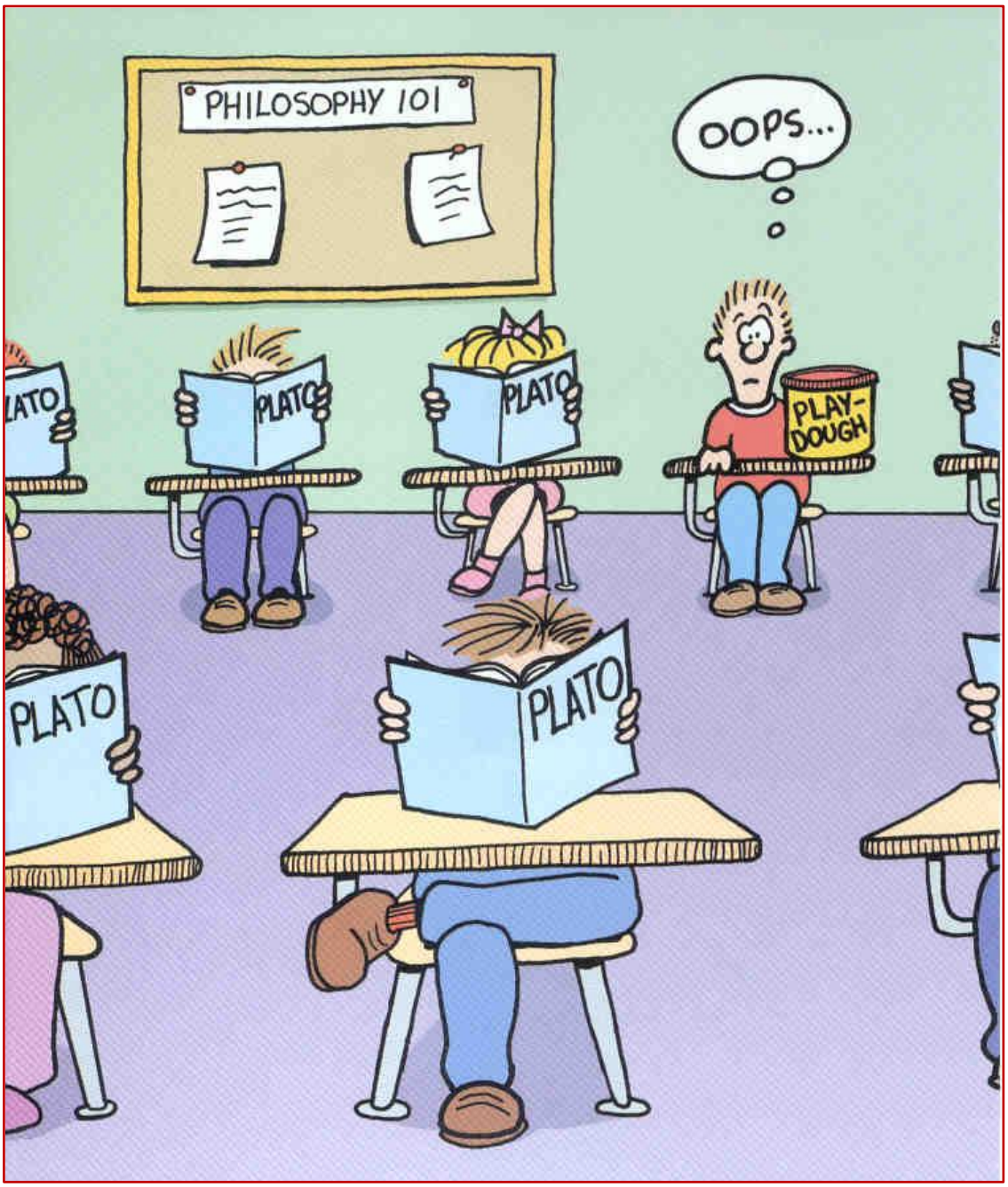
Year 11 GCSE Business Studies



Revision Guide

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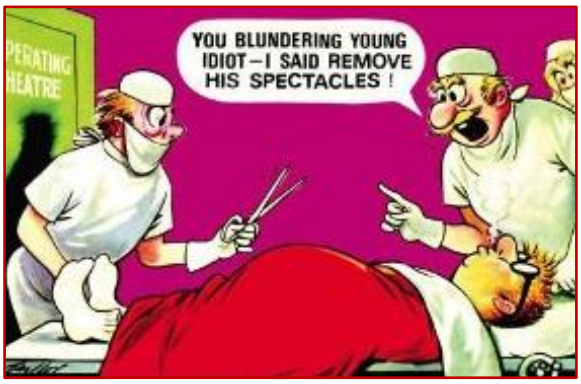
General Exam Advice

Reading the question



Make sure you read the question carefully, and understand what you are being asked to do before you start writing. It's very easy to fall in to the trap of answering a question you know how to answer, INSTEAD of what you've actually been asked.

Time Keeping

Examiners don't do Fergie (injury) time! So make the most of your 90 minutes. Some specific advice:

- Read through the paper carefully
- Complete Section A. Remember that after 40 minutes you should move on, which will be 45 minutes in total
- Section B. Worth 30 marks so should be completed within 30 minutes
- Finally, Section C which is worth 20 marks and should be completed within 20 minutes

Work on the basis of a mark a minute. So if you are stuck, move on to a question you can do. You can always come back to it later.

Command Words

Look out for the command word in each question. It will usually be one of the following:

Command Word	**What the examiner wants you to do:**
Identify	Briefly name a particular method in which something is done
Explain or Describe	Talk about how a particular business approach works, or how a particular situation may have an impact on a business
What is meant by	Give a definition, and illustrate with an example if you possibly can to secure the 2nd mark
Calculate	Work out the answer using the correct formula.
Assess/Discuss	Requires some evaluation, which involves weighing up a course of action against an alternative option that could have been taken
Using your knowledge is X business right to do X. Justify your answer	Apply relevant knowledge of theory to the question. Identify an alternative option and discuss it. Also discuss the course of action being taken and the advantages and disadvantages. Therefore you show both sides of the argument. Conclude by stating your opinion with reasons.

Mark Scheme Hints and Tips

- 1 mark questions are straightforward and speak for themselves. And if you don't know a multi-choice question then guess, as you've nothing to lose!
- 2 mark questions need a full definition, or a definition that is clarified with an example

  E.g. Q: What is meant by a fringe benefit? A: Fringe benefits form part of an employee's pay and benefits package and are of some monetary value to the employee. For example they may receive private health care and so they don't need to pay for it themselves.

- 3 mark questions have the infamous '3 strands'. This means you need to identify the reason/advantage/disadvantage/method, and then either:
  - Develop your point further with two or more further sentences using 'connectives' (Therefore, As a result, Consequently, This means). These two sentences should explain the knock-on effects of the action/issue you are discussing
  - Or develop your point with one connective, and then also use an example. If the question is specific to a business or industry then you should relate your answer to that industry using a relevant advantage or problem for that firm
- Questions carrying 6 marks or more require you mostly to weigh up whether a particular course of action is right or wrong. The best answers discuss both sides of the argument before stating which approach they think is best and why. They can also identify any factors the decision might depend upon. For example, the use of a Just-in-Time stock system depends upon having a fairly predictable level of demand and reliable suppliers

Marketing

What you need to know

- Marketing and Market Research
- Product Trial and Repeat Purchase
- Product Life Cycle
- The Boston Matrix
- Branding and Differentiation
- Building a successful Marketing Mix

Marketing & Market Research

Marketing is *"the management process that is responsible for anticipating, identifying and satisfying customer needs in a profitable way".* In order to anticipate and identify customer needs businesses must carry out effective research. Market research is *"the process of gaining information about customers, competitors and market trends through collection of primary and secondary research data".*

INACCURATE MARKET RESEARCH IS LIKELY TO LEAD TO BADLY INFORMED BUSINESS DECISIONS

There are several types of research which have uses and limitations.

Primary research is new research carried out by or on behalf of a business to meet specific requirements.	**Secondary research already exists and is used by firms to help them find out about a market, its competitors or customers. It may consist of newspaper articles and previous industry research or reports.**
Advantages • It meets the firm's specific needs • If done well it provides useful information which other firms may not have Disadvantages • It's expensive to do or buy-in • It can be time-consuming to complete	Advantages • It is cheaper than primary research • It is quicker to do Disadvantages • It may not meet the firm's actual requirements • You may end up with too much data to analyse

Quantitative data is data that can be analysed for trends and comparisons, using numerical techniques.	**Qualitative data is 'soft information'. It consists of customer thoughts, views and opinions. It isn't the sort of data that can be analysed for trends using numerical techniques. It is nevertheless useful.**
Examples of quantitative data include large scale surveys of customers and employees, data about sales made to customers (who, where, when), and comparisons of levels of sales and profits made over time by different companies to different parts of the market.	Examples include smaller scale surveys of customers, feedback from customers on forms or letters, focus groups/panels in which a selection of consumers are encouraged to give their opinions

Sampling – Business will need to choose people to answer their surveys, known as respondents. They may use one of several 'sampling methods':

- Random – chosen by chance, to ensure results aren't influenced unfairly.
- Systematic – every 100th person from a list for example
- Quota – choosing a certain percentage of one age group, another of another age group and so on. Used to focus on particular groups you want to research
- Stratified – a combination of quota and random. To ensure those chosen people for each quota group are chosen at random

Product Trial & Repeat Purchase

Product Trial is *"when consumers try a product for the first time and decide whether or not they wish to buy it again"*. It can be generated by:

- Advertising – but remember that TV advertising is expensive
- Free publicity – this can be done by inviting journalists to write about a product. It is also done increasingly through the use of social media sites like Facebook and Twitter
- Free samples – the business may hand out free samples in a shopping centre, in the post, or within the packaging of an existing product
- User testing – for example being allowed to take a car on test drive for 24 hours
- Low prices – by offering a product at a low **penetration price** then customers will be encouraged to try it. When first launched in 2006, L'Oreal Men Expert face moisturiser was less than £5. Now it retails for nearly twice that price.
- Targeting trade buyers – Firms may need to persuade **wholesalers** to stock their product and encourage them to sell it on to their own customers. They may do this through very good introductory offers whilst they establish the product.

