GCSE BUSINESS STUDIES

Unit 3: Building a Business

(Examination, 1½ hours)

50% of Final Grade

Mini-Revision Guide

NOTES ABOUT YOUR EXAM PAPER

The questions are a mixture of **multiple choice questions**, **short answer** questions and **long answer** questions.

The paper is **1½ hours** long and is 50% of your final mark.

At the start of each section, you will be provided with some case study materials (approximately half a page of information), then the questions that follow will relate to the case study. You **MUST** read the information carefully before answering.

If you don't know an answer, have an educated GUESS. When asked your opinion, always justify your decision. If you are asked to analyse or evaluate, consider the advantages and disadvantages. Think about the following:

- The effect on business costs
- The effect on sales
- The effect on profit
- The effect on staff motivation
- The effect on the image and reputation of the business

TOPIC 3.1: MARKETING

What is marketing?

Marketing is a management process which identifies and satisfies customer's wants and needs – enough to make a profit.

Market Research

Market research is gathering information about customers, competitors and the markets trends. Market research is to help reduce the risk of failure for a business and also might give some answers as to why sales are falling and what can be done about it. Market research is to help a business make decisions about their marketing mix.

Primary Research – Information gathered for yourself, for a particular reason.
- Questionnaire
- Focus Group
- Observation

Secondary Research – Information that already exists.
- Newspapers and reports
- Competitor Information
- Internet

Stages of market research
1. Designing the research – Before the research is done a few questions have to be thought about: Which method is best? What is trying to be achieved? Where should it take place?
2. Undertaking the research – Once decided what method to be used the market research is done. The research focuses on customers opinions.
3. Analysing the information – Researchers analysis the information gathered. Data can be qualitative (opinions & attitudes) or quantitative (can be expressed as numbers)

Product Trial & Repeat Purchase

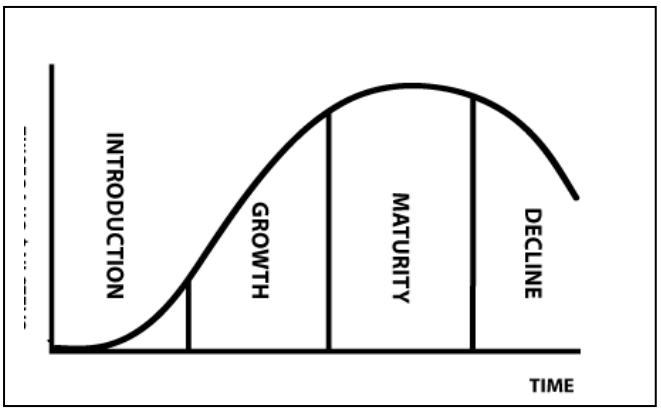
Product trial – when a customer buys a good for the first time and assesses whether or not they want to buy it again.
There are different ways in which companies could potentially get customers to trial a product:
1. Advertising – Customers are more likely to buy a product if they know about it
2. Free Publicity – Companies put on launch parties for new products & invite journalists & producers so they write about their new product
3. Free Samples – Companies issue free samples to the customer to try
4. User Testing – If sample isn't available, customers can test a product. For example test drive a car.
5. Low Trial Prices – Companies introduce their new products at a low price (penetrating pricing)

Repeat Purchase

Businesses will make long term success if they have customer loyalty. This is where customers return to their business to buy again and again. Four areas businesses cover to ensure repeat business is Price, Place, Product and Promotion.

Product Life Cycle
The Product Life Cycle is the stages through which a product passes from development to decline.

SALES IN VOLUME



Before the introduction stage (launch) research and

development is done. This is where research is undertaken and developments of the findings are conducted to create a product.

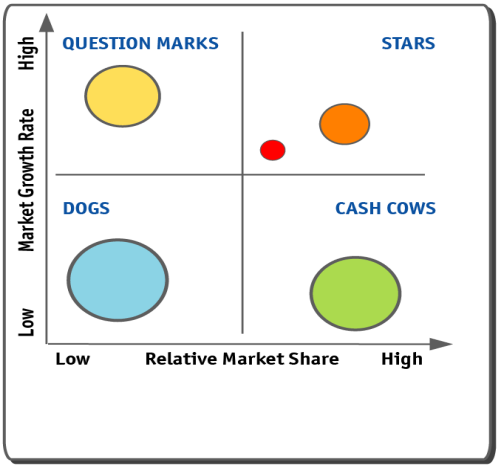
Cash Flow and the Product Life Cycle

Cash flow changes over the product life cycle.

- During the development phase, the net cash flow is negative. Money has to be paid out but no money is coming in.
- During the launch phase (introduction) net cash flow is also likely to be negative as lots promotion needs to be done, probably more than sales coming in.
- The growth phase will be when the net cash flow will generally turn to positive, but it will be a small amount, due to all the costs still
- During the maturity and decline phase net cash flow is likely to be positive. The value of sales exceeds cost of production. When extension strategies are planned the cash flow may dip.

Product Portfolio Analysis - This is the investigation of the range of products that a business sells. Businesses need to manage their product portfolios, they need to keep sales up and ensure new products are launched on a regular basis.

One way of doing a product portfolio analysis:
The Boston Matrix



Stars – Very successful products whose market is growing fast and has relatively high market share. Stars are likely to be in the growth stage of the product life cycle.
Cash Cows – Sales are unlikely to grow in the future. Products are often in the maturity stage of the product life cycle.
Question Mark/Problem Child – This product has a low market share in a fast growing market. It is a question mark/problem because it is unclear what should be done with the product.
Dogs – This product has low market share in a low growth market. It is unsuccessful and its prospects are poor.

Branding and Differentiation

Branding – Every business would like a strong brand. A brand has an image and/or identity that consumers recognise and can associate with. Opposite to this are **generic products.** Customers don't usually see the difference between products, for example potatoes are generic, and consumers don't really see the difference between a potato produced at one farm and another potato at another farm.

Supermarkets now have their **own brand**. These are normally seen to be cheaper than branded products from manufacturers.

Branding & Purchases- When it comes to purchases companies with a strong brand have a advantage as consumer are more likely to trail a product of a brand they know, and they are also more likely to repeat purchase if the product has a brand.

The Product Range – Companies offer different products for their brand. For example Philips product range includes:

- Televisions
- DVD players
- Mobile Entertainment
- Accessories etc.

