3.1. WHAT IS BUSINESS?

3.1.1. UNDERSTANDING THE NATURE & PURPOSE OF BUSINESS

Risk vs Reward	Compare the expected returns of an investment to the amount of **risk** undertaken to capture these returns.
The role of entrepreneurs	A person who sets up a business or businesses, taking on financial risks in the hope of profit. This will offer employment & wealth creation in a locality.
	3.1.2. UNDERSTANDING DIFFERENT BUSINESS FORMS
Price competition	Rivalry between suppliers based solely on price, usually for similar items.
Non Price competition	Involves advertising and marketing strategies to increase consumer demand and develop brand loyalty.
Competitors	An business engaged in commercial or economic competition with others
Customers	A person who buys goods or services from a shop or business
Dynamic markets	Markets subject to rapid change due to perhaps technology & innovation gains.
	DEMAND – factors influencing level of Demand
Price	*Price* is the quantity of payment or compensation given by one party to another in return for goods or services.
Weather	Changes in weather can shift the demand curve.
Income	Increases or decreases in income will shift the demand curve & increase demand for normal or inferior goods.
Fashion	Changes in fashion can shift the demand curve.
Complements	Where changes in demand for one good mirror the change in demand for another.
Price of substitutes	An increase in the price of one good will lead to an increase in demand for the rival product.
Demographics	The characteristics of human populations and population groups.
Credit availability	The ease with which people & businesses can borrow money.
	SUPPLY – Factors influencing level of Supply
Subsidies	a sum of money granted by the state or a public body to help an industry or business keep the price of a commodity or service low.
Productivity – management & weather	This influences the effectiveness of productive effort, especially in industry, as measured in terms of the rate of output per unit of input.
Efficiency – technology	Increasing output with a given level of inputs.
Number of businesses supplying	This will lead to a more price competition among suppliers & reduce costs.
Taxes	Artificially raises the cost of production.

PRACTICALITIES OF BEING AN ENTREPRENEURSHIP

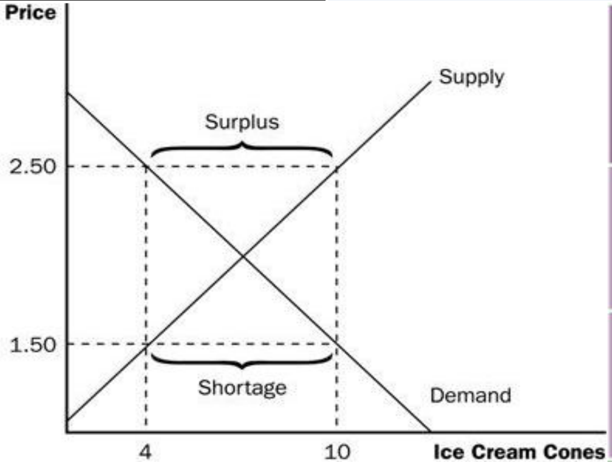
The Idea	Development of a concept or way of doing things.
Finance	Providing funding for an enterprise or to cover running costs.
Markets	Where buyers (consumers) & sellers (businesses) come together.
People, employees & customers	People, employees & customers. Recruiting, selecting & motivating staff. Managing customer relationships.
Objectives	Objectives – Financial & Non-financial
Lean Start Up Model	Lean start up model & the Minimum Viable Product – BUILD, MVP, LEARN & REPEAT.
Government support	Government support – Enterprise Parks, Enterprising Libraries
Realities	Realities of being a 'start-up': Frenetic, Creative, Unpredictable.