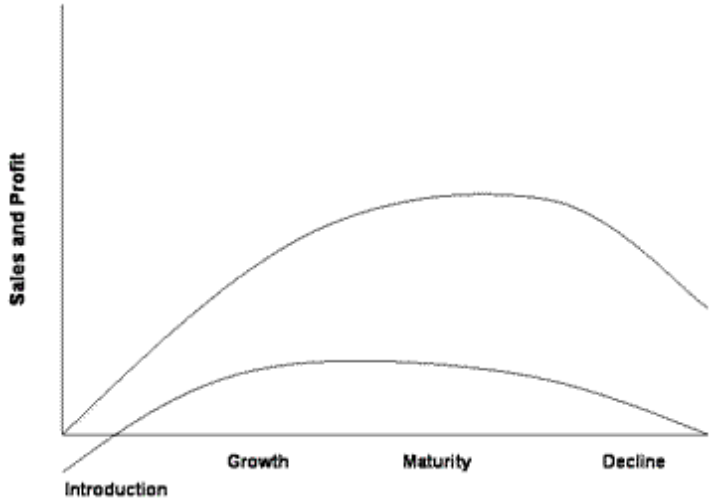
Repeat purchase is *"when a customer decides to buy a product again a second time"*. Customer loyalty helps products become successful. Ways in which businesses may generate repeat purchase include:

- Continued promotion and advertising to remind firms of a product
- Price offers that enable the second purchase (and perhaps a few more purchases) to be made at a discount. Once consumers are established regular purchasers of the product, the price can be increased to its long term level
- Communication with customers – using newsletters and internet and social sites to communicate with customers and keep them informed of new developments
- Loyalty cards or programmes that provide some sort of incentive for buying a product or service on a regular basis
- Making the first experience a good one – customers will only buy again if their experience the first time round was positive. So businesses shouldn't launch a product until they are confident it is ready.

Product Life Cycle

Businesses should manage their products carefully over time to ensure that they deliver products that continue to meet customer wants. The process of managing groups of brands and product lines is called **portfolio planning**. The stages through which individual products develop over time is called commonly known as the **"Product Life Cycle".**

The classic product life cycle has four stages (illustrated in the diagram below): introduction; growth; maturity and decline



Introduction Stage At the Introduction (or development) Stage market size and growth is slight. it is possible that substantial research and development costs have been incurred in getting the product to this stage. In addition, marketing costs may be high in order to test the market, undergo launch promotion and set up distribution channels. It is highly unlikely that companies will make profits on products at the Introduction Stage. Products at this stage have to be carefully monitored to ensure that they start to grow. Otherwise, the best option may be to withdraw or end the product.

Growth Stage The Growth Stage is characterised by rapid growth in sales and profits. Profits arise due to an increase in output (economies of scale) and possibly better prices. At this stage, it is cheaper for businesses to invest in increasing their market share as well as enjoying the overall growth of the market. Accordingly, significant promotional resources are traditionally invested in products that are firmly in the Growth Stage.

Maturity Stage The Maturity Stage is, perhaps, the most common stage for all markets. it is in this stage that competition is most intense as companies fight to maintain their market share. Here, both marketing and finance become key activities. Marketing spend has to be monitored carefully, since any significant moves are likely to be copied by competitors. The Maturity Stage is the time when most profit is earned by the market as a whole. Any expenditure on research and development is likely to be restricted to product modification and improvement and perhaps to improve production efficiency and quality.

Decline Stage In the Decline Stage, the market is shrinking, reducing the overall amount of profit that can be shared amongst the remaining competitors. At this stage, great care has to be taken to manage the product carefully. It may be possible to take out some production cost, to transfer production to a cheaper facility, sell the product into other, cheaper markets. Care should be taken to control the amount of stocks of the product. Ultimately, depending on whether the product remains profitable, a company may decide to end the product.

Cash Flow and the product lifecycle - there is a relationship between the product lifecycle and cash flow:

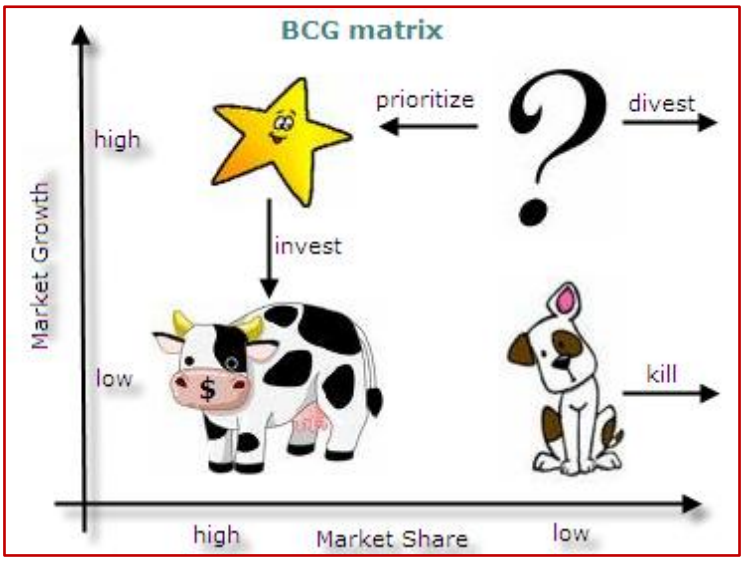
- In early stages there are costs of research, development and launch but few sales, leading to negative cash flow.
- In growth phase cash-flow should become slightly positive as sales increase. But bear in mind the cost of continued promotion and expanding production/operations facilities (factories or call centres)
- In maturity phase cash flow will be more positive as sales will be well established and there will be far fewer costs associated with the product

Extending the Product Life Cycle:

Firms will extend the lifecycle of products in a variety of ways:

- Relaunch of the brand e.g. Holiday Inn Hotels recently relaunched their brand and refurbished all their hotel rooms
- New variants e.g. KitKat Darker chocolate bar
- Find new segments of the market or product uses e.g. use of breakfast cereals as ingredients for food recipes
- Advertising and promotion – incentives to make products more appealing or bring them to the forefront of customers' minds once again

Boston Matrix



This is another model uses for portfolio planning. Products may be one of four categories:

- Cash cows – have high market shares of well-established markets that are no longer growing. For example Cadbury's Dairy Milk bars
- Rising Stars – these are products that have high market shares of rapidly growing markets. For example Amazon Kindle book readers
- Question Mark/Problem Child – these are products that have a small share in a growing market. The run the risk of getting left behind.
- Dogs – these are products with low market share in a market that is no longer growing. Businesses may keep these products if it they feel they cause a nuisance to competitors

KEY USES OF THIS MODEL ARE:

- To ensure the business has products in markets that are growing
- To identify and ensure they have a future cash cow that will generate profit from sales that can be used for either:
    - Research and development to find tomorrow's Rising Star
    - Investment in promotion of Problem Child/Question Mark to become a Rising Star
- To review the position of dogs and decide whether or not to 'kill' them i.e. stop

Differentiation

An important part of the marketing of the product is through product differentiation. This means making the product different from its competitors. Product differentiation can be achieved through:

- Distinctive design– e.g. Dyson; Apple iPod
- Branding - e.g. Nike, Adidas
- Performance - e.g. Mercedes, BMW

A key term to remember is USP, which is the acronym for **Unique Selling Point.**

A Unique Selling Point (sometimes called a Unique Sales Proposition) is a feature or benefit that separates (or **differentiates**) a product from its competitors. The concept of a USP is one of the basics of effective marketing and business that has stood the test of time.

The USP could be a lower price, a smaller version of the product, offering extra functions, or even simply producing a standard product in a range of colours or designs.

A business needs to look at its unique selling points compared to competitors. If it doesn't have any, the business will probably struggle to make the product seem attractive to customers (the remaining option is usually to compete solely on price).

If a business finds that its customers are switching to competitors or buying purely on price, it should be asked whether the business has identified the USPs for its products and services. If it has, then the question is whether it is communicating USPs clearly to customers?

Branding

Types of brand - There are two main types of brand – manufacturer brands and own-label brands.

Manufacturer brands - Manufacturer brands are created by producers and bear their chosen brand name. The producer is responsible for marketing the brand. The brand is owned by the producer.

By building their brand names, manufacturers can gain widespread distribution (for example by retailers who want to sell the brand) and build customer loyalty (think about the manufacturer brands that you feel "loyal" to).

Own label brands - Own-label brands are created and owned by businesses that operate in the distribution channel – often referred to as "distributors".

Often these distributors are retailers, but not exclusively. Sometimes the retailer's entire product range will be own-label. However, more often, the distributor will mix own-label and manufacturers brands. The major supermarkets (e.g. Tesco, Asda, Sainsbury's) are excellent examples of this.

Own-label branding – if well carried out – can often offer the consumer excellent value for money and provide the distributor with additional bargaining power when it comes to negotiating prices and terms with manufacturer brands.

Why should businesses try to build their brands?

There are many advantages to businesses that build successful brands. These include:

- Higher prices
- Higher profits
- Better distribution
- Greater customer loyalty

Businesses that operate successful brands are also much more likely to enjoy higher profits.

A brand is created by developing a core product with distinctive values that distinguish it from the competition. This is the process of creating brand value.