Product Differentiation – by having a large product range Philips can differentiate each product for example they differentiate TV's e.g. High Definition, Flat screen, 32"
A Product can be differentiated in a number of ways:

- Design

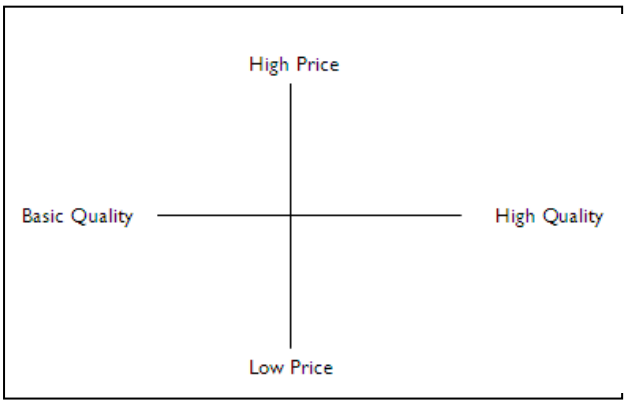
- Name
- Packaging
- Value

The Advantages of Branding –

- If a company has a strong brand they have the advantage of being able to charge a premium price. Consumers are willing to pay more to by a brand they trust.
- Brands tend to be advertised heavily; therefore this provides greater consumer awareness of a product.
- Branding provides increased market share and increased sales compared to if the product wasn't branded. Customers are more likely to make repeat purchase.

Branding & Market Maps

Brands can be placed on a market map. Most strongly branded products (whether they are baked beans or cars) tend to be in the higher price/higher quality part of a market map.



Building a Successful Marketing Mix

The marketing mix is the combination of factors which will help a business meet customer needs more successfully thus sell the product

Product
This factor includes what the actual product is, this can include the formula of the product (how made, especially is edible) packaging, variety of the product and the name (if it has a brand)
Price
This need to be thought out carefully to ensure the customer will find the product affordable and be willing to pay the cost of the product.
Promotion
Strong brands tend to be backed by successful promotion. Promotion is often targeted at a particular market segment (group of people). Promotion can include simple changes such as packaging change, also are competitions for customers and prizes.
Place
Place is about having a product available to customers when they want it and where they want it. Businesses have different ways of getting products to their customers, they can sell to wholesalers (supermarkets) who will sell the products for them or they can sell straight to the customer.

Topic 3.2: Meeting Customer Needs

Design, Research and Development

Design is made up of three elements:

- The **function of the product** – how well the product works and what it does. Innovative product designs often sell well – good design is about being one step ahead of your competitors
- The **cost of production** – the cheaper the cost to make a product, the better – businesses can then make more profit on each product sold
- The **appearance** of the product – stylish, elegant products are more likely to sell than products that have no style. Appearance is an important element of design.

Many businesses have **R&D (Research and Development) depar**tments that spend their time designing and testing new design ideas. Prototypes are produced which are working models of a possible finished product. These prototypes are tested to ensure

they meet customer needs. R&D is very important to manufacturing firms as they must continually develop new products and ideas.

Managing Stock and Quality

Manufacturing firms needs stocks of raw materials that they are going to use to make their products. For example, a car manufacturer will need stocks of car components and engines. Other firms need stocks of raw materials that are sold to customers, or are used by the business. For example, Boots will need stocks of over-the-counter medicines. Brighouse High School need stocks of paper and exercise books.

All stock must be managed so that the organisation always has enough stock available to use when needed. Holding too much stock can have disadvantages:

- Space is needed to hold the stock
- Electricity is needed to run the storage areas – this increases business costs
- The stock may deteriorate if not used quickly

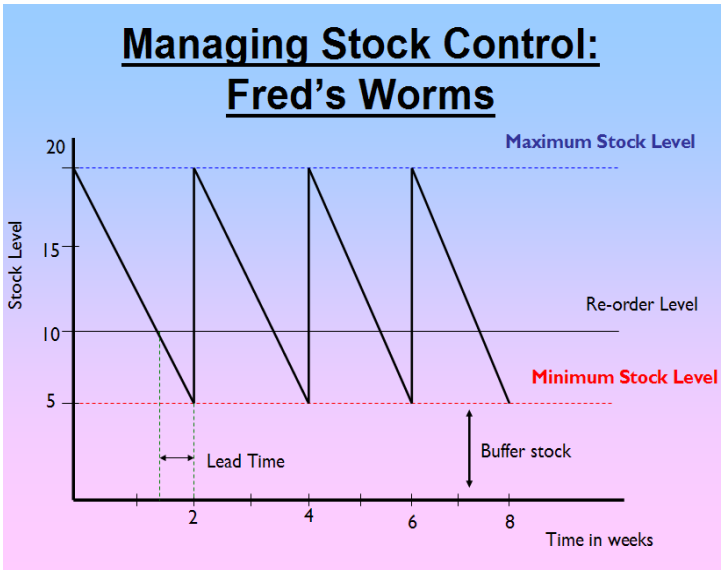
Businesses need stock control systems to monitor how much stock they have each day so that they can order replacement stock at the right time.

(Bar Gate) Stock Graphs/Charts ("Just in Case" Stock Control)

This method uses a graph which records the amount of stock each day. The business needs a minimum stock level and this is called "**buffer stock**". A **maximum and minimum stock level** is also set and as stock is used up, it is recorded on the graph. When the stock level reaches near to the minimum stock level, the business knows they must order more stock. This is called the "**re-order level**". Using this system means that stock should never run out.

If a business has a minimum stock level (or "buffer stock" level), if there was an unexpected order that needed to be met, there should be enough stock to cover this unexpected order. If the minimum stock level hit zero, the business would have to stop production until new stock arrived. Imagine the situation in school if we ran out of paper and exercise books?! Production would stop (yippee!).

Here is an example of a stock control graph:



The advantages of Just in Case stock control are:

- The business always has stock available to use when needed so production never stops due to no stock being available
- Buying stock in bulk from a supplier means the business can get discounts – this is an example of an **economy of scale** – the cost of producing each product is reduced because the raw materials are cheaper. This means the business could reduce their prices

The disadvantages of Just in Case stock control are:

- Stock costs money to hold
- Stock uses up space
- If large amounts of stock are stored, employees are needed to look after it – this increases wage costs

Just In Time Stock Control/Just In Time Production/Just In Case Production

Nowadays, some businesses use JIT stock control (JIT Production) where no stock is stored. When raw materials or stock are required, they are delivered to the business at exactly the time they are required. This system is widely used in car manufacturing.

