



## Theme 2 Building a Business

<b>2.1</b> <b>Growing the business</b>	<b>2.1.1 Business growth</b>	I can explain internal and external methods of growth and explain the features of plc's. I can also explain the different sources of finance available for growing and established businesses.
	<b>2.1.2 Changes in business aims and objectives</b>	I can explain why business aims and objectives change as businesses evolve.
	<b>2.1.3 Business and globalisation</b>	I can explain the impact of globalisation on businesses, trade barriers used to restrict trade and can explain the importance of the internet and the marketing mix for competing effectively.
	<b>2.1.4 Ethics, the environment and business</b>	I can explain the ethical and environment considerations on businesses
<b>2.2</b> <b>Making marketing Decisions</b>	<b>2.2.1 Product</b>	I can explain the design mix, the product life cycle and extension and the importance to a business of differentiating a product/ service.
	<b>2.2.2 Price</b>	I can explain different pricing strategies and what can influence the strategy used
	<b>2.2.3 Promotion</b>	I can explain appropriate promotion strategies for different market segments, and the use of technology in promotion
	<b>2.2.4 Place</b>	I can explain different methods of distribution
	<b>2.2.5 Using the mix to make decisions</b>	I can explain how elements of the marketing mix can influence other elements, use the mix to build competitive advantage.
<b>2.3</b> <b>Making operational decisions</b>	<b>2.3.1 Business operations</b>	I can explain the purpose of business, and the different production techniques used. I can also explain the impact of technology on production.
	<b>2.3.2 Working with suppliers</b>	I can interpret bar code stock graphs and compare this method of stock control with just-in-time stock control. I can also explain the importance of the role of procurement within businesses.
	<b>2.3.3 Managing quality</b>	I can explain the concept of quality and its importance in the production of goods and services, and how quality can control costs
	<b>2.3.4 The sales process</b>	I can explain the need for good product knowledge, speed, efficiency and after-sales service within businesses to provide good customer service and satisfaction.
<b>2.4</b> <b>Making financial</b>	<b>2.4.1 Business Calculations</b>	I can understand and calculate gross profit and net profit. I can calculate and interpret gross profit margin, net profit margin, and the average rate of return
	<b>2.4.2 Understanding business performance</b>	I can use and interpret quantitative business data in the forms of; information from graphs and charts, financial data, marketing data and market data. I can use this information to support business decision making
<b>2.5</b> <b>Making human resource</b>	<b>2.5.1 Organisational structures</b>	I can explain the different organisations, the importance of effective communication, and different ways of working
	<b>2.5.2 Effective recruitment</b>	I understand different employment roles, and the processes used to recruitment new staff
	<b>2.5.3 Effective training and development</b>	I can explain different methods used to train staff and the importance in staff development for motivation and retention
	<b>2.5.4 Motivation</b>	I can explain the need for a motivated workforce and can explain different financial and non-financial methods used for motivation

## 2.1.1 Business growth



### Internal (organic) growth

- "involves expansion from within a business"
- Opening new outlets
  - Expand overseas
  - Change the marketing mix to attract new markets
  - Introduce new products
  - Use new technology



### External (inorganic) growth

"Occurs when one business joins with another business"

- **Takeover** – where one company takes over another
- **Merger** – where two companies combine to become one organisation

- Sustainable growth, usually paid for with retained profits means the company can adjust to its bigger size as it develops over time

- Slower method of growth, which can result in rivals gaining a competitive advantage while you wait for the capital needed for growth
- If too many branches are opened at once, it can cause serious CASH FLOW issues as new stores come with high start up costs.

#### Growth in general

Growth will lead to the potential for increased sales, more branches will likely increase recognition in the marketplace. Having a large market share should result in the ability to make additional profits... At least in the longer term (A03b)

- Growth can be almost immediate

- By purchasing rivals, you can reduce competition within a market
- Increased market share

- Capital intensive (need a lot of cash to purchase another business)
- Conflict between new and old business, especially if managed differently

- Diseconomies of scale - duplication of roles can lead to higher costs. The new business should consider if they need to make some positions redundant.

## 2.1.1 Business growth 2

### Internal sources of finance for growth

#### **Retained profit**

Gathering the amount of retained profit needed for significant growth could take a long time. Equally, as shareholders want to maximise their dividends, spending profits on growth can upset shareholders in the short term. It will be a management task to convince shareholders that losses now, could lead to bigger profits in the near future.



#### **Selling Assets**

Assets could be sold to finance growth, but the business needs to be sure that they won't be needing them in the future.

Typical assets to sell to generate additional capital could be:

- Vehicles
- Machinery
- Buildings
- Land

### External sources of finance for growth

#### **Loan capital**

Borrowing money from the bank is often a simple way of accessing large amounts of capital, quickly.

Loans will be fixed with clear monthly repayments (helpful for cash flow), however they will have interest added on top making them more expensive.

#### **Share capital (plc's/ltd.'s)**

Selling shares of the company to friends and family will raise capital, but you will now share the ownership of the business with others, who may disagree with the way you want to run your business!



#### **Stock market floatation (plc's ONLY)**

Selling shares on the stock market to the general public will raise capital, however shareholders will expect dividend payments out of your profits and will want a say in the running of the business.



#### **Crowd funding**

Crowdfunding on websites like Kickstarter, can find people willing to invest in your business idea. You might need to give them an incentive (discounts, dividends, rewards) but you will not pay interest.

You will need to raise at least the amount needed to secure the funding, but one you do you will also have a customer base ready to purchase your new product!