All products have a series of "core benefits" – benefits that are delivered to all consumers. For example:

- Watches tell the time
- CD Players play CDs
- Toothpastes prevent tooth decay
- Garages provide petrol

Consumers are rarely prepared to pay a premium for products or services that simply deliver core benefits – they are the expected elements that justify a core price.

Successful brands are those that deliver added value in addition to the core benefits. These added values enable the brand to differentiate itself from the competition. When done well, the customer recognises the added value in a product and chooses that brand in preference.

For example, a consumer may be looking for reassurance or a guarantee of quality in a situation where he or she is unsure about what to buy. A brand like Mercedes, Sony or Microsoft can offer this reassurance or guarantee.

Alternatively, the consumer may be looking for the brand to add meaning to his or her life in terms of lifestyle or personal image. Brands such as Nike, Porsche or Timberland do this.

Marketing Mix

Think of a marketing manager like a chef. He or she needs to use the right mix of ingredients to get the marketing just right. And he or she has four main ingredients which make up **the marketing mix.**

Product	Price	Promotion	Place

As with food ingredients, some things will go well together and some will clash. Good marketing involves using these ingredients in a way that compliments each other. This means things like:

- Ensuring a product or service of high quality has a price which reflects this
- Ensuring that a low-cost product is available in the right place. You wouldn't attempt to sell Lynx Deodorant only in John Lewis and House of Fraser toiletry departments
- Make sure that your promotion method is appropriate for your product. For example a business making and selling equipment to other businesses would gain little from TV advertising during The X Factor. It should look at industry magazines read by its target customers instead.

The next few pages look in more detail at each element of the Marketing Mix, sometimes known also as the four Ps.

However, ***Product*** is best covered by looking at this revision presentation

(http://tutor2u.net/business/presentations/marketing/productmix/default.html)

Pricing

Strategy	Description
Cost-plus pricing	Setting a price by adding a fixed amount or percentage to the cost of making the product
Premium Pricing	Setting a very high price that sends a message about the quality of the product
Penetration pricing	Setting a very low price to gain as many sales as possible
Price skimming	Setting a high price before other competitors come into the market
Predatory pricing	Setting a very low price to knock out all the other competition
Competitor pricing	Setting a price based on competitors prices
Price discrimination	Setting different prices for the same good, but to different markets e.g. peak and off peak mobile phone calls
Psychological pricing	Setting a price just below a large number to make it seem smaller e.g. £9.99 not £10

A new business that is entering the market might try the following strategies:

If they are first into the market then they might use price **SKIMMING.**

If they are trying to establish themselves in the market then **PENETRATION** pricing.

Sometimes a business may use a **loss leader**. This is a product where the price is so low that the retailer may not make any profit or even a loss on the sale, but does attract shoppers to buy other full price products. Orange juice has been used by businesses such as Rank Hovis McDougall to entice supermarkets to stock more of their other products.

Price skimming has been used for the launch of high technology products, such as DVD players - which were far more expensive than they are now when they first arrived in the market.

Promotion

Within promotion there is a “promotional mix”. This is a range of different promotional activities a business might undertake.

<u>Advantages and Disadvantages of Each Element of the Promotional Mix</u>

Mix Element	Advantages	Disadvantages
Advertising – such as on TV/Radio/ in the press/internet	Good for building awareness Effective at reaching a wide audience Repetition of main brand and product positioning helps build customer trust	Impersonal - cannot answer all a customer's questions Not good at getting customers to make a final purchasing decision Some forms of advertising are very expensive e.g. TV
Personal Selling – employing a group of sales people to meet customers and make sales	Highly interactive - lots of communication between the buyer and seller Excellent for communicating complex / detailed product information and features Relationships can be built up - important if closing the sale make take a long time	Costly - employing a sales force has many hidden costs in addition to wages Not suitable if there are thousands of important buyers
Sales Promotion – such as price reductions and ‘buy one get one free’ types of offers	Can stimulate quick increases in sales by targeting promotional incentives on particular products Good short term tactical tool	If used over the long-term, customers may get used to the effect Too much promotion may damage the brand image
Public Relations – getting your product or service spoken about favourably in radio and TV programmes or in the newspapers	Often seen as more "credible" - since the message seems to be coming from a third party (e.g. magazine, newspaper) Cheap way of reaching many customers - if the publicity is achieved through the right media	Risk of losing control - cannot always control what other people write or say about your product

Place

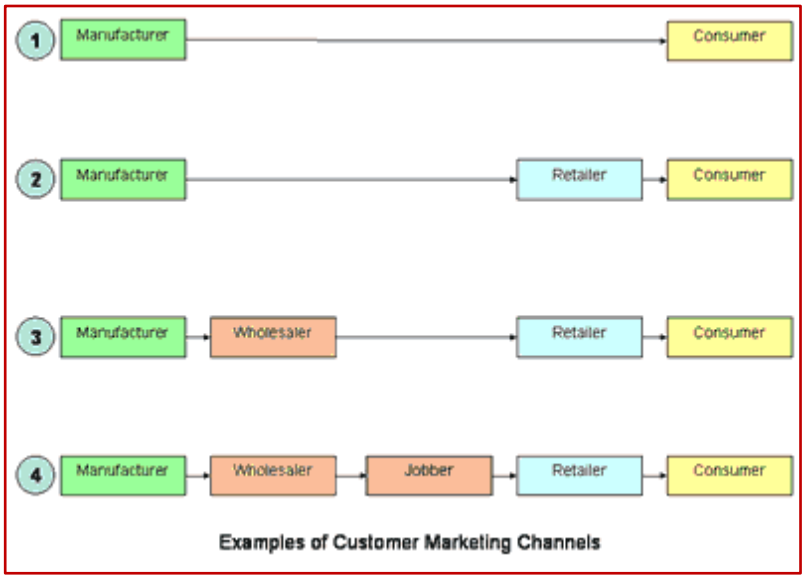
This refers to the places/ways in which a customer can purchase your product. Businesses may sell directly to customers, using a sales-force or through a network of retail outlets in appropriate. In addition, or instead of this, they may sell over the internet, or through a call centre.

Other businesses will use distribution channels through which to make their products available to the end customer. This can be defined as

"all the organisations through which a product must pass between its point of production and consumption"

Why does a business give the job of selling its products to intermediaries? After all, using intermediaries means giving up some control over how products are sold and who they are sold to.

The answer lies in efficiency of distribution costs. Intermediaries are specialists in selling. They have the contacts, experience and scale of operation which means that greater sales can be achieved than if the producing business tried to run a sales operation itself.



Examples of Customer Marketing Channels

Meeting Customer Needs

What you need to know

Meeting Customer Needs

- Design and R&D
- Managing Stock
- Managing Quality
- Cost Effective Operations
- Effective Customer Service
- Consumer Protection

Design Mix & R&D

The Design Mix focuses on the key issues that need to be considered when developing and designing new products.

They are as follows:

Aesthetics

Is my product suitably appealing in terms of the senses it needs to appeal to? Companies will want all products to look attractive to a certain extent. Toiletries also need to appeal to our sense of smell, food and drink products to our sense of taste and some technology products will also need to consider the appeal to sense of sound.

Cost of Production

There is no point proceeding with the development of a product to launch if it cannot be made at a cost that can be passed on to the consumer. For example, the man who went on to Dragon's Den with an electric rotating washing line needed to sell them for £250 to cover his costs. The Dragon's didn't believe customers would actually be willing to pay this price.

Functionality

Does my product or service do all the things customers will want it to do? If it's a car does it have the functions customers would expect like air conditioning, CD player, stability control, heated mirrors? This is the functionality of the product.

These are the issues that must be considered during research and development. Research and development is also about ironing out all the potential problems. Dyson had over 5000 prototypes of its first bagless vacuum cleaner before it was launched on to the market.

Remember that many products don't get beyond research and development, so companies must ensure that the ones they do launch will have enough success to cover the costs of those that don't make it past the laboratory or design studio.

Managing Stock

What is stock?

Remember that there are different types of stock. You need to be aware of:

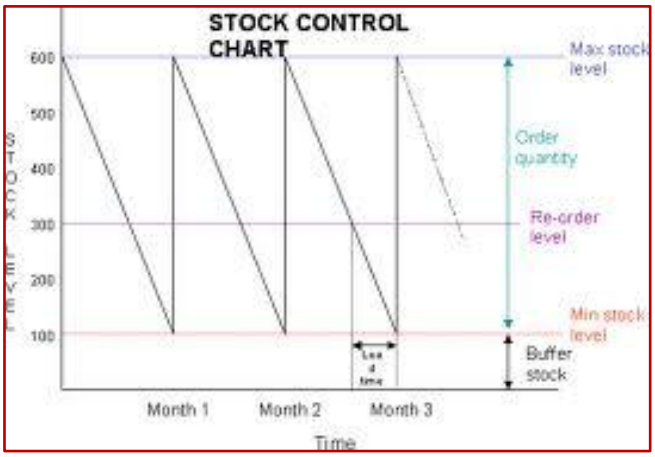
- Raw materials e.g. steel for use in making a car
- Work in Progress (WIP) e.g. partly assembled cars
- Finished Goods e.g. a fully assembled car ready to go to the dealer

How is stock managed?

You need to be familiar with the two main approaches to managing stock levels.

Buffer Stock (also sometimes known as Just In Case)

Stock is kept at a minimum level. When a customer order takes those stocks equal to or below that minimum level, more are ordered or made to bring stock levels back up above this level. In the graph below the zig-zag line represents stock levels at any given time. The lowest horizontal line represents the buffer stock level below which stock is not allowed to fall.