The advantages of Just in Time/Just in Case stock control/production are:

- The business can save money because less space is needed to store raw materials and less energy is used in the factory
- Cutting the amount of stock stored can reduce the need for so many staff – so wage costs are lower

The disadvantages of Just in Time/Just in Case stock control/production are:

- The business could have difficulties if an unexpected order arrives – they may not have the raw materials they need to make the goods
- The business may not receive discounts from suppliers because they do not buy in bulk

Quality

Quality is about achieving a minimum standard for a product or service which meets customer needs.

Quality control is about ensuring that a product or service meets those minimum standards – usually through testing products after they have been made and before they leave the factory. Quality controllers are paid to check that the product has been made to the required specification – if it hasn't, it is returned to the production line for the fault to be remedied or if it is unfixable, it would be thrown away.

Advantages:

- Quality control ensures that the products are of a standard which is acceptable to the customer.
- It reduces the number of complaints a business may receive and therefore reduces business costs.
- Using quality controllers, it also means that all products are checked to the same standards.

Disadvantages:

- The business does have to pay the wages of a quality control inspector – this increases costs.
- It can also be very wasteful as faulty products have to be repaired or thrown away – this increases raw material costs.

Quality Circles and the Kaizen Technique involves groups of employees meeting regularly to discuss the production process. Any suggestions for improvements are communicated to the management – and the management then implement better systems to ensure that quality is improved. "Kaizen" is a Japanese term meaning "constant improvement" – this is the principle that businesses must continuously aim to improve what they do in order to improve quality.

Advantages:

- It does mean that faults are identified before and during the production process rather than leaving it until the product is finished.

Disadvantages:

- Quality circles are time consuming (and thus creates "downtime" in the production process – periods of time when a business is unable to make their products)

Quality Assurance is a system used in production where quality is delivered at every stage of the production process. Every worker is responsible for ensuring that they do everything to the highest quality – accurate work, meeting deadlines, the way people work with each other, etc.

Advantages:

- This assures the customer that it is a quality product.
- Whereas with a quality controller the responsibility for checking quality is with the quality controller, with quality assurance it is everyone's responsibility.
- In theory, it creates "zero defects".
- This system reduces business costs because there is less waste

Disadvantages:

- Employees must be trained to focus on ensuring the highest quality with everything they do. This increases business costs
- Other stakeholders must also meet the same standards – for example suppliers must delivery quality raw materials on time.

Many products are made to standards set by a country. For example the BSI (British Standards Institution) produces standards for the production of a wide range of products such as electrical goods and toys. The ISO (International Organisation for Standards) is an internationally recognised set of quality assurance standards.

Cost-effective Operations and Competitiveness

Production is the process used to make a product or service. The amount produced is often referred to as "**output**".

Productivity is the amount produced in a given amount of time. If you can increase the amount you produce in a given amount of time, you have improved your productivity. For example:

- You have 10 workers who all produce 10 boxes of chocolates in one day. How many boxes of chocolates are produced in a 5-day week?
  Answer: 500 boxes of chocolate
- You train your staff so they become more skilled at producing the boxes. Their **output** increases to 20 boxes a day each. How many boxes are produced in a 5-day week?
  Answer: 1,000 boxes of chocolate

You have therefore improved your productivity. Improving productivity reduces our running costs so firms are able to offer more competitive prices. This increases sales.

Methods firms can use to improve productivity:

- **Train your staff** to become more skilled in what they do. The employees will then be able to produce more in the same amount of time.
- **Purchase machinery** to do the work that humans would normally do. Machines are usually much faster at producing products compared to humans.
- **Reduce Downtime** Have systems in place to ensure that production never stops.

Effective Customer Service

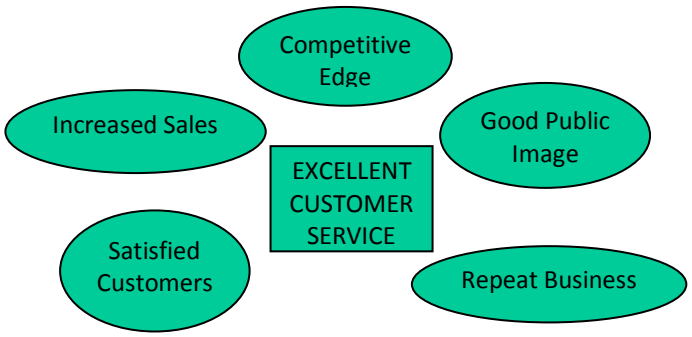
Customer service is:

- making sure that customer needs and wants are met all the time
- providing the products and services that customers want in order to keep them satisfied
- keeping customers happy by meeting all their requirements
- making sure that all types of customers have their needs and wants met

Some features of good customer service include:

- Meeting customer needs
- Quality of products and services
- Reliable delivery
- Innovation – looking for new ways to deliver an excellent service
- Spotting problems
- Listening to customers
- Dealing with complaints
- Staff training

The Benefit of Excellent Customer



The consequences of poor customer service include:

- Reduced number of customers
- Reduced sales
- Less profit
- Fewer repeat purchases
- Poor image and reputation
- Affecting the long term survival of the company

Meeting Consumer Protection Laws

UK Law protects the consumer when things go wrong. There are TWO Acts of Parliament you need to understand for the examination:

1. The Sale of Goods Act
This Act is a civil law and it enables customers to claim compensation.

Products must be:
- As described
- Fit for the purpose
- Of merchantable (satisfactory) quality

If these criteria are not met, customers can claim compensation – i.e. a full refund.

2. The Trade Descriptions Act
(now The Consumer Protection from Unfair Trading Regulations)
This is a criminal law that makes a number of actions illegal:
- Firms cannot give false information about their product or service
- Firms must give important information
- Firms must not act aggressively
- It is illegal to advertise to children and tell them to get their parents to buy the product

If a business breaks this law, the firm can be taken to court, prosecuted and sued. They may also have to pay fines.