## 2.1.2 Changes in business aims and objectives

### Why change aims and objectives?

1. **Market conditions** - the state of the economy may cause businesses to change their priorities. McDonalds responded to the last recession with its 'Pound-Saver' menu
2. **Technology** - changes in technology are likely to bring around changes in aims. New scanning equipment in hospitals might mean they set themselves aims to improve diagnosis of certain conditions

3. **Performance** - if a business is exceeding its objectives it will need new ones, likewise if it continuously fails to meet objectives they may not be realistic

4. **Legislation** - changes in the law mean that aims and objectives might need to change. For example,

Diesel cars are bad for the environment and the government wants to ban them from the roads, so car manufacturers are having to think about hybrid or electric vehicles

5. **Internal reasons** - Innocent Smoothies used to be very ethically focused at their heart and cared about their fruit growers and doing good things for kids . . . These sentiments were used within their promotion material. However, since being purchased by Coca Cola there has been a reduced ethical focus at Innocent



### Aims change over time

1. **Survival -> growth**
2. **Entering or exiting markets (retrenchment)**
3. **Growing or reducing the workforce**
4. **Increasing or decreasing product range**



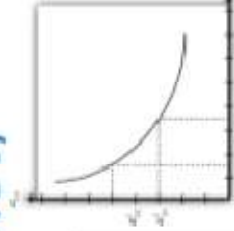
## 2.1.3 Business and Globalisation

### Multinationals (MNC's)

Multinational's take advantage of their large size as they are able to reduce the costs of their products/services



"This is known as '**economies of scale**'; when business get bigger they save money on raw materials, administration and advertising"



MNC's

✓ Low prices – keeps inflation down  
 ✓ Creates jobs

✗ Small local businesses are unable to compete  
 ✗ Profits leave the country, going back to the HQ of the MNC



### Consider . . .



Cheap imports can lead to:

- Job losses
- Money leaving the UK
- Business closures

- China**
- Specialise in making toys . . . .
  - Use similar materials, cheap factories, low labour
  - Toys are very cheap (even when exported to the UK)
- UK**
- New toys businesses in the UK can not charge low prices (need to cover costs and make profit)
  - UK consumers purchase cheaper Chinese imports
  - UK businesses fail, due to cheap competition

### Protectionism . . .

#### Trade Barriers:

- Tariffs
- Quotas
- Legislation

#### Tariff

"A duty, or tax, placed on imports into, or exports out of a country"

✓ Makes foreign imports comparatively more expensive, so people are more likely to buy domestically produce products – protecting our businesses and economy



### Trade bloc

"An agreement between countries or states to remove tariffs and trade barriers between them"

- Single market
- Free trade area
- Customs Union



## 2.1.4 Ethics, the environment and business

### Ethics

#### Key definitions

##### Ethical

"Doing what is morally right, by acting above and beyond legal requirements"

It about being good and doing good

##### Ethnic

Relating to race



The ethics of a business will influence their attitude and behaviour towards its:

- Customers
- Suppliers
- Employees

(Stakeholders)



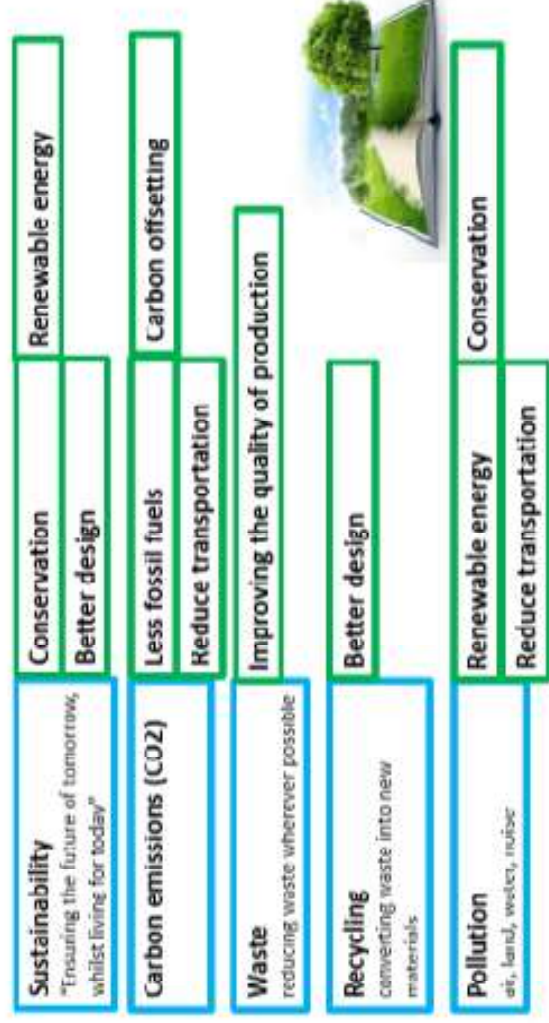
However,

being ethical usually costs more money . . . . . This can upset shareholders and cause conflict

Ethical behaviour =

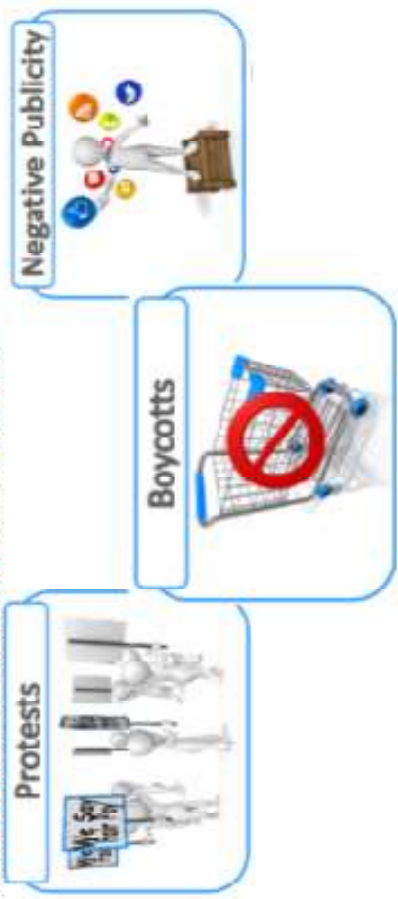
Increased costs -> less competitive prices -> lower profits

## The Environment



## Pressure Groups

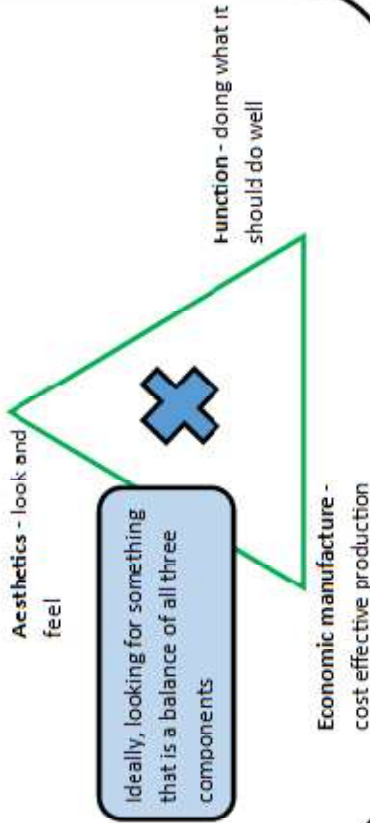
Can influence business behaviour. They can cause a lot of bad publicity, causing customers to avoid businesses thought to be acting unethically or damaging the environment.