Advantages of Buffer Stock Systems	Drawbacks of Buffer Stock Systems
Helps meet unexpected surges in demand Enables firms to benefit from discount by making occasional bulk orders, rather than frequent small ones Ensures customers are not let down	Money can be tied up in stock, adding to a business' cashflow problems Perishable food items and items based around fashion such as textiles/clothing may go bad or go out of date Room is needed to store stock, either adding to property costs or meaning less space is available for customer facing activity

Just in Time Stock Control

In this approach, firms keep the very minimum stock levels, or in extreme cases no stock at all. For retailers it may be that all their stock is out on display in the store, rather than being kept in a store room at the back of the store.

Advantages of Just in Time Stock Control	Disadvantages of Just in Time Stock Control
There is less wastage due to stock going bad, being damaged, going out of fashion or being stolen, because less or no stock is held The business either enjoys cheaper property costs, or has more space available for other business activities such as shop floor space The business frees up it's 'working capital' of cash needed to meet day to day bills, avoiding unnecessary cash flow issues	A business may let down customers because it does not have stock available or can't order it in quickly enough. The success of this approach depends upon having reliable suppliers. Businesses may struggle to cope with a sudden surge in demand.

Managing Quality

Remember, quality is all about meeting the expectations of the customer.

Quality can be measured through:

- Customer Satisfaction Surveys
- The levels of complaints or compliments received
- Reject rates within a factory
- Return rates – how many products get sent back by customers or distributors
- Waste

Quality is important because:

- It leads to a better reputation
- It enables firms to charge higher prices, with high quality as their USP (e.g. posh hotels)
- It encourages firms to find more efficient and effective ways of doing things
- It is more motivating for staff to work in a business where quality is delivered

There are two different types of managing quality that you will need to know about.

Quality Control
This is where products or service processes are checked at the very end of the process. This check may apply to all of the products or it may be that a sample is checked e.g. one in 20.

Advantages of Quality Control	Drawbacks of Quality Control
It can be quickly implemented It isn't as directly as expensive as the alternative approach (though it may nevertheless cost through wastage and inefficiency)	By the time the defects are found, high levels of inputs of raw materials and labour have been wasted There is no guarantee on a sampling system that defect products won't slip through the net There is no incentive for employees to take responsibility for quality There is no focus on doing things more efficiently or effectively

Quality Assurance
This is where everyone involved in the production of a product or service takes responsibility for quality. People ensure that their own work is up to the expected standard as they go, before passing it down the line to the next person in the chain.

Advantages of Quality Assurance	Disadvantages of Quality Assurance
It reduces waste of labour and raw materials if done well It is more motivating for staff who feel trusted and empowered to take responsibility It helps businesses identify issues where quality problems occur and work together to fix them	It takes a long time to implement. It involves changing the culture of an organisation It can be expensive and time consuming in terms of the training involved. The costs may not be fully recouped if the business doesn't have significant quality issues

Cost Effective Operations

To be successful, firms will always strive to find more effective ways of doing things. They will want to find ways of doing more for less money. If they don't and competitors do they will get left behind their rivals will become far more profitable, or able to compete with much lower prices.

Firms mainly spend their money on:

- Raw materials
- Employees

So these will form the focus of efforts to make operations more cost effective.

Raw Materials

Businesses will want to ensure they have got the best possible prices from suppliers. Therefore they will negotiate hard in order to get a good deal. However, this may result in having to agree to pay more quickly leading to cash flow problems. Alternatively they may not receive such good delivery service, resulting in delays to production as they wait for materials to arrive.

Alternatively businesses may consider buying cheaper supplies from another supplier. However, these may be of lower quality. Doing so may lead to quality problems, customer complaints or both.

Employees

Businesses will often focus on 'productivity' which is the level of activity the business does in terms of the products made or services delivered. This will often focus on the level of productivity per employee.

In 1987 when Nissan opened its car factory in Sunderland it made 23 cars per employee per year. 20 years later, after significant investment in robots to help with production it makes 71 cars per employee per year.

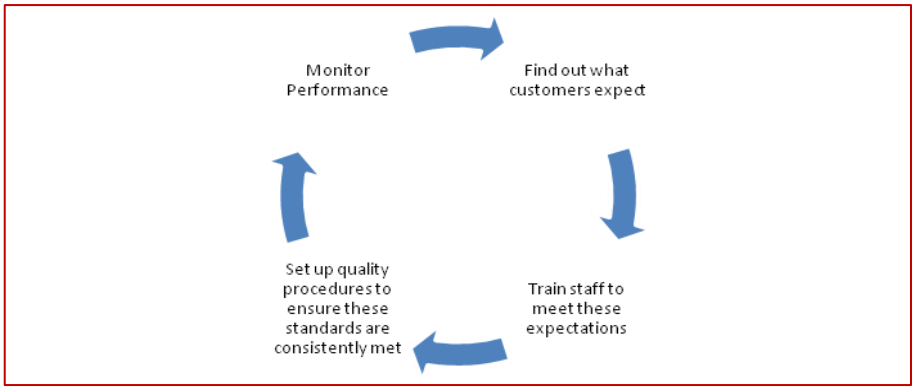
Call Centres will measure the calls answered per employee, and set staff targets of calls to be answered per hour.

Businesses may pay employees per unit of product made, known as piece rate pay. However, this may lead to employees concentrating on the quantity of work produced instead of the quality. Alternatively they may pay sales staff based upon sales made, but this may lead to employees concentrating on making sales and taking less interest in customer service once the sale is made.

Effective Customer Service

Effective customer service is when **a business identifies and satisfies customer needs and delivers a level of service that meets or exceeds their expectations**.

How do firms go about doing this. First they must understand what their customers expect. Then they must train their staff to enable them to meet these expectations. They can then put this in to action having set up procedures and standards for staff to follow and meet. Crucially they must then monitor in order to check that they are meeting expectations and to see if expectations of customers change over time. This is done by customer surveys or through mystery shopping exercises, where someone is sent to 'test' a business' levels of customer service and report back to management.



Why is the delivery of good customer service so important?

- Firms who deliver good service are likely to get repeat business and recommendations to new customers, and therefore are likely to enjoy high levels of sales
- By delivering excellent customer service, a firm creates a unique selling point over it's competition. NatWest are clearly attempting to do this with their current TV advert campaign and focus on customer service.
- Firms who deliver excellent service can justify a high price. When I drove a VW, it cost be more to get it serviced at a VW dealer. However, work was always done promptly and I was offered a punctual shuttle bus service to get me to and from work to drop off and collect the vehicle.
- The firm will develop a strong reputation, which will attract positive media coverage. Businesses track this. In the financial services industry, there is an organisation called PressWatch who count the numbers of positive and negative comments in newspapers (including readers writing in with their concerns over customer service and asking journalists to help them sort these problems out). Each month, Press Watch announce which businesses had the best and worse overall coverage.
- Employee motivation is better because people want to work in an environment where people care about customer service and customers are happy rather than one where no one cares and they have to deal with complaints from angry customers on a regular basis.
- There are reduced costs, through fewer replacements of products, less redoing of work, fewer payments to customers as a gesture of goodwill, and managers spending more time on their job and less time investigating and resolving complaints.
- Where businesses are awarding large contracts to firms, they will look for testimonies from previous customers about a firm's ability to deliver good customer service.

What might cause bad customer service?

- Poor levels of training of staff
- Demotivated staff, who perhaps don't understand what is expected or are over-stretched with the amount of work they are doing
- Pay systems that reward quantity of work over quality of work and care given to customers

Consumer Protection

In an ideal world, businesses will act in a responsible and honest way, and the vast majority do. However, some firms can be tempted to act in unfair or dishonest ways in order to increase sales and profits.

To try and prevent this, and punish it when it does, there are a number of pieces of law (legislation) in place that protect consumers from unfair or dishonest actions by businesses.

Sale of Goods Act (1994):

Goods must be fit for the purpose for which they are sold

This includes quality, appearance, durability and safety

Consumers are entitled to a refund, or may insist the company repair the product at their own expense

Trade Descriptions Act (1968):

This prevents business from making misleading or false claims about products such as claiming a product to be organic when it is not.

Others:

Consumer Credit Act (1974)

Weights and Measures Act (1985)

Food Safety Act (1990)

Bear in mind:

- Breaking one of these laws doesn't just lead to court appearances and fines. It is likely to lead to bad publicity that will damage a firm's reputation
- Some businesses, particulary smaller ones, find different legislation a burden and difficult and expensive to understand and abide by. There is a clear link here wit hthe Government section of 'The Wider World'.

Effective Financial Management

What You Need to Know

Effective Financial Management

- How to improve cash flow
- How to improve profit
- Break Even
- Financing Growth

How to Improve Cash flow

Remember that cash flow is different to profit. It's the way in which money from sales flows in to the business and money spent on costs flows out. At certain times there may be more flowing in than out or vice versa, leading to positive or negative cashflow.

If businesses spend sustained periods with negative cash flow, they may go out of business. This means that businesses need to focus on ways of maintaining or improving cash flow. They will want to look at ways of maximising the cash in hand they have available. Cash is one of three different parts of Working Capital, which is the money and other assets used to run the business on a day to day basis. The others are:

- Stock: Raw materials, work in progress and finished goods
- Debtors : Customers that have received finished goods/services but are yet to pay for them

Methods of Improving Cash Flow
So most businesses will focus on stock and debtors when exploring ways of improving cash flow. The main methods are:

- Destocking – this means holding less stock, perhaps moving to a JIT method of Stock Control. This can help free space and working capital but could lead to problems meeting customer orders if there is a surge in demand or suppliers are unreliable

- Chasing debtors – this means getting your customers to pay you more quickly for the goods and services received. Most consumers pay for goods straight away so this method is only really relevant for businesses who sell to other businesses.

    - However, chasing too hard can lead to customers becoming upset and placing future business elsewhere. It may be better to offer incentives for paying quickly, like a discount off of that or future orders.