The effect of consumer legislation on businesses:
Firms must find out about all the laws that affect their business activities and they must comply with the laws or face costs – these are called "Compliance Costs".
Examples of compliance costs include:
- Giving refunds
- Providing financial compensation
- Providing replacement goods
- Paying fines for faulty or inaccurately described goods
- Paying fines/compensation for the other consequences of breaking the law – e.g. injury or illness as a result of using the product/service
- Ensuring all quality and safety standards are met – e.g. training staff; checking quality standards

Businesses must follow the law so they must keep up-to-date with new legislation. In addition, they may incur compliance costs.

Overall, consumer legislation can affect the reputation and sales/profit of a business. It may improve reputation of your business if you provide more rights to customers than you need to and deal with valid complaints promptly. Improved reputation increases future sales and profit.

However, it could give bad publicity if your firm is taken to court. This could decrease sales and profit.

Topic 3.3: Effective Financial Management

How to Improve Cash Flow

Cash Flow- this is the movement of money into and out of the business.
Inflow – A businesses main cash inflow is cash which comes from customers who have bought their products.
Outflow – A large cash outflow for a business can be wages. Others include raw materials to make products, bills (heating and lighting), tax paid to the government and rent or mortgage.

Financial Management
Businesses can, within limits, change the levels of cash inflow and outflow, deliberately changing the cash flow is called financial management.

Changing Cash Inflows
This can be achieved by:
- Increasing Sales Revenues – This is increasing number of sales or average price of product.
- De-stocking – This is getting rid of stock that is piling up, maybe by having reductions

- Improving cash flow from customers – Making customers pay for products straight away or giving less time to pay.
- Long –term solutions – Take out a loan, sell more shares or sell assets to make money.

Changing Cash Outflows
This can be achieved by:
- Orders fewer materials and stock – this has to be a one off decision to decrease outflow otherwise sales can decrease as businesses have not got the stock to sell.
- Delaying paying invoices – if businesses pay invoices late, it generally improves the cash flow position. The risk for this is that supplies may stop supplying!
- Leasing rather than buying – this is similar to renting. To rent a product might be a lot cheaper to buy, as the monthly payments will be less than a large one off payment to buy.

How to Improve Profit

Profits, Revenues & Costs
To make profit revenues have to be more than costs. **Profit = Revenue – Costs**

If a business starts to make a loss this means its costs are more than its revenue. Businesses need to take action to this otherwise they could risk being forced to close down.

Cutting Costs
One way to improve profit is to cut costs. This is not easy and can have a effect on the performance of a business. Different ways to cut costs are:
- Material Costs – Businesses could look at other suppliers to get cheaper materials or may get a better price if they buy in bulk.
- Labour – This is a major cost to a business. They could be making staff redundant, cutting hours of existing staff or not replacing staff when they leave.
- Investment – Businesses could invest in research and the development of new products and equipment. A business could also invest in creating a website.
- Marketing – If businesses cut back on marketing it might affect sales as people are no longer aware of the businesses products.

Increasing Revenues

Profit can also be increased by increasing revenue. The sales revenue of a business id the number of products sold times their average price.

Revenue = Number of Products Sold x Average Price

This can also be shown:

$$TR = P \times Q$$

A business could increase revenue by ether changing the price or in some way boosting sales. A business could boost sales in two ways:
1. Improved Marketing – if products are marketed better it could increase sales, for example if a product was advertised where potential customers will see it, they could be more tempted to try the product.
2. Better Products - this could include introducing more products to the businesses product range.

Price, Revenue & Profit
The relationship between price, revenue and profit is complicated.
- The price of the product directly affects the quantity bought.
- Sometimes businesses increase revenue by increasing their price.
- But if a business cuts its price and more quantity are bought, production costs will increase.
- So…the overall impact of a change in price on profit depends on what happens to the quantity of sales and to costs.

<u>Break-Even Chart & Break-Even Analysis</u>

Break-Even
Break even is very important to every business. It is the level of output where revenues just equal costs. Break even helps a business decide how many products they need to sell to cover the costs of production. If revenue equal costs exactly they are not making a profit, nor are they making a loss. If sales is more than the break even point they are making a profit, if the sales are less than the break even point they will be making a loss. To find break even point it is necessary to calculate total revenues and total costs.

Total Revenue
This is the total amount of money earned by a business from selling its products.

Total revenue = quantity sold x average

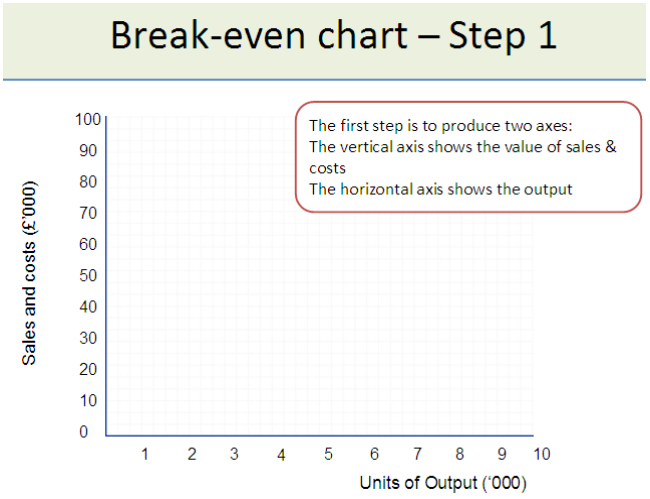
Total Costs
This is the sum of all costs, but for break even they are split into fixed and variable costs.

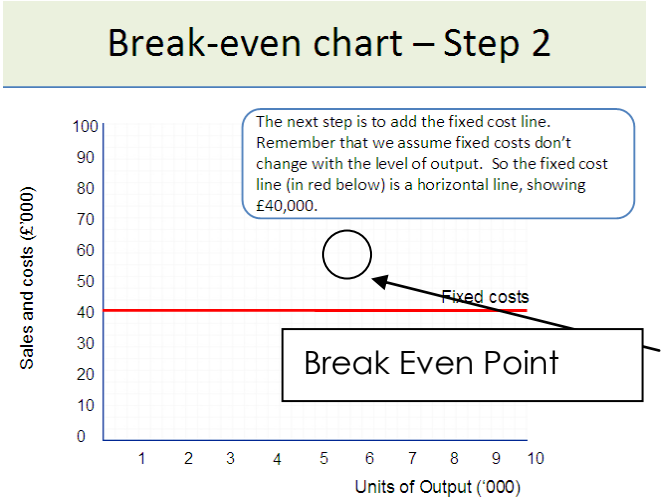
Total Costs = Fixed Costs + Variable Costs