## 2.2.1 Product (marketing mix)

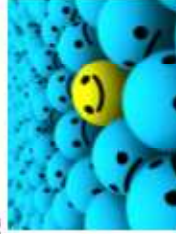
### Design mix

"The product is often described in terms of the design mix, which includes three elements; aesthetics, cost and function"



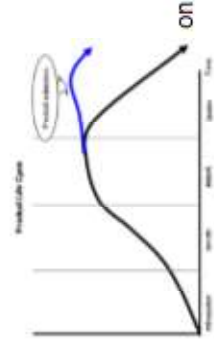
### Why differentiate?

- Buyers think you have something different and makes you unique and worth buying
- Easier to communicate your message when promoting your product
- Stand out in crowded market places.



### Extending the product life cycle

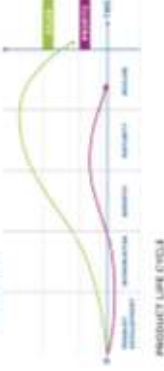
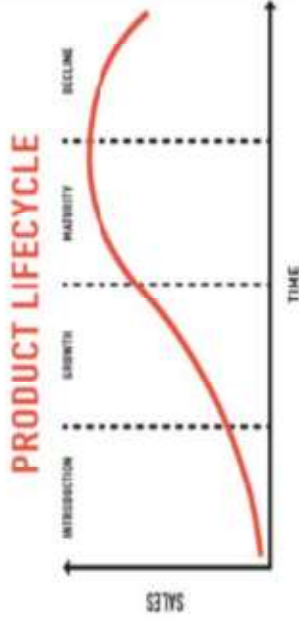
- Modify the product
- Reduce the price
- New product launch
- Encourage the use of the product more occasions



### Product life cycle

"The stages that a product will go through during its life, depicted by a graph it will show sales over time"

At different stages of the life cycle, there will be different requirements on the business and its marketing strategy. Over the life cycle of a product different amounts of spending 'cash outflows' will be needed to support the product, at the same time different sales revenue will be made; all impacting on the profitability of the product over time.



#### **Introduction**

High levels of spending on advertising and promotion to launch the product - sales revenue is low, and profits may be non-existent at this stage.

#### **Growth**

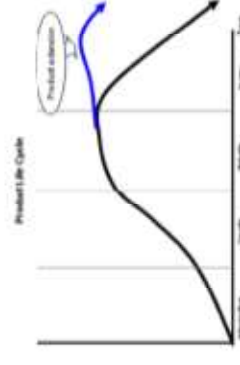
Considerable spending still happening for promotion, but sales revenues will be increasing with popularity and increased sales. Profits are likely to be seen although still low

#### **Maturity**

Maximum sales revenues, and a reduction in the need for advertising means that profits are going to be at their highest here.

#### **Decline**

Unless an EXTENSION STRATEGY is used, the sales will reduce over time as other products are more attractive and profits will reduce.



## 2.2.2 Price (marketing mix)

Price affects and is influenced by 3 groups:

- **Customers,**
- **The Business,**
- **Competitors**

**Customers;** how much are they willing to pay, how much income does the target segment have, how often will they make the purchase

**The Business;** costs need to be covered, how much profit do they want to make, where is the product in the life cycle, is it high or low quality?

**Competitors;** how many competitors are there, how much do they charge, is our product similar or unique?



## Short-term pricing strategies

### Loss-leader pricing

Selling goods below the cost of products, often used by retailers.

- ✓ Attracts customers if advertised
- ✓ Increases revenue as customers are tempted to buy additional products
- ✗ Will lead to losses if other products are not purchased

### Price skimming

Involves charging a high price initially, when a product is in high demand (tech products)

- ✓ Good for new high end products.
- ✓ Maximises revenue from early purchasers
- ✗ Can only be used short-term
- ✗ Some customer will wait until price falls

### Price penetration

Low price for a limited period of time

- ✓ Establishes new products in highly competitive markets
- ✓ Encourages product trial
- ✗ Customers will expect low price if used for too long
- ✗ Competitors may also reduce prices (price war)



## Long term pricing strategies

### Competitive pricing

Based on what other businesses charge, so in markets with lots of similar products

- ✓ Know what consumers will pay, easy to apply
- ✗ Competition is not based on price, so need to use other methods to attract customers
- ✗ No guarantee costs will be covered, generally lower profits

### Cost-based pricing

Cost based on how much it costs to produce

- ✓ Ensures costs are covered helps achieve desired profit
- ✗ No consideration of what competitors charge
- ✗ Does not consider demand for the product

### Psychological pricing

Involves setting prices in way that is designed to influence customer perception. Charm pricing (£.0.99) or prestige (high)

- ✓ Influence customer views of product (high price = high quality)
- ✓ Can attract customers to your brand
- Quality must match cost level



## 2.2.3 Promotion (marketing mix)

### Product trial

*"Methods to encourage consumers to sample/try a product for the first time"*

Can be effective, but expensive to hand out 'free stuff'

Free samples (food)

Free trial (magazines, Netflix, music streaming)

Trial offer—reduced prices (products)



### Sponsorship

*"Supporting an event, person or organisation by providing financial support or products and services"*

**Things to consider:**

*Can effectively build a business profile, and improve relationships and reputation with community/customers. Can be risky, as negative publicity at events or with sponsored individuals can tarnish the brand.*

*Think drugs in sport... And the impact on the sponsoring company*



### Special offers

*"The use of incentives to persuade a consumer to make a purchase"*

Includes: discounts, competitions, BOGOF, point of sale material, free gifts, loyalty schemes

**Short term strategy only**



## PROMOTIONAL STRATEGIES

### Advertising

*"The use of media to communicate with existing and potential customers about a product or service"*

- Communicate the right message
- Message needs to be seen at the right time, by the right people (segment)
- Use most appropriate media



Media - expensive, so needs to be right method and effective ( Think target market!!)