    - Alternatively firms may use debt factoring where a debt factoring company pays the company a lesser proportion of what the customer owes (perhaps 80 or 90%). The debt factoring company then collects payment from the customer directly. If they recover 100% they get to keep the difference. Customers may resent finding themselves dealing with a debt factoring company though.

Trade Credit
In addition to these approaches, firms need to consider the trade credit they get from their own suppliers. Trade credit refers to the length of time a business is given to pay for goods and services after receiving them. If firms can get agreement from suppliers to have longer to pay them than it takes for the business to turn the materials in to finished goods, sell them and collect payment from customers then they will always have strong positive cashflow.

Overdrafts
If a firm simply has short term cash flow issues, it may agree an overdraft with the bank to see it through this period. However, this can be expensive due to interest payments, and banks may withdraw the agreement in the future.

How to improve profit

To consider how to improve profit we need to first make sure we know how we calculate profit.

Profit = Total Revenue – Total Costs

E.g. Total Revenue = £100,000, Total Costs = £81,000

£100,000 - £81,000 = £19,000 Profit

So, it stands to reason that ways of increasing profit will focus on either increasing total revenue by increasing sales, or by reducing total costs.

Increasing Sales Revenue

There are two ways businesses can do this:

1. They can increase prices. This clearly means that if they can sell the same number of units of their product or service as before at a higher price they will earn more revenue. But beware! If a business has lots of competitors, or the product is one that customers don't really need then putting the price up may lead to a drop in the number of units sold. And it may be that the volume of sales drops so much that the business earns less revenue.

2. They can increase advertising and promotion to increase the number of units sold. However, firms need to bear in mind that this advertising will add to costs, so they need to be confident they can recover these costs and more through the extra sales generated.

Reducing Costs

If businesses can reduce their costs without reducing their revenue, then more of their revenue will be left as profit. However, remember that for the majority of businesses their costs consist of two areas:

1. People – reducing wage costs is difficult. It may lead to de-motivation amongst employees if they are asked to accept less pay, or if some people are made redundant to reduce the cost of staff. Having less staff or de-motivated staff can lead to service or quality problems that cancel out the savings made. However, there may be staff that can be used more efficiently in the business.

2. Raw materials – businesses may be able to get better prices for raw materials by shopping around or negotiating better. However, they should be careful of moving to cheaper suppliers if this means using poorer quality of products or services. Again, this could lead to problems with the quality or service passed on to the end customer, resulting in complaints and additional costs that cancel out the savings made and damage a firm's reputation.

Break Even

Break-Even point is the number of units that a firm needs to make in order to neither make a profit or a loss. It is the point at which total revenue and total costs are equal.

Break-even can be presented either in a graph, in a table or worked out using a formula.

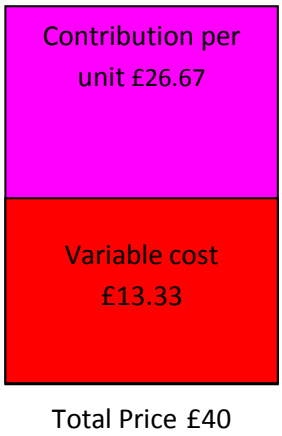
Before you can understand the formula for break-even you must understand the concept of contribution per unit. This is the proportion of the selling price of a product that doesn't cover the variable costs.

Variable Costs – those which increase as the amount of units produced increases.

Fixed Costs – those costs which remain the same whether 1 unit or millions of units are produced

FOR EXAMPLE:

A driving instructor has a variable cost of petrol. More lessons will require buying and using more petrol. He/she also has a fixed cost in the form of car insurance. This is likely to be the same no matter how many or few lessons are provided.



Contribution:

This box represents the selling price of a product.

The red area represents the part of the price that covers variable costs.

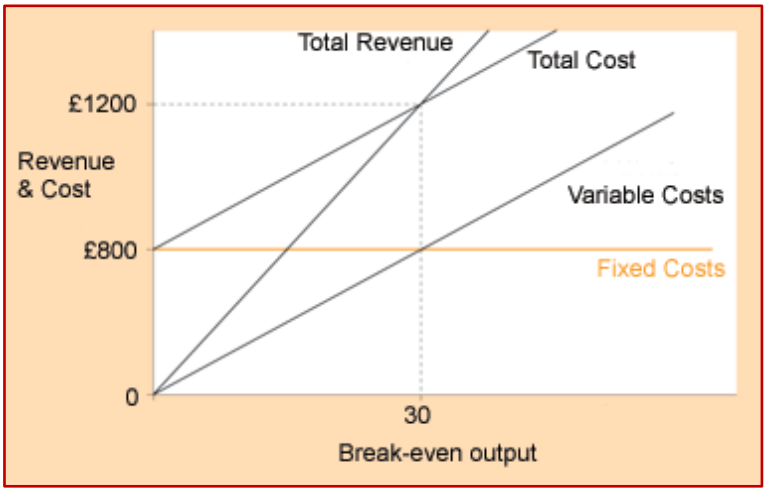
The pink area is the 'contribution per unit'

The first job of contribution per unit is to cover all the fixed costs the business has incurred in setting up to do business. Once this is done, the contribution per unit starts building up the profit for the business. Therefore businesses can calculate their break even point in the following way:

Total Fixed Costs/Contribution Per Unit (remember with **T**hreatening **F**luffy **C**louds over **C**laremont **P**rovokes **U**mbrellas

For example £800 fixed costs/£26.67 contribution per unit = 30 units to break even

Break-even can also be expressed in graph form, as shown below.



The last term you need to understand in this section is Margin of Safety which is the difference between the actual output and that required to break-even. In the example above we have seen a break-even point of 30 has been calculated.

- If the business' actual output is 40 then it has a margin of safety of 10
- If the business' actual output is 25 then it has a margin of safety of -5

Benefits of break even

- A simple tool to use
- Provides a focus/target for the business

Limitations

- The model assumes you sell everything you produced
- The model assumes prices stay the same consistently
- The model assumes you sell at the same price to all customers

Financing Growth

In this section you need to be clear about two different ways of raising finance. These are External Sources of Finance & Internal Sources of Finance. The context of this section is about raising new finance to grow your existing business, perhaps by buying or building new stores or factories.

External Finance involves getting money from organisations or people outside of the business itself. There are two principal ways of doing this.

1. Share Capital – this involves allowing people to buy shares in your business, who become shareholders. In return for their investment you give them a share of the profit known as a dividend. Companies who have shareholders can either be private limited companies or public limited companies.

    a. Private Limited Companies are harder to raise new finance for through selling shares because all the other shareholders usually need to agree to this.
    b. Public Limited Companies are ones that are listed on the Stock Exchange. Anyone can buy shares in these companies and so it is easier to raise finance through share capital for such companies.

Advantages	Disadvantages
For private limited companies in particular, you may get shareholders who can offer expertise You only need to pay out when profits are made	If you make large profits these have to be shared You let shareholders have control. If they don't like how the business is running or performing they can make life difficult or try and launch a bid to take complete control

2. Loans – this involves a bank lending the business money, which it must pay back with interest over a period of time. Provided the business keeps up with payments, it does not need to pay anything more than the agreed repayments.

Advantages	Disadvantages
You retain full control of the company You can match the length of time to pay back to the likely timescale needed to generate profit from the expansion project.	Regardless of making a profit or loss, you need to make repayments to the bank which can add to cash flow difficulties You usually need to provide 'collateral' which is something the bank can take away if you don't keep up with payments, such as vehicles, equipment or property. Therefore you put these items at risk by taking a loan Through payment of interest this approach may provide costly in the long run

Internal sources of finance involve use of money or assets that already exist within the business. There are two main ways of doing this

1. Retained profit from previous years of trading which is held in the business's bank account

Advantages	Disadvantages
This option doesn't cost in terms of interest charges or dividends shared with shareholders It is quick and easy to carry out	Businesses may not have sufficient reserves of retained profit available There may be a better opportunity cost (alternative) way of investing or spending the money The business may leave itself short of cash to see it through during future difficult trading periods that may arise

2. Selling assets such as equipment, property and vehicles to raise money. Sometimes firms may sell assets and then lease them back. Football clubs often do this with their grounds if they have financial problems.

Advantages	Disadvantages
Good way of freeing up the cash tied up in assets May create more space or reduce other costs such as maintenance costs for properties that are no longer required	One may lose control over assets that they sell and then lease back. At the end of the lease, the new owner may lease the asset back to someone else instead. A firms may sell assets that it later finds it needs. Unless there are significant assets, this approach is unlikely to generate large amounts of cash for investment.

Effective People Management

What You Need to Know

Effective People Management

- Organisational Structure
- Motivation
- Communication
- Remuneration

Organisational structure

Organisational structure includes: the routes through which communication passes through the firm.