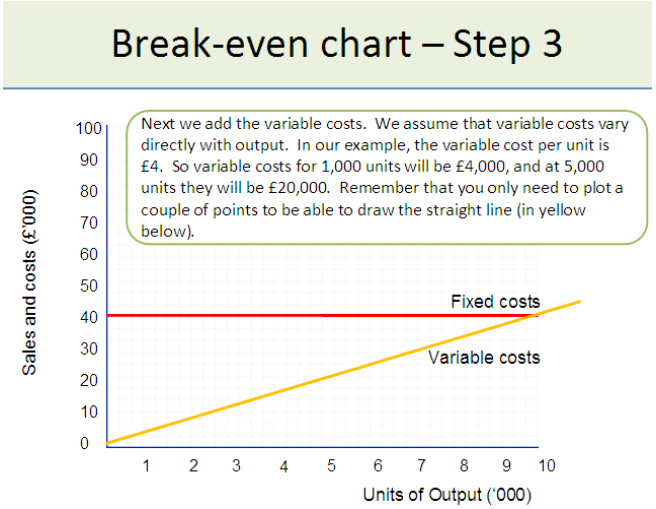
TC = FC +VC

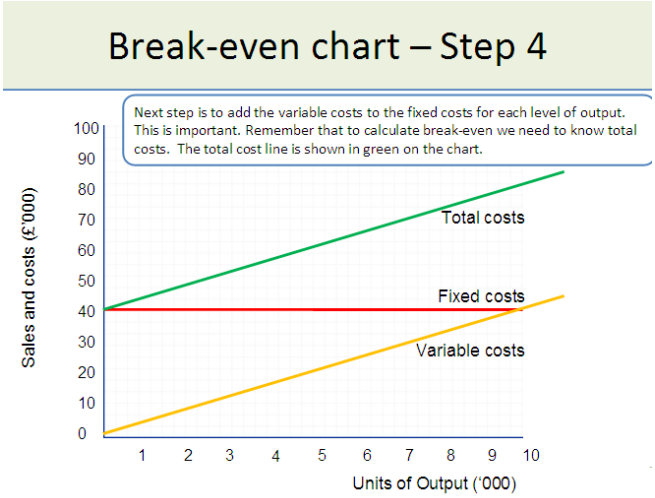
Fixed Costs – These are costs that do not change each month. They do not depend on the amount of products sold.
Variable Costs - These are costs that do change each month. They do depend on the amount of products sold.

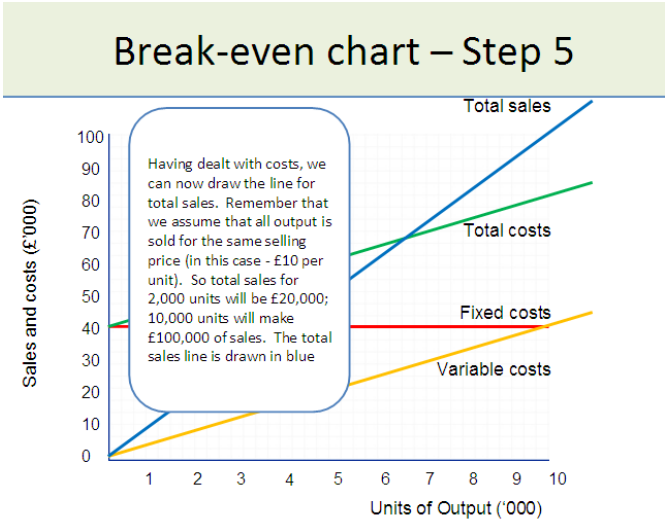
<u>Break-Even Charts</u>

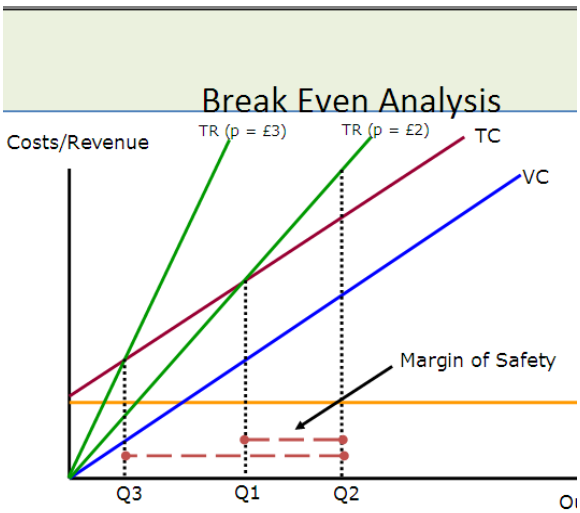












Margin of Safety
The margin of safety is the number of sales above the break even point. It is the range of output over which profit can be made.

Changes in Price & Costs
Break even point is a useful planning tool. If costs rise, the break-even will rise, if the price of the product increases the break-even point will fall.

Contribution Analysis
The break even point can also be calculated using contribution analysis. This means using the values for sales revenue, variable costs and fixed cost. Assume the price of a product is £2 and the variable cost is £0.50p, the product is making £1.50 above the variable cost of the product. The £1.50 is called a contribution to:

- Paying off fixed costs
- Towards making a product

The formula for contribution is: **Contribution = price per item sold – variable cost per item**

Using Break-Even Analysis
Break even analysis helps a firm to break down a number things about its business to give it useful information that may help future planning or to take action to correct problems:

- Understanding the past
- Achieving future targets
- Launching a new product
- Starting a new business
- Business plans

Financing Growth

Financing a Business
How a business obtains money and other financial resources to start up, expand and if necessary pay off losses it has made.

