore** an increase in profit.
3. **This leads to** meeting customer wants and needs and **therefore** higher customer loyalty.
4. **This leads to** a lower cost (e.g. labour/ manufacturing/materials) and **therefore** higher profit
5. **This leads to** a unique selling point and **therefore** advantage over competitors.
6. **This leads to** higher profit and **therefore** higher levels of retained profit to fund growth
7. **This leads to** better brand image/ awareness and **therefore** improved chance of success.
8. **This leads to** lower levels of customer satisfaction and **therefore** chance of business failure.
9. **This leads to** a positive customer experience and **therefore** better reviews.
10. **This leads to** growth in international sales and **therefore** increased global brand awareness.

3 Mark Response:

1 Point	Because…	Leading to…	Therefore…

6 Mark Response:

1 Point	Because…	Leading to…	Therefore…
1 Point	Because…	Leading to…	Therefore…

6 Mark Response:

1 Point	Because…	Leading to…	Therefore…	Moreover…	Consequently…

9 Mark Response:

Pick ONE option only			
Point 1 – Positive of chosen option	Because…	Leading to…	Therefore…
Point 2 – Negative of chosen option	Because…	Leading to…	Therefore…
Point 3 - Conclusion	Because… Leading to… Therefore…	It depends on…	Recommendation…

12 Mark Response:

Point 1 - Positive	Because…	Leading to…	Therefore…	
Point 2 - Negative	Because…	Leading to…	Therefore…	
Point 3 - Conclusion	Because… Leading to… Therefore…	Another reason why I believe this is….	It depends on…	Recommendation…

Context Creator:

For Section B & C, you must include context – this means linking your answer to the business that you are given in each case study.

Context:	**What does this stand for?**	**What should I consider?**
P	Product	What type of product? e.g car Good or service? Need or a want?
I	Industry	e.g. Fast food, beauty, health, fitness, cars, fashion, technology

C	Competitors	Who are their main competitors?
S	Statistics/ Scenario	Does the case study say anything about: revenue, profit, interest rates, market share? What has/ is happening? E.g. are they a new business, are they trying to grow?