- Who has authority and power and responsibility within the business
- The roles and titles of people within the business
- The people whom individual employees are accountable for and those for whom they are responsible

Tall and Flat Structures

In the 1990s many people felt that traditional tall structures were not cost effective so delayering occurred. Delayering is the process of removing layers ion the hierarchy. Businesses saw delayering as a way of cutting costs and increasing efficiency

Flat Structures

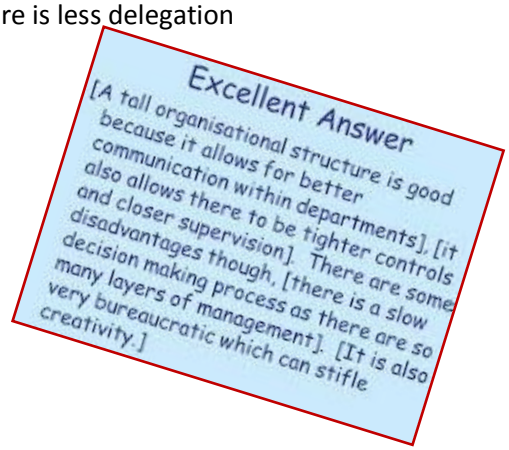
A Flat structure has few layers in the hierarchy, a wide bottom and a gentle slope to the top

- Lots of small companies have a flat structure
- Traditionally an American structure
- Span of control is wider
- Less hierarchy – easier to make decisions
- More employee empowerment
- Can be cheaper as don't have to pay expensive management salaries

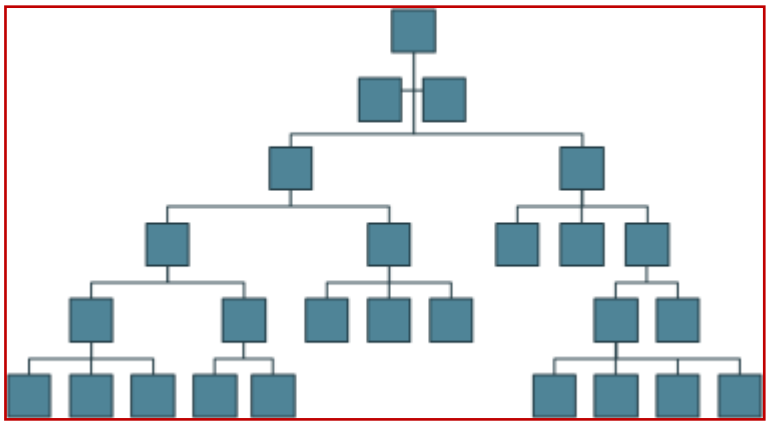
Tall Structures

A tall structure has many layers in the hierarchy. As there are many layers the chain of command is longer.

- Managers have smaller spans of control and there is less delegation
- Traditional structure of European companies
- Clear hierarchy
- Smaller chains of command
- More control
- Clear communication



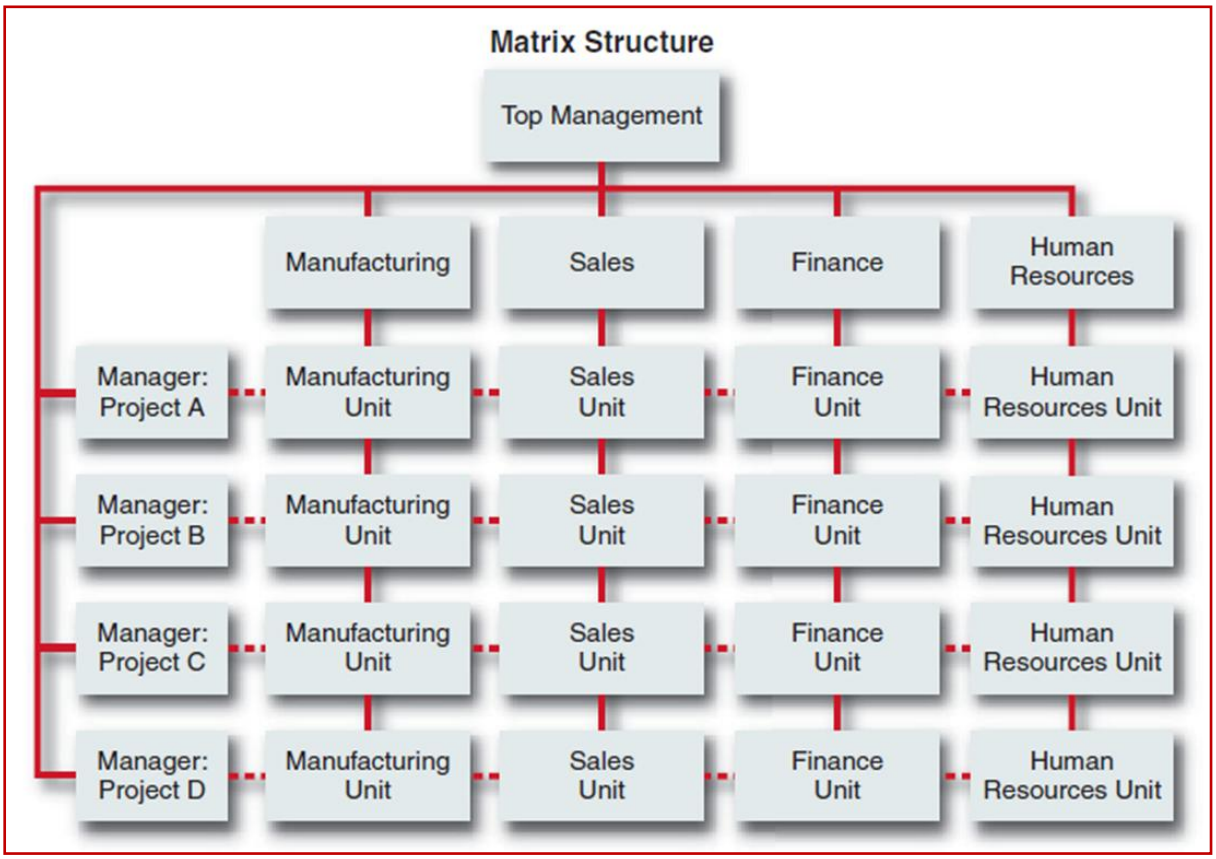
Tall organisational structure example, see next page.



Matrix Structure

Matrix structure is where the business is organised by task

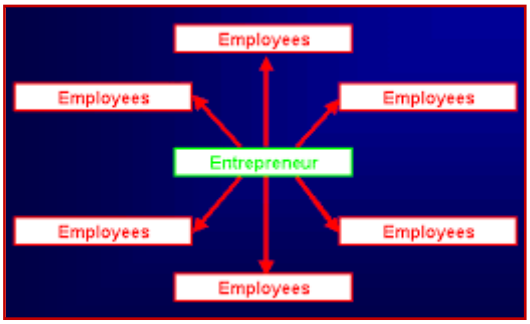
- Combines a vertical chain of command with project / product teams
- The focus is on the task
- Is a more flexible structure and allows the business to be more responsive to customer needs
- However it can cause conflict and employees may have divided responsibilities
- Extra costs may be generated by duplication of support staff



Entrepreneurial Structure

An Entrepreneurial structure is often found where businesses operate in competitive markets and especially where rapid decisions are needed

- Have a few core workers at the centre of the organisation and peripheral workers surrounding them
- Depends on how good the core workers are at managing and making decisions
- Can be difficult for larger organisations



Additional ways to structure

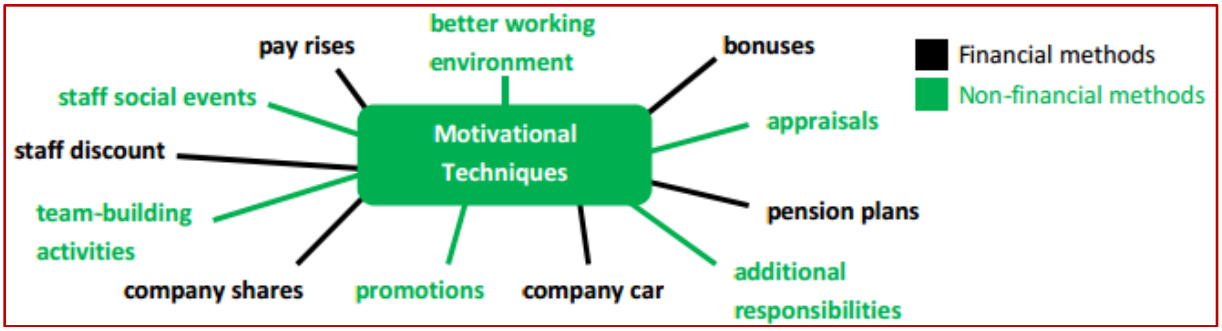
- By function
- By product / activity
- By area
- By customer
- By process

Key terms

- Hierarchy – the number of layers of levels within an organisation
- Subordinate – a worker
- Span of control – the number of subordinates who directly report into a manager
- Chain of command – the line of communication and authority from the top to the bottom of the hierarchy

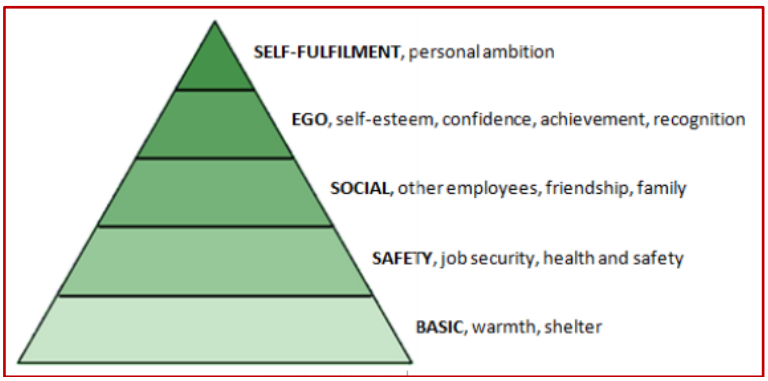
Motivation

Motivation is a key part of work, because it is all linked to productivity. A business will aim to try and keep its employees as motivated as possible.



Maslow's Hierarchy of Needs

Abraham Maslow put forward a number of human needs which he believed we went to work to satisfy. He said that as one need became satisfied, another one opened up – so he made a **hierarchy of needs**.



Maslow says that employers need to recognise that there is this range of needs which needs to be met. So they should try and provide their employees with jobs that satisfy the needs in order to have a high output.

Abraham Maslow – Hierarchy of Needs – Applied to a Business

Maslow believed human needs are split into five types - a hierarchy of needs with the highest level needs at the top.