Internal Sources of Finance
This is finance that has been obtained within the business:

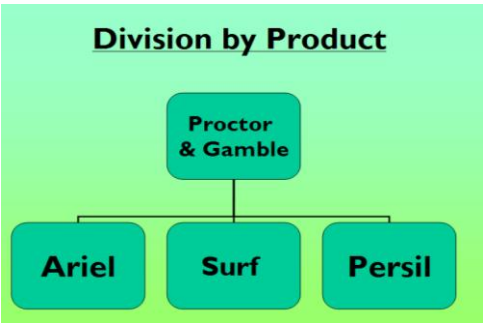
- Retained profit – This is the profit a business has made, and using it to reinvest it within the company
- Asset sales - This is selling assets of what the business owns to make some money

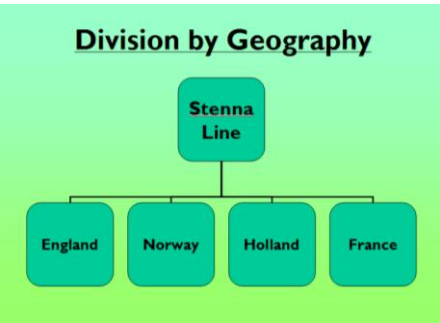
External Sources of Finance
This is finance that has been obtained outside the business:

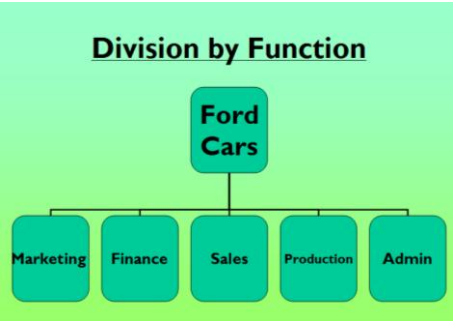
- Selling Shares – This is when a business has share holders, the business receives money from the shareholders and they own a percentage of the business.
- Overdraft – This is when you can use more money than in the bank account. It will have a limit which will be agreed with the bank.
- Loan – this is taken from the bank. It is a set amount of money to be paid over a set amount of time – it also has interest included to pay.
- Trade Credit – this is given by suppliers. Businesses can receive their goods but pay for them at a later date

Topic 3.4: Effective People Management

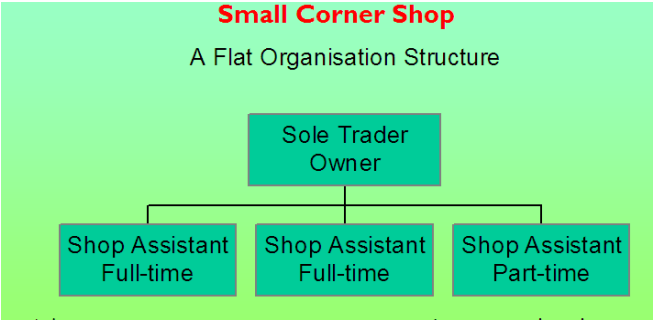
Organisational Structure
Business organisations are organised into "divisional" structures. Depending on the type of business, the structure will vary. Organisation structures can be organised as follows:



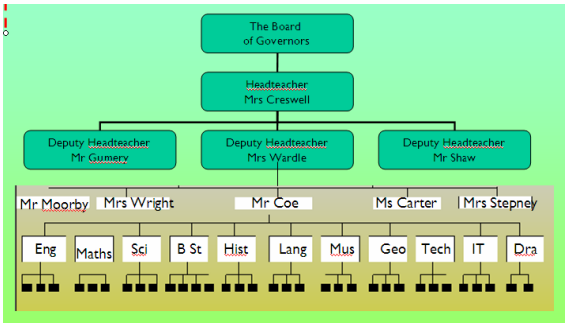




Structures can also be “flat” or “hierarchical”:



A **flat structure** has few levels in the hierarchy.
The business is usually small.



A **hierarchical structure** has many levels in the hierarchy.
The business is usually large and there is plenty of opportunity for promotion.

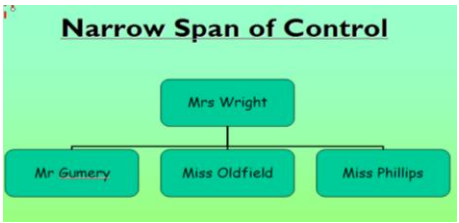
Flat structures have a **short chain of command** – messages are passed quickly from the top of the structure to the bottom because there are only a small number of levels.

Hierarchical structures have a **long chain of command** – messages take longer to pass from the top to the bottom of the structure because there are a large number of levels. With a long chain of command, messages can get distorted (like Chinese whispers).

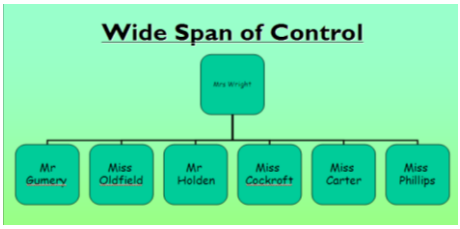
An organisation structures shows:

- The **chain of command** – how messages are passed up and down the organisation
- The **span of control** – who you are in charge of and responsible for
- **Line managers** – the person who is in charge of you
- **Subordinates** – the people under you in the structure
- The **hierarchy** – the number of levels in the organisation

The span of control that a person has can be **narrow** (in charge of a small number of people) or **wide** (in charge of a large number of people):

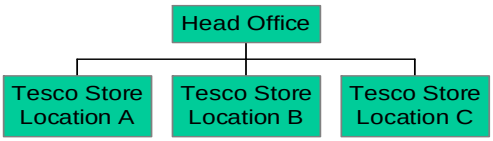


If you have a narrow span of control, it is fairly easy to monitor the work of your team. If you have a wide span of control, it is harder to monitor peoples’ work.



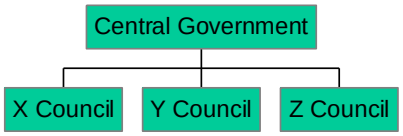
Centralised and De-Centralised Organisation Structures

Large businesses often have a head office. If head office make all the major decisions about the business and then pass on these instructions to all their branches, they have a centralised organisation structure. A good example of a centralised structure is Tesco – Head Office decide on the layout of the stores, what products to sell, what uniform staff where – all these instructions are passed to all their stores and all their stores are laid out and organised in exactly the same way.



At Tesco, decisions are made at Head Office and instructions are sent to each branch. Each branch manager must follow orders. E.g. the layout of the store each week is decided centrally – all stores must change the layout as instructed.

Sometimes organisations that have a head office decide to allow each branch to make their own decisions. A good example of this is the government. They give money to each county council (e.g. Brent, Harrow) and then each council can decide how they spend their budget:



Each council makes their own decisions so they have more control over what they do.