DIGALL)

### Branding

*Giving a business or product an identify or personality, making it stand out in the marketplace*

1	Google	Technology	'102,163
2	Apple	Technology	'100,595
3	Amazon	Retail	'287,394
4	Microsoft	Technology	'200,107
5	Facebook	Technology	'178,300
6	Visa	Payments	'162,186
7	Walmart	Retail	'145,811

**Technology in promotion** .. QUICKFR, CHFAPFR, IARGFR AUDIFNCF

- Targeted online advertising (cookies), target market
- Viral marketing—using social media to reach huge audience
- E-newsletters—offers and links to click on to make purchases



## 2.2.4 Place (marketing mix)

### Retailers (physical stores)

*"Physical stores and shops where purchases can be made. Retailers can be retail shops on the high street, wholesalers, agents or directly from the producer"*

#### Advantages

- ✓ Allows you to access 'passing trade' market, with attractive store fronts in busy locations
- ✓ Customers can ask questions and build a relationship with the seller, likely to lead to repeat purchase and understanding your customer better.
- ✓ Some people will only purchase in store

#### Disadvantages

- ✗ Cash heavy, as retail outlets need to be stocked with products, can cause cash flow issues
- ✗ Rents and mortgages can be expensive overhead costs, eating into profits



#### Think DIGALL!

Based on the target segment, what is the best way to target your customers?

Are certain products best placed where they can be touched, seen, smelt, sat on (sofas, food, beds, furniture, pets and animals)

### E-tailing

*"A business that only uses e-commerce to gain sales for example, Amazon"*



#### Advantages

- ✓ Lower operating costs, without a physical store
- ✓ Access to a world-wide audience from a single location, which opens up many markets across the globe, which should increase sales
- ✓ Rapid expansion, with relatively low costs

#### Disadvantages

- ✗ Lots of competition, and more difficult to stand out as 'different' online
- ✗ Some products/services can not be best delivered online which means this is not suitable
- ✗ 24/7 operations, so need a plan to cope with this demand
- ✗ Hard to build customer relationships when not face-to-face, this also results in customers being less loyal too.

By 2021, mobile ecommerce sales are expected to account for 54% of total ecommerce sales.

However, "Only 12% of consumers find shopping on the mobile web convenient" Meaning there is a lot of room for business owners to make their m-commerce experience something that helps them stand out

## 2.3.1 Business Operations

### Purpose of business

“Businesses exist to either make products or provide a service”

### Technology and production

There is lots of new technology available to businesses, some will improve the service delivered to customers and others will have a huge impact on the production of products.

Technology to be aware of includes:

- 3D printing—for modelling and prototypes
- CAD—Computer aided design
- CAM—Computer aided manufacture
- Robotics
- Scanning and imaging—medicine, detection
- Drones - war, deliveries



## Methods of production



### Job production

Used to produce **one-off** products, often customised or handmade by skilled workers who complete one item before starting the next

- ✓ Exact requirements
- ✓ Quality – skilled workers
- ✓ Varied work
- ✗ Slow and time-consuming
- ✗ High costs
- ✗ Doesn't utilise machinery well

### Batch production

Used to produce a **range of** similar, closely related products, made in groups allowing **small changes to be made before production starts again**

- ✓ Variations
- ✓ More items produced
- ✓ Lower unit costs (bulk buying)
- ✗ Time between batches
- ✗ Increased stock holding
- ✗ Less skilled, staff bored

### Flow production

Used to produce **large** numbers of identical products, production is continuous

- ✓ Fixed costs are spread
- ✓ Identical products
- ✓ Consistent quality
- ✓ Usually automated
- ✗ Inflexible
- ✗ High initial investment costs
- ✗ Breakdowns

## 2.3.2 Working with suppliers

A good supplier will provide a business with products, raw materials or components in the right quantity, at the right time at the right quality, if not then

- Orders not filled
- Limited choice or no products
- Loss of customers
- Poor reputation



The Colonel is working on it.

### Logistics and Supply

*"The organisation and transportation of goods" or "the management of transport of raw materials and goods"*

### THE CHICKEN CROSSED THE ROAD, JUST NOT TO OUR RESTAURANTS...

WE'VE BROUGHT A NEW DELIVERY PARTNER ONBOARD. BUT THEY'VE HAD A COUPLE OF TEETHING PROBLEMS - GETTING FRESH CHICKEN OUT TO 500 RESTAURANTS ACROSS THE COUNTRY IS PRETTY COMPLEX!

WE WON'T COMPROMISE ON QUALITY, SO NO DELIVERIES HAS MEANT SOME OF OUR RESTAURANTS ARE CLOSED, AND OTHERS ARE OPERATING A LIMITED MENU, OR SHORTENED HOURS.

SHOUT OUT TO OUR RESTAURANT TEAMS WHO ARE WORKING FLAT OUT TO GET US BACK UP AND RUNNING AGAIN.

## Just in Time

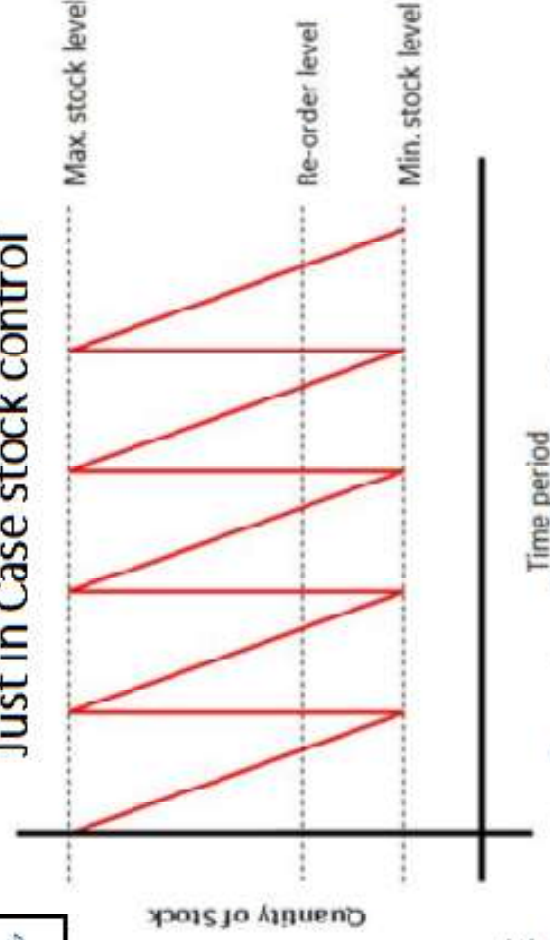


- Holding stock that does not sell is costly, because of this some businesses change to a method called **Just In Time** or **JIT**.