Individuals need to meet basic needs before moving up the hierarchy

1. **Physiological** – wage, salaries and working conditions
2. **Safety** –security (safe job), other benefits e.g. sick pay and safe working conditions
3. **Social** – team working and other functions that aim at building a bond within the workforce
4. **Esteem** – positive feedback and chances for promotion
5. **Self- actualisation** – creating challenges and tasks that are stimulating

Communication in Business

Communication is the process of exchanging information or ideas between two or more individuals or groups.

Internal communication: exchange of information that takes place within an organisation (e.g. at departmental meetings, in team briefing sessions and in memos to staff).

External communication: exchange of information that takes place with individuals, groups and organisations outside the business (e.g. via advertising material, telephone calls to suppliers and letters to customers).

Two-way communication ensures that any communication has been fully understood and is therefore more effective than one-way communication. Effective two-way communication is a vital element of democratic management, effective delegation, empowerment and teamwork.

Communication is transferring information from one part of the business to another that leads to some outcome, changed behaviour or changed practice.

- **Formal Communication** – Established and agreed procedures
- **Informal Communication** – Channels not formally recognised – 'the grapevine'

Methods of Communication

- Verbal
- Face to Face
- Written
- Electronic
- Visual
- Audio
- Group meetings
- Notice boards
- Text

Motivation and Communication

- If employees are well motivated this can impact communication as they are more likely to speak to senior employees
- Poor levels of motivation are likely to have a negative impact on communication
- Communication and motivation are related – if one increases it is likely to have a positive impact on the other

Effective Communication

Effective communication has the following benefits:

- It makes change easier – this is particularly important to businesses who are in industries which are changing rapidly
- It increases commitment from employees
- It increases coordination
- It helps ensure that all employees are working towards the same objectives

Barriers to Successful Communication

- Ability of the sender – how much the sender understands of the message they are trying to send
- Content – including technicalities and jargon
- Method of communication – including style and body language where appropriate!
- Skills and attitude of the receiver
- Organisational factors – complexity of the organisation, scope of the organisation
- Cultural attitudes
- Perceptions, prejudices and stereotypes
- Inappropriate target for the message
- Technical capabilities – ICT

How to improve Communication

- Staff training in communication skills
- Keeping information to a minimum
- Increasing awareness of cultural and linguistic differences

Difficulties for larger organisations

As organisations grow they often experience problems with communication which can lead to diseconomies of scale

These may be caused by:

- Communication overload
- Too many levels in the hierarchy
- Decentralisation

Larger organisations need to manage communication to ensure it is effective. They can use ICT to speed up communication throughout the business. Clear messages need to be communicated down the chain of command.

Remuneration

With so many methods of pay available, how should a business decide to structure the pay package it offers to employees, and what rate of pay should it use?

The starting point is usually to find out what the "**market rate**" is. Factors that help determine the market rate for a job include:

- Whether the skills that are required are widely available
- The overall level of unemployment in the employment "catchment area"
- Whether the job requires specialised (or even highly specialised) skills

There are several ways in which a business can obtain data on market rates:

- Local employment agencies and job centres
- Job adverts
- Industry associations (who often perform annual surveys of pay in an industry)

The next question is – should the business pay MORE or LESS than the market rate?

Factors to consider here include:

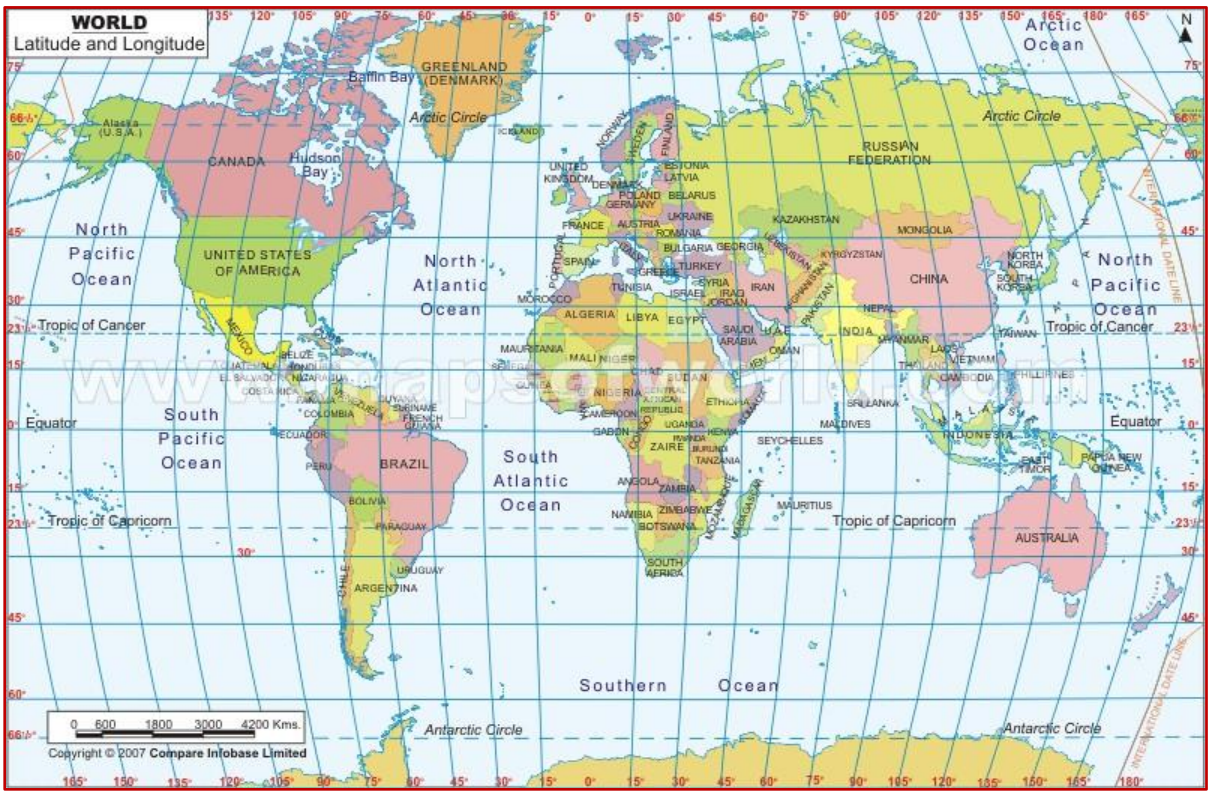
- Does the business need above-average employees (e.g. salesmen with an industry reputation for being strong performers)
- Does the business need trained employees or is it prepared to invest in training beginners?
- Are the skills wanted by the business needed urgently (in which case – the business would probably want to pay more)
- Do factors affecting the mobility of labour need to be addressed – e.g. are there transport problems that need to be solved (e.g. pay for a rail season ticket) or relocation allowances to be offered to encourage new employees to move home?

The third important question is how to structure the remuneration package.

- Should employees be paid on the basis of time spent working (e.g. time-rates) or the amount they produce (e.g. piece rates) or some other measure of performance?
- Should the remuneration package be a combination of approaches (e.g. some basic pay per month + a commission-related incentive)?

In deciding the answers to these questions, a business should try to construct a pay structure that is simple (to help employees understand it), logical and fair

The Wider World



What You Need to Know

The Wider World

- Ethics in Business
- Environment
- Economic Issues effecting trade
- The role of government and EU

Ethics in business

Ethics are **moral guidelines** which govern **good behaviour**

So behaving ethically is **doing what is morally right**

Behaving ethically in business is widely regarded as good business practice.

Ethical principles and standards in business:

- Define acceptable conduct in business
- Should underpin how management make decisions

An important distinction to remember is that behaving ethically is not quite the same thing as behaving lawfully:

- **Ethics** are about what is right and what is wrong
- **Law** is about what is lawful and what is unlawful

An ethical decision is one that is **both legal** and **meets the shared ethical standards** of the community. Businesses face ethical issues and decisions almost every day – in some industries the issues are very significant. For example:

- Should businesses profit from problem gambling?
- Should supermarkets sell lager cheaper than bottled water?
- Is ethical shopping a luxury we can't afford?

You will probably note the link between business ethics and **corporate social responsibility** (CSR). The two concepts are closely linked:

- A socially responsible firm should be an ethical firm
- An ethical firm should be socially responsible

However there is also a distinction between the two:

- CSR is about responsibility to all stakeholders and not just shareholders
- Ethics is about **morally correct behaviour**

How do businesses ensure that its directors, managers and employees act ethically? A common approach is to implement a **code of practice.** Ethical codes are increasingly popular – particularly with larger businesses and cover areas such as:

- Corporate social responsibility
- Dealings with customers and supply chain
- Environmental policy and actions
- Rules for personal and corporate integrity

Environmental issues

Twenty years ago, environmental issues were rarely a priority on the agenda of business management. Now, there is an argument that operating an environmentally-friendly business is a top priority for business, particularly those whose operations and activities are nationwide and international. The environment has become a key external influence on businesses.

The key environmental issues which potentially constrain the ability of a business to achieve its objectives include:

Key Environmental Concerns

- Sustainability
- Complying with environmental laws
- A "green" supply chain
- Waste disposal
- Minimising packaging
- Carbon emissions

Business & environmental regulation

Business activities are regulated by three main agencies in the UK:

- Environment Agency in England and Wales
- Northern Ireland Environment Agency
- Scottish Environment Protection Agency

And also by Local authorities who regulate

- Air quality and pollution
- Noise, odour and light pollution
- Land contamination
- Environmental health

Environmental laws and regulations are wide and varied, but essentially businesses have to make sure that they:

- Store and treat waste safely and securely
- Protect employees and environment from air pollution
- Don't produce excessive noise, smoke, fumes & other forms of pollution
- Comply with rules for storage and use of hazardous substances & waste

To meet their obligations, businesses need to focus on:

- Use of raw materials, water and other resources (inputs)
- Energy use and its impact on climate change
- Waste and pollution produced by the business
- The impact the business has on employees and the local, wider and international community

Whilst complying with these regulations and laws inevitably imposes additional costs on many businesses, it is possible to identify some advantages that arise for the environmentally-conscious business. These include:

- Lower raw material costs & waste disposal charges
- Longer life of assets which are recycled or repaired
- Trading opportunities with organisations that will only use environmentally-friendly suppliers
- Improved customer goodwill

Sustainable business

You will see the word "**sustainable**" or "**sustainability**" used in many businesses these days.