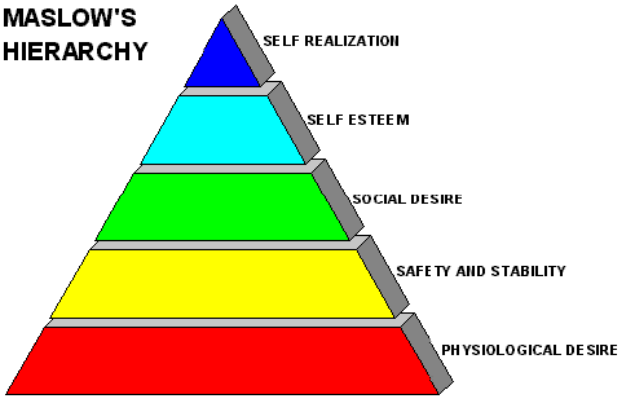
Motivation Theory

Motivation is the extent to which an individual gives their best at all times when working for a business. A well motivated workforce has the following benefits:

- Motivated workers will produce/sell more goods
- Motivated workers will produce better quality work
- Motivated workers will be more committed to the business
- Motivated workers will stay with the business (reduces recruitment costs)
- Motivated workers are more willing to learn and be flexible

Maslow's Hierarchy of Needs

Abraham Maslow suggested that people have a number of different needs and that everyone starts at the bottom of his hierarchy. He believed that you have to achieve the bottom level before you can move up the hierarchy – and eventually reach your potential.



Physical needs – people need to have food, shelter and warmth. Businesses can provide this by paying people a wage in order to pay for these things.

Safety needs – people want their environment to be safe so health and safety at work is important. Workers also want to know that their job is secure and that they will not be made redundant. They also want to know that they will be paid regularly.

Social needs – people want to feel part of a group. They want to be trusted and be able to support others. Businesses can provide this by allowing staff to work in teams.

Self Esteem needs – people want to feel that other people respect them. Businesses can provide this by recognising that someone is doing a good job. They can also provide opportunities for promotion so that an employee can progress in their career.

Self Actualisation – at the top of the hierarchy, a person will achieve their potential.

Motivation comes from within. Every employee has a different level of motivation and different ambitions. Some workers are more motivated than others and they seem to work harder. A business can influence this motivation by providing a good wage and working conditions, a pleasant working environment, opportunities for promotion and recognition for good work.

A de-motivated staff will have the following impact on a business:

- They will make more errors
- They will not produce as much
- They may leave the business for a better place to work
- It will create a negative atmosphere

Communication

Communication involves the sending of a message to a receiver. The receiver may also provide feedback.

Examples of types of Communication:

- 1-1 conversation
- Memorandum – an internal message to another employee
- Telephone conversation
- e mail
- Letter

The quality of communication used in a business is very important. If employees aren't given enough information, it may result in:

- Staff not knowing how to do their job properly
- The business making the wrong decisions
- Time being wasted trying to find out the answer to problems
- Staff becoming de-motivated

If employees are given too much information, it may result in:

- Staff not being able to cope with the amount of information they have been given
- Staff becoming de-motivated
- Errors being made

Not all communication is effective. Sometimes communication breaks down. There are a number of barriers to effective communication:

- The person sending the message does not explain themselves clearly enough
- The receiver may not understand the person giving the message
- The receiver may not be listening
- Messages may get distorted if they go through too many people
- The equipment might break down or not work very well

The importance of good communication:

- Businesses must provide accurate and clear information to customers
- Managers must give clear instructions to their subordinates
- Customer satisfaction will be improved
- Staff will get on with each other better
- Staff will be better motivated

Remuneration

Remuneration is the methods a business uses to reward its staff. This includes financial and non-financial rewards.

1. **Financial Rewards:**

a) *Time Rate and Piece Rate* – **Time rate** is when you pay a person for each hour that they work – e.g. £5 per hour. **Piece rate** is when you pay a person for the amount they produce – e.g. £5 for every meal produced.

b) *Bonus and Commission* – **Commission** is when you reward your staff for every sale (e.g. £50 commission for each customer sale). A **Bonus** is a reward if a the sales target is met (e.g. a £500 bonus if sales targets are met)

2. **Non-Financial Rewards:**

These are sometimes called "**fringe benefits**". Non-financial rewards are reward that are not actually money but are still a reward for work completed. Examples include:

- Pension Scheme
- Private health insurance
- Monthly staff social night
- Subsidised meals
- Sports club membership
- Company car
- Staff discounts
- Staff uniform
- Child care facilities

Types of Contracts
When recruiting a new member of staff, a business must decide whether the employee should be **full-time** or **part-time**. A full-time employee works more than 15 hours a week. A part-time worker will work less than 15 hours a week. Part-time workers are often used to cover busy periods in the week and times when staff are absent. This reduces business costs because you only pay the employee for the hours you need them.

A business must also decide if the employee should have a **permanent** or **temporary** contract. A permanent contract is when someone has no finish date. The benefit of a permanent contract is that the employee will be more motivated and are more likely to stay with the business. A temporary contract has an end date – for example the contract may last for 6 months and then the employee finishes working for the business. This type of contract is more flexible for the business – there is no requirement to re-employ the person at the end of the contract. People who are on temporary contracts are often called, "**freelance**".

Topic 3.5: The Wider World Affecting Business

Ethics in Business

The Ethical Business
This is ideas about what is morally correct or not, applied in a business situation.

Production
Throughout production businesses create a lot of waste, financially they want to choose the cheapest option to dispose of the waste, but this might not be the most environmentally friendly option. Some businesses have an action plan to reduce the amount of waste it creates and to recycle more.

Suppliers
A business must make an ethical choice about how it treats its suppliers and what it will buy from its suppliers. Financially, to maximise profit, a business should try to pay its suppliers the lowest price possible. However, this might not be fair because developing countries receive low prices for their products from buyers in rich countries like the UK (Primark).

Workers
Different businesses treat their workers in different ways. Some only pay them minimum wage and other choose to pay them more to look after them. Companies are committed to reduce accidents in the workplace, any many companies train and help develop their workers.

Customers
Businesses need customers to survive and what the customer wants business try to provide. Many businesses won't export to countries like Burma as they have a government that do not give their people basic human rights.

The Product
Businesses decide what products they are to sell, whether it be food contained GM (genetically modified) ingredients or selling clothes that can be washed on a low temperature.

The Environment
All businesses have an impact on the environment. They need to think how they can cut waste or increase recycling. Tesco, for example now receive dairy product from local farmers to prevent them travelling hundreds of miles to deliver.

Local Communities
Many businesses have little or nothing to do with there local communities apart from selling product and providing jobs. Some argue that businesses should do more than this. Some businesses support local charity, others get involved with local schools or support local sports clubs.

Possible Trade-Offs
Most businesses believe that there is a trade-off between ethics and profit. Acting ethically raises costs; however, some businesses use their ethical trading as a marketing tool and raise their sales. Workers can also be more motivated if they know they are working for an ethical business – which can cut costs for the business. However, if all businesses trading 'ethically' this advantage would disappear.

Pressure Groups
These are organisations that support causes such as workers rights, the environment and animal welfare. Examples are Trade Unions, Greenpeace and RSPCA. Most businesses are not directly affected by pressure groups. However, when businesses are affected, they need to make a decision about how to respond:

- Businesses can do nothing

- Businesses can work against the pressure group
- Businesses can work with the pressure group

Environmental Issues

Business & the Environment
The supply chain for many businesses is quite long. Its starts right a beginning before products are made (e.g. a forestry for the production of books) All of the supply chain can have an impact on the environment. The impact can be divided into short term effects and long term effects.

Short-term Effects

Traffic Congestion – this is brought on by delivering products to their distributors, when there is more congestion it can also cost more fuel per mile.
Air, noise, smell and water pollution – this can be done by again delivering products, this can cause noise pollution and electricity generation from computers can cause air pollution. Farming can produce odours that some people find unpleasant.

Long-term Effects

Climate change – This is caused by the emission to too many greenhouse gases such as CO2 (carbon dioxide).

Resource depletion – This refers to resources which are non-renewable, for example, coal, oil and gas.

Customer Demands
Customers are putting pressure on some businesses to be more environmentally friendly. For examples, magazines are now usually printed on recycled paper because some readers have asked for this. Businesses which can persuade customers that they are more environmentally friendly than their competition can gain a competitive edge. Businesses can use their environmentally friendly reputation as part of their public relations.

Business Opportunities
Environmental concerns can represent a business opportunity. There are many new businesses which have been created to make energy saving or renewable energy products. Other businesses can create product which can reduce pollution.

Economic Issues Affecting International Trade

Income Distribution across the world
The world's income is distributed very unevenly. On average United States average income per person is £30,000, whereas, Ethiopia is roughly £500. High income countries are often called developed countries, whereas, low and middle income countries are often called developing countries. 54% of the world's population live in middle income countries. 16% live in high income countries and 20% live in low income countries.

Income, wages, products and trade
The level of the development of an economy affects its imports (what it buys from abroad) and its exports (what it sells abroad).

Average Incomes – People from high average income countries tend to import a lot from a low income country. Whereas people in low income countries can not afford to import, so they buy from their own country, but also export goods to higher income countries.

Wages & Prices – UK businesses can take advantage of low wages paid to workers in developing countries. Many products, especially clothing are now made mainly in developing countries (Primark). This is so they can sell their products cheaper in the UK.

Quality and technology of products – Many products made in developing countries are too poor quality or not sufficiently technologically advanced to be sold to customers in rich developed countries. However, businesses in developed countries tend to sell high priced, high quality products to developing countries. Businesses in developing countries tend to sell lower quality, less technologically advanced but cheaper products to developed countries.

Import Protection & Export Subsidy
Nearly every country in the world operates protectionist policies. These are measures designed to reduce the amount of imports coming into a country and also to give an advantage to domestic firms in exporting products.

Import Protection –
Tariffs – These are taxes on imported goods.
Quotas – These are limits on the physical number of goods that can be imported over a period of time.

Export Subsidies –
Simply, the opposite of tax. The government might give firms that export products money (a subsidy) which helps reduce the cost of production. The effect is to reduce the price of these goods sold abroad. Therefore it makes the country's exports more price competitive so sales may be higher.

The Impact of Government and the EU on Business

The UK Government and the EU (EU = European Union)
The EU has helped create a single/common market. This allows goods to be traded freely between member countries. There are no tariffs or quotas on trade between member countries.

The EU is still changing, for example now most member countries have the same currency – euro. The UK and some others still have their own currency but it is likely, in the long term that every country will use euro as their currency.

Taxation
Tax rates are still set by individual governments in the EU. For example tax rate on profit earned by companies is different in the UK than in Ireland and France. Taxes affect both businesses and consumers.

- Taxes reduce the amount businesses and consumers have to spend. For example VAT (Value Added Tax) on goods increases the price of goods and means that businesses sell fewer goods than if there was no tax.
- Taxes affect the way in which businesses and consumers behave. For example, taxes on employing workers discourage businesses from employing workers.

Regulation (also known as Red Tape)
Regulations cover every aspect of a business. Businesses have to comply with thousands of different regulations, for example:

- Products must conform to the Trades Description Act
- Businesses have to submit financial accounts at the end of the year
- All vehicles have to be insured

Regulations are designed to protect different stakeholders in a business. For example, waste disposal regulations protect the environment. Complying with laws can be costly for a business and there could be cheaper ways of doing things. Some regulations are the same across the EU, others differ. Some businesses take advantage and shift their business to a country where regulation is low.

Minimum Wage
One set of regulation is minimum wage. This is the lowest a business can pay to any employee. Most countries in the EU have minimum wage however the amount is set by individual governments. The rates tend to reflect the level of the country. Some pressure groups argue that minimum wage is too high, therefore prices of products are too high, others use the ethical argument the low paid workers deserve to be paid more.

Maternity & Paternity Rights
This is another regulation in the EU. The minimum maternity leave is 14 weeks, meaning that mothers are allowed 14 weeks paid leave when their child is born. Paternity has also been introduced allowing men to have 2 weeks paid leave when their child is born. Again, there are pressure groups for and against this; it is an example of morale debate as well as an economic one.

Health & Safety Regulations
All EU countries have health and safety regulations. This set a minimum standard for the working environment. For example, there are regulations about;

- How long employees can work without a break
- The storage of dangerous chemicals
- The level of heating in the workplace
- The ventilation of a workplace

The regulations are meant to prevent workers from having accidents or falling ill due to their work. These regulations can impose costs on a business to ensure they fully comply with the regulation. Health and Safety regulations are often difficult to enforce. Small businesses employing few workers can ignore many aspects of health and safety. This lowers their costs, but it increases the likelihood of industrial accidents.

Good Luck!