- JIT – "The business holds no stock - materials and components they are ordered and delivered when needed"

*Car manufacturers are a good example of JIT - Businesses which supply components to the car manufacturers deliver parts to the production line as and when they are needed*

## Just in Case stock control



### CRITIQUE

- Stock does not reduce steadily all of the time
- In some weeks, sales may be very high
- Also, supplies may not always be delivered on time

## 2.3.3 Managing Quality

### Quality



*"Quality is how well a product has been made, the purity of its ingredients or raw materials or how long it will last"*

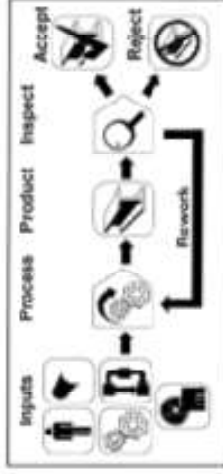
As different customers have different customer needs, they may also have different perceptions of quality.

Quality is therefore about being 'fit for purpose' and is judged by the consumer

#### Quality control (QC)

*"Where quality is checked at the end of the production process"*

- Quality controllers make these checks or tests (depending on the product)



Quality control only serves to remove defect products before getting to customers, and doesn't look at the process or the reasons for the fault. This means that QC does not reduce wastage.

#### Quality and costs . . .

Improving quality will cost money in terms of training, retraining, machinery and sourcing higher quality components/materials. However, the long-term TRADE OFF is this could actual reduce wastage costs and increase profits

#### Quality Assurance (QA)

*"Where quality is checked throughout the manufacturing process"*

Expensive in the short term, BUT can reduce costs over a longer term in a reduction in defects

- Quality checks at every stage of the production process, to prevent the manufacture of sub-standard goods.
- Suppliers become more important, as they need to have high quality too

**X** Quality assurance, because it is a management system, can be very expensive and therefore this is often reflected in the prices charged for goods. However, the trade off can be a competitive advantage over rivals

#### Quality control (QC)

Focused on identifying defective products

Finds and eliminates problems

Makes quality the responsibility of one person/team

#### Quality assurance (QA)

Focused on improving the process

Establishes a good quality management systems

Makes quality the responsibility of all

#### Quality for competitive advantage

Some businesses will try to stand out from their rivals (differentiate) their product or service, based on its high quality reputation.

Gaining a quality mark is seen by potential customers and businesses as an indicator of this quality and added value



## 2.3.4 The Sales Process

### The Sales Process

*"The sales process is circular. If the sales process is managed well it should lead to customer loyalty and repeat purchase"*



#### 1. Customer Interest

A business must make the customer interested in their offering, this can be achieved **through marketing** via:

- Sponsorship
- Branding
- Advertising
- Sales promotions and special offers

Another way to attract interest is through **product knowledge** – often important for face-to-face transactions. Good sales staff **add value**, and promote the **features and benefits** of their product/service

Hard vs soft

#### Customer Interest

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#### 3. Customer Engagement

In situations where the 'transaction' takes place over time (house buying, car purchase) there will be more lengthy and multiple interactions between the customer and the sales person



... It is vital this relationship is a good one

#### 2. Speed and efficiency of service

Time is important to customers and therefore business need to be able to deliver on-time and speedily

If two services are similarly priced, customers are likely to base decisions on **delivery/appointment times or installation** (convenience)

E-tailers – must ensure their websites are easy to use and make purchases quick and simple

Retailers – need to reduce waiting times, queues

#### 4. Post-Sales Service and customer feedback

This relates to support given after the purchase. Like to involve help to use their product or sometimes a complaint. Some products have after sales services as standard: re-waxing jackets, annual services, warranties

After a service business will ask for feedback or reviews. These can be in the form of questionnaires sent, emailed or texted to customers



## 2.3.4 The Sales Process

### Technology and customer service



It is increasingly easy for a negative customer transaction to become public knowledge with the internet and social media platforms. Complaints are no longer only directed to the company but also to the public. A company's reputation can be seriously damaged by these online reviews and so it is important that businesses try and prevent them from happening in the first place, and solve any issues quickly and to the customers satisfaction

Technology:

- Trip Advisor
- Google review
- Facebook pages



#### 15 years of HSBC experience

Banking with HSBC for 15 years.

24 Dec 2018

Good things: mostly works, fast transfers, paying in machines in branch, loan and credit card process pretty good.

Bad things: overhyped customer service, got stuck in a fraud alert thing which stopped me buying a travel card every damn week for a year, online banking refuses to work on Safari, apple pay wont activate on my debit card, it's virtually impossible making large transactions on debit cards, when my cards were stolen they refunded all transactions that were made then took them back again even though I didn't make them.

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## 2.4.1 Business Calculations

### Gross profit

German for 'big' this profit is the most basic type, showing what you make from the products sold minus the cost of selling the goods

It is the contribution that will go towards paying the fixed costs of the business (overheads/expenses — see *net profit*);

### NET PROFIT FORMULA

$$\text{Gross Profit} = \text{Revenue} - \text{COGS}$$

*COGS - cost of sales/total variable cost*

### Gross Profit



Gross Profit Margin Formula

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



Gross Profit Revenue

### Margin

### Net profit

Profit after expenses/overheads have been removed.

This is a more realistic type of profit as most of the businesses costs have all been accounted for. Expenses are all of the FIXED COSTS

### NET PROFIT FORMULA

$$\text{Net Profit} = \text{Gross Profit} - \text{Expenses}$$

### Net Profit Margin



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



### Average rate of return

Average rate of return

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

ARR measures the return or profit from a proposed capital project the higher the percentage the more profitable the business idea.

### EXAM FOCUS

In the exam you might be asked to recommend Option A or Option B, if you are given the information to calculate ARR then this will support your answer in terms of which would financial have a better investment potential

Examples:

	2010	2011	2012
Revenue	100	120	140
Cost of Sales	100	100	110
Gross Profit	0	20	30
Gross profit margin	0%	17%	21%

Gross profit = revenue less cost of sales

Gross profit margin =  $\frac{\text{gross profit}}{\text{revenue}}$

Company XYZ Income Statement	
Revenue	100
Cost of Goods Sold	20
Gross Profit	80
Operating Expenses	20
Operating Profit	60
Interest Expense	5
Earnings Before Taxes	55
Tax Expense	25
Net Income	30
Net Profit Margin	30.0%



## 2.4.2 Understanding business performance

### Using data

You are required to use and interpret a range of quantitative business data as part of business decision making. In the exam you could be given numerical information in the form of, for example: charts or graphs which may include financial data such as sales revenue or marketing data, percentage increase in sales volume or market cuts such as average incomes and use this information in business decision making

Tom's Teas is a tea shop. Tom, the owner, has blended three new herbal teas to sell in his shop. He decides to carry out some market research to find out which of the teas is likely to be most successful.

Tom offers free samples of each tea in the shop and asks customers to fill in a short questionnaire about them. The questionnaire is shown in Figure 1 on the right.

78% of the people who responded to the questionnaire preferred the jasmine deluxe tea, 10% preferred the camomile and nettle tea, 4% preferred the liquorice and mint tea and 8% didn't like any of them. A common answer to question 2 was that the liquorice and mint tea tasted bitter; however, there were few complaints about the other two teas. 52% of the people who responded to the questionnaire stated "No" for question 3.

Figure 1

Q1 Which of the three herbal teas did you prefer?

Jasmine deluxe	<input type="checkbox"/>
Camomile and nettle	<input type="checkbox"/>
Liquorice and mint	<input type="checkbox"/>
Didn't like any of them	<input type="checkbox"/>

Q2 Was there any tea that you really disliked? Please explain your answer.

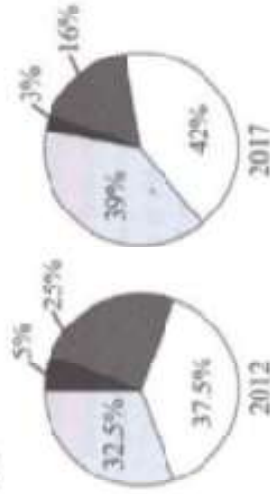
Q3 Would you buy one of these teas instead of another drink in the shop?

Georgina owns a restaurant called The RiverHouse Restaurant. The restaurant is in an old building, with oak beams and a large log fire. It is located on a country lane next to a river. She recently carried out a survey of some of her customers. She carried out the same survey five years previously. The results for one of the questions are shown in Figure 2 below.

Figure 2

Q1 What is the most important aspect of a restaurant for you?

- the choice of food
- the atmosphere
- the location
- the price



Before the survey, Georgina had flyers for her restaurant that showed a picture of the outside of the restaurant and displayed the price of her set menu. Afterwards, she changed her flyers to show an image of the inside, and a list of live music events that she is hosting.

### Financial information

#### Assessing its usefulness . . .

#### Uses (advantages)

- ✓ Visual information in charts and graphs make identifying trends easy
- ✓ Data can be compared year on year to identify issues or changes quickly
- ✓ Lots of information available on consumer incomes, the economy, exchange rates, interest rates

#### Limitations

- ✗ Statistical data, including market research, can become OUTDATED, and therefore no longer reliable
- ✗ WHEN the data was collected can also be an issue, especially for seasonal businesses—if it was collected during the BUSY period, it might not be a realistic picture of the situation
- ✗ Hard to know who collected the data, its original purpose or whether it was collected accurately

## 2.5.1 Organisational structures

### Hierarchy

"Pyramid-like ranking of individuals, showing the chain of command and responsibilities of staff. The higher up the greater the level of authority"

#### Tall hierarchy

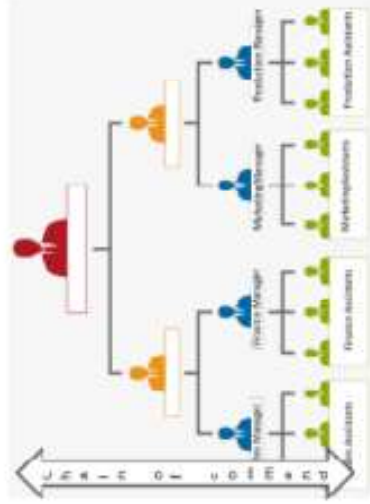
Tall structures have many levels of hierarchy, and long chains of command

##### Advantages

- ✓ Close supervision
- ✓ Clear progression (promotion)
- ✓ Clear management

##### Disadvantages

- ✗ Freedom of employees is restricted
- ✗ High management costs
- ✗ Decisions are slow



#### Flat hierarchy

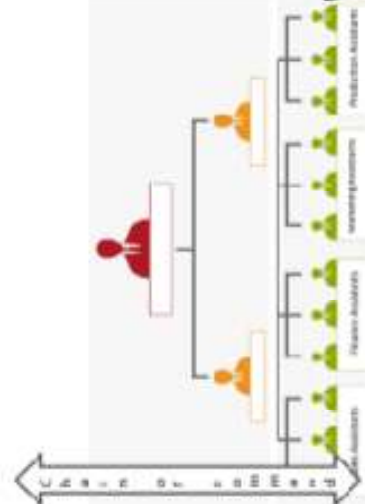
Flat structures are often complicated and used in smaller businesses

##### Advantages

- ✓ More communication
- ✓ Quick decisions
- ✓ Lower staff costs

##### Disadvantages

- ✗ Less progression for staff
- ✗ Can prevent growth
- ✗ Job roles are unclear



### Centralised vs. De-centralised

**Centralised**—Businesses that have a centralised structure keep decision-making firmly at the top of the hierarchy



##### Advantages

- ✓ Common policies and practices - consistency
- ✓ Easy to control
- ✓ Economies of scale

##### Disadvantages

- ✗ Decisions can take a long time to reach individual branches
- ✗ Slow to respond to local changes
- ✗ Reduced motivation of managers - as they have a lack of control

**Decentralised** - "decision-making is spread out to include more junior managers in the hierarchy, as well as individual business units or trading locations"

##### Advantages

- ✓ Able to respond to local circumstances (customer needs)
- ✓ Improved customer service
- ✓ Improved motivation of staff

##### Disadvantages

- ✗ Difficult to ensure consistency
- ✗ Harder to manage financial control
- ✗ Decision-making not always aims-based



### Chain of command

"The path or chain down which orders are passed down: the organisation"

#### Subordinate

Any individual you are directly responsible for in the hierarchy. They are below you (sub) in the chain of command

Large companies with longer chains

- Messages can get lost (*Chinese whispers*)
- Managing change - further down resist change
- **Demotivate** workers - feel outsiders - reduce efficiency and productivity
- Lots of layers '**tribal mentality**' - focus on own affairs not businesses aims - lead to inefficiencies

#### DELAVERING

Removing layers of management and workers in a hierarchy so that there are fewer levels in the chain of command

## Different ways of working

Method	Advantages	Disadvantages
<b>Full time</b> Working around 40 hours per week	<ul style="list-style-type: none"> <li>Consistent staff know routines and information as they are there everyday</li> <li>Customers can develop relationships with full-timers</li> </ul>	<ul style="list-style-type: none"> <li>Can be expensive, especially if on more than minimum wage</li> </ul>
<b>Part-time</b> Usually anything up to 30 hour per week, or can be less	<ul style="list-style-type: none"> <li>Can use to fill busy periods by offering small shifts (4 hours)</li> <li>Can save on costs, if a full-time person is not necessary</li> </ul>	<ul style="list-style-type: none"> <li>Less regular work can mean staff aren't fully updated about what they need to know</li> <li>Can be less reliable</li> </ul>
<b>Flexible hours</b> Staff have a number of hours they are required to work, but can start and finish to suit them	<ul style="list-style-type: none"> <li>Great work-parents with children or other commitment outside of work—build loyalty and retention</li> </ul>	<ul style="list-style-type: none"> <li>Can mean less staff at undesirable times (Friday afternoons) which can impact on customer service</li> </ul>
<b>Permanent</b> Have a full contract of employment that is indefinite (no time restrictions)	<ul style="list-style-type: none"> <li>Consistency</li> <li>Commitment to the organisation</li> </ul>	<ul style="list-style-type: none"> <li>If you no longer need the staff you need to go through the redundancy process which is time consuming and expensive</li> </ul>
<b>Temporary</b> Staff only employed to work for a certain time period (Christmas, maternity cover)	<ul style="list-style-type: none"> <li>Allows a business to be more flexible for busy periods or prolonged absence</li> <li>Staff are easily removed when not needed, reducing costs</li> </ul>	<ul style="list-style-type: none"> <li>Temporary staff may not feel part of the workforce</li> <li>Lack of commitment to the organisation</li> </ul>
<b>Freelance</b> Worker: not part of the firm but brought in to solve a particular issue	<ul style="list-style-type: none"> <li>Easy way to get specialist help and assistance for short periods, which can be cost effective</li> </ul>	<ul style="list-style-type: none"> <li>Freelance staff have little commitment to your organisation and might use your ideas with other companies</li> </ul>

### Technology and working (efficiency, remote working)

Technology in the form of email, laptops, conference calling, face time have meant that some staff are able to effectively work from home (remote working), or anywhere in the world! This can improve efficiency, but being contactable 24/7 can be overwhelming for staff

Technology has also improved efficiency—dealing with customers, deliveries etc.

## Communication in the workplace

Communication is essential to ensure that all staff know important information, they know what the business is trying to achieve and what is going on at work

There are many methods of communication used at work to inform staff of what they need to know, including:

- Telephonic calls
- Email
- Staff newsletters
- Meetings
- Briefings
- Intranets (internal internet)
- Twitter
- 



### Excessive Communication

Too much information can lead to 'information overload' and can make employees feel stressed and overwhelmed. It is also likely that they will forget important information because they have been told so much by email, meetings, in the corridor conversations

**Insufficient information** can mean the workforce has little clarity, lacks understanding of what they are trying to achieve or in the worse cases they do not have the right information to give to customers

## 2.5.1

## Organisational structures 2

## 2.5.2 Effective Recruitment

### Key business functions

- ⇒ **Human resources (HR)** responsible for the employees within the workplace from recruitment to retirement. Staff grievances and complaints.
- ⇒ **Finance** Finance will ensure the correct account management of the firm, the payment of bills (invoices) and the collection of debts. They will set department budget and produce financial statements at the end of every year.
- ⇒ **Sales and marketing** Promotional campaigns and advertising, this department: specialised in increasing sales
- ⇒ **Logistics** Ensuring that the product is in the right place at the right time and in the right quantities
- ⇒ **Operations** The department responsible for the creation of the product. Often working in factories or warehouses this function ensures the product is available
- ⇒ **Customer Services** This function is responsible for customer interactions and the sales process. They deal with customer enquiries, customer complaints and have the ability to really make the company shine, or make customer decide to use a rival business in future.
- ⇒ **IT** Function responsible for information technology, including POS systems, phone lines, ordering systems, websites and databases held for staff and customers.
- ⇒ **Administration** Administration keeps the business up to date and ensures clear communication within the business and with external stakeholders. Typical jobs include: secretarial work, letters, phone calls, emails and diary management

#### Director

A director is a person who leads a particular area of a company. Companies that use this term often have many directors spread throughout different business functions or roles (e.g. director of human resources).<sup>10</sup> The director usually reports directly to the CEO



#### Senior managers

Senior Managers are responsible for the overall operations and profitability of a company or institution. They oversee the activities of a single division or department they manage



#### Supervisors/Team leaders

A supervisor is responsible for the day-to-day performance of a small group. Typically the supervisor has experience in what the group does and has earned the position based on management's belief that he/she is capable of guiding the team.



#### Operational staff

Operational staff carry out the day-to-day work of the company. They may work on the front line with the customers, or be in finance, operations. These are the workers, and will make up the biggest part to the workforce

#### Support staff

Support staff carry out key functions to ensure the business operates smoothly. They are usually IT, administration based roles and support the work being do by everyone above them in the hierarchy



## 2.5.2 Effective Recruitment 2

### Internal recruitment

*"Recruiting from within the business"*

#### Advantages

- Knowledge of the business, so less training and induction needed
- Already know the applicants strengths and weaknesses
- Opportunities for internal promotion increase motivation and retention of staff

#### Disadvantages

- Missed opportunity to bring in new ideas and skills from outside
- Some staff may become demotivated if they did not get the promotion

### External recruitment

*"Recruiting from outside of the business"*

#### Advantages

- Fresh ideas from new staff
- New skills and expertise from other people/businesses
- Lots of training needed for new staff to familiarise themselves with the company
- Conflict with existing staff

#### Disadvantages

- Expensive and time consuming
- Lots of training needed for new staff to familiarise themselves with the company
- Conflict with existing staff

### Person Specification

Content includes:

- Skills
- Qualities
- Qualifications
- Experience



Patient  
Loyal  
Strong  
Tolerant  
Flexible  
Thoughtful



### Job Description

Content includes:

- Hours:
- Location:
- Wage/Salary:
- Responsible to:
- Accountable for:
- Main duties



## Recruitment documentation

### Employer (vacancy)

- Job description – outlines the job role, pay, location
- Person specification – skills, qualities of the individual
- Job advert

### Potential employee (candidate)

- CV + covering letter
- Application form

## 2.5.3 Effective Training and development

### Formal training

*"Explicit training with clear goals and aims, likely to be scheduled and planned for"*

Paid for specialist courses, college courses, training programmes. Can be expensive and time is lost as employees are not working whilst this training takes place.

### Informal training

*"More relaxed, natural learning. May happen through experience or be self-directed"*

Observations, discussions, self-learning, trial and error (learning from mistakes). Customer services could be impacted by trial and error, however very cost effective as it is on-the-job.

### Self-learning

*"Learning done by oneself, without a teacher or instructor"*  
could be useful; if you are looking to gain a promotion or apply for a job within a different setting.



### Ongoing training

*"Regular training"* - essential in dynamic businesses, or those with lots of policies and procedures that keep changing. Education, healthcare and technology will be fields where ongoing training is necessary to ensure a successful sale process and customer loyalty/satisfaction.



### New technology — retraining

As many businesses upgrade their computer systems, or introduce new machinery existing staff will need retraining.

This is usually a good opportunity for staff to get new skills, but some will find change and new technology intimidating - so it should be conducted carefully and in a sup-

### Performance Appraisal and target setting

Most employees will be set targets by their managers. These targets will help the manager meet their targets and the managers will help the business meet its overall aims and objectives.

Targets will be set yearly, and at an appraisal meeting with a line manager they will be reviewed. Staff will have either fail / met/ or exceeded they targets. **They can be used to identify training needs.**

Many businesses then offer **INCENTIVES** based on performance. This is often in the form of performance related pay (PRP). If an employee meets all of their objectives it is likely that they could receive a performance based salary increase, or a bonus (see *financial incentives*)  
*Performance appraisals can also be used to manage and motivate employees.*

### Retention and motivation

Training shows an investment in staff, and employees are like to value this training as a way of improving themselves, their skills or their ability to apply for promotions. Training is also fundamental in ensure that staff are able to be successful in their job roles.

If staff feel that their employer values them and has invested money in their training and development, they may become loyal to the business and therefore less likely to leave. **This will reduce labour turnover, increase retention and keep skills within the business.**



**INVESTORS  
IN PEOPLE**

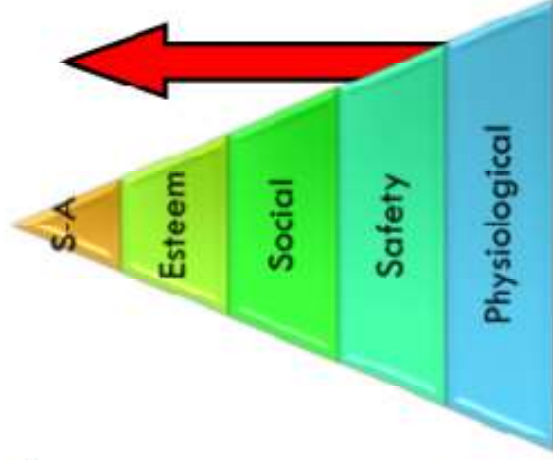
## 2.5.4 Motivation

### Motivation

**“Internal and external factors that make individuals committed to a job, or make them put in the effort to attain a goal.”**

Motivation is important to gain from staff as it will lead to benefits to the business in terms of:

1. **Attracting staff;** if staff morale is good employees will talk about their work. This word of mouth can help a business attract good staff
2. **Retention;** if staff are committed to their jobs and work then they are less likely to leave and find employment elsewhere. This can save the business money on advertising and new staff training
3. **Productivity;** happy staff work harder—full stop. This can reduce business costs in the form of labour costs per unit



Businesses will need to use a **range of financial and non-financial incentives**. Some businesses are not able to afford financial incentives, as they need to reduce costs as much as possible. Even some bigger businesses may not use financial incentives much, as they can upset shareholders who will receive less in dividends, if employees receive more (stakeholder conflict)

### Non-financial methods



1. **Job rotation** - moving around doing different job roles, helps alleviate boredom but also builds skills of staff
2. **Job enrichment** - giving employees more responsibility, and tasks usually reserved for management
3. **Autonomy** - allowing employees to make their own decisions
4. **Recognition** - high fives, praise, employee of the week

### Financial methods

1. **Remuneration** - payment for work in the form of salaries or wages (Minimum Wage/Living Wage legislation)



2. **Bonus** - paid for meeting targets, lump cash sum
3. **Commission** - % earned on each sale made
4. **Promotion** - Esteem needs and additional pay from promotion at work, given more responsibility too
5. **Fringe benefits**  
Senior staff - mobiles, laptops, cars  
Operational staff - childcare vouchers, lunches, gym access