A sustainable business is a business that has **no negative overall impact on the environment.**

That definition makes it quite hard to quantify whether the goal of sustainability has been met, since it assumes the net effect of a business activities on the environment can be measured in full. In practice, a business that aims to be sustainable gets involved in a range of activities designed to "**minimise**" **their net effect on the environment.** These are activities such as:

- Using packaging that can be reused or recycled
- Minimising or eliminating the use of hazardous chemicals and processes that produce harmful by-products
- Working with suppliers to assess and improve their sustainability, or switching to more sustainable suppliers
- Using more energy-efficient equipment, or using renewable sources of energy
- Collaborating with other businesses that can use waste (or supply by-products that can be used as raw materials)
- Eliminating unnecessary activities – e.g. replacing some business travel with conference calls instead

To be effective, a strategy of building a sustainable business requires the drive and support of people through a firm – particularly top management. Management need to:

- Understand how changes will affect employees and other stakeholders
- Gain commitment and support from those stakeholders
- Anticipate changes in environmental legislation - try to be "ahead of the game"
- Set short and long-term objectives for sustainability projects
- Review progress and objectives regularly

International Trade

The UK and International Trade

- The world economy is becoming increasingly global.
- The UK has an open economy as far as trade is concerned
- The EU is a customs union which allows free trade of goods and services between member countries
- Majority of UK's trade is within the EU – this is increasing
- The UK's largest trading partner is the USA accounting for 15% of trade although this is decreasing
- Increasingly the UK is trading more with emerging economies such as China, Thailand, Malaysia, Singapore, South Korea and Taiwan
- At the moment the UK is the 2nd largest exporter of services in the world and the 8th largest exporter of goods

Benefits of international trade

- Comparative advantage allows businesses to specialise and increase their income and standard of living
- With specialisation countries are able to exploit economies of scale
- Increases efficient allocation of world resources
- Increased competition for producers which leads to improved productive and allocative efficiency
- Greater choice for consumers

Costs of international trade

- Can lead to diseconomies of scale if production gets too large
- Transport costs are not included in comparative advantage model
- Countries may become over dependent on one industry therefore may be vulnerable to any changes in global markets
- Can damage infant industries

Trade with Developing Economies

Trade is seen as a crucial way of increasing the development of a countries economy

Many developing countries are now producing more manufactured goods which they are exporting overseas

However there is still a reliance on commodities such as agricultural products for many of the world's poorest economies which makes them vulnerable to changes in supply or demand

Two major ways economies can pursue their goal of development:

1. **Import substitution** – the country produces what it had originally imported, idea is that you import capital goods to produce the consumer goods required however this strategy has had little success

2. **Export promotion** – where the country seeks to identify markets where they can exploit their comparative advantage

Protectionism

Protectionism is where the government shields domestic producers by restricting foreign competition.

There are a number of ways a government can protect industry including:

- Tariffs
- Quotas
- Embargoes
- Subsidies
- Exchange controls

Causes

Governments protect for a number of reasons:

- To protect employment especially structural unemployment in declining industries
- Changes to comparative advantage in the world economy may lead to governments seeking to protect declining / infant industries
- Governments may seek to control imports to improve their balance of payments account
- As a reaction to dumping of excess capacity at low prices by other countries
- To increase government revenue
- To try and encourage import substitution to occur

Consequences

- Protectionism increases the prices of imported goods for consumers resulting in a loss of consumer surplus
- Increased cost to the government to enforce the controls
- Domestic companies who import materials or components from overseas are faced with higher costs
- Threat of retaliation from other countries
- Protectionism makes domestically produced goods more attractive

Direct Protectionism

- Direct Protectionism includes tariffs
- Tariffs act as taxes on imports which make them more expensive for domestic consumers
- As imports become more expensive relative to exports it means consumption of them declines
- Tariffs also earn money for the government

Protectionism and the EU

- The EU is a customs union which allows free movement of goods, services and factors of production between member states
- No EU member can protect against any other EU member

Balance of Payments

The balance of payments records all trade between one country and all other countries

It includes:

- Trade in goods
- Trade in services
- Net flow of investment income
- Money transfers

Current Account

The current account records all trade in goods and services for a countries economy

This includes

- Imported goods
- Exported goods
- Imported services
- Exported services

Capital Account

The capital account records all capital flows into and out of a country including:

- Financial investment
- Direct investment
- Currency Trading

Payment Deficits

Payment deficits result where more is imported than exported. This causes an imbalance in the balance of payments. In recent years the UK has run a large current account deficit

The government have been less worried about this deficit because of the following:

- Investment and capital inflows mean the capital account balances the current account
- There will be some automatic correction with changes in demand due to the business cycle
- Some of the deficit could be caused by importing capital goods which will increase productivity of the economy in the longer term

However there are also issues concerned with payment deficits including:

- Falling exchange rate caused by excess supply of £s
- Structural weaknesses – may be a symptom of a loss of comparative advantage / competitiveness
- May be a sign of too much consumption and rising personal debt
- Can lead to a loss in output and employment as consumers purchase goods from abroad decreasing domestic demand
- Problems associated with funding a current account deficit

The European Union

The European Union (EU) is a collection of countries, which aim to co-operate on trade, social affairs and certain laws.

Globalisation & the EU

The EU allows free trade within member states

Throughout the world a number of trading blocs have been established e.g. NAFTA Free trade allows all companies to trade on an equal basis

To compete many countries outside the EU protect their own industries and have created tariffs and quotas for exports from the EU

The EU has created more trade within its member countries but can make trade more difficult between non-members E.g. in 2005 / 2006 there were issues regarding quotas of clothing and shoes imported to the UK from China as they exceeded EU limits

The Opportunities of the Single Market

The creation of the single market within the EU means that goods, services, capital and labour can move freely between member states. The single market means that no tariffs or taxes can be levied on goods / services traded within the EU.

By creating a single market many firms were able to exploit economies of scale making efficiency and cost savings. It also allowed businesses to specialise as even those operating in a niche market had a far greater customer base to market their products to.

Advantages & Disadvantages of the Single Market

Advantages

- Consumers have lower prices, more choice, and opportunities for work throughout the EU
- Businesses have more consumers and are able to exploit economies of scale

Disadvantages

- In reality worker mobility is not as great as hoped
- Many businesses still see barriers
- Monopolies may be formed – these are an example of market failure

The Single European Currency (The Euro)

- The euro is the common currency used by 19 of the 28 EU member states.
- The euro was introduced in 12 countries on 1 January 2002, replacing their old currencies such as the Franc (France) and Lira (Italy).
- To convert to the Euro is expensive for member states
- To convert to the Euro a country has to meet entry qualifications
- One of the benefits of the Euro is it creates price transparency in the market – this can be a negative effect if the cost of factors of production are greater in one country
- The Euro means that it is easy for consumers to compare the price of products so makes markets more competitive

Advantages & Disadvantages of the Euro to the UK

Advantages

- Cost savings as no money has to be converted
- As most of UK trade is with Europe, it makes sense to have the same currency
- Stable exchange rate, so businesses can plan

Disadvantages

- Adds to costs (all machines, computers, tills) will have to be converted to the new Euro
- Loss of the Pound – sovereign identity of UK will be lost & shoppers will have to be re-educated
- Decisions made may not benefit all countries

The Widening of European Integration

Enlargement of the EU has resulted in many new countries entering who have lower rates of GDP, higher unemployment and lower economic growth than the original member states.

- There is concern that high unemployment and low wages in new entrants will lead to migration of workers to old member states
- There is also a concern that the old member states may have to economically support the newer members as there are large regional disparities in wealth

The Regional Dimension of the EU

Within the EU different regions have differing economic development

- Unemployment, inflation and interest rates are different within countries
- Some areas – especially the newer eastern European countries have lower GDP
- This regional disparity can result in large differences in standards of living throughout the EU

The Reform of the EU

The main aim of the EU is to become the world's strongest knowledge based economy in the next six years

Due to the new entrants older members thought they would lose their power – this lead to the Nice treaty where voting rights were agreed for all member states where the older and more powerful members such as Germany, UK, France and Italy had the most votes and smaller and newer members such as Malta and Estonia had the least votes

- There have been discussions regarding the harmonization of taxes between EU countries
- In the future there is a movement towards common economic and social policies for member states

Common Agricultural Policy

- Common Agricultural Policy was an EU policy focused on agriculture
- Looked at providing subsidies for farmers based on how much they could produce
- This has been scrapped and now concentrates on sustainability, food quality and safety

Economic Problems: The European Dimension

Economic problems in member states can influence other members

Pan-European unemployment will have a massive influence on the economies of all member countries If unemployment is regional it means that people can move for jobs however if it is across the EU there is not this problem

The central aim of the European central bank is to achieve stable prices therefore some members have adopted direct inflation control as a target of financial policy.

EU Aspects of Global Problems

- Global events and problems impact the EU
- The increased pressure on the environment has influenced the EU as they have to meet environmental targets
- The EU have their own competition commission who investigate unfair practices, they are currently investigating Tesco

The EU and Interest Rates

- Interest rates – by joining the Euro countries lose the ability to set their own interest rates
- In the UK the Bank of England controls interest rates as a way of keeping inflation at a target rate
- If the Bank of England were unable to control interest rates they may have problems controlling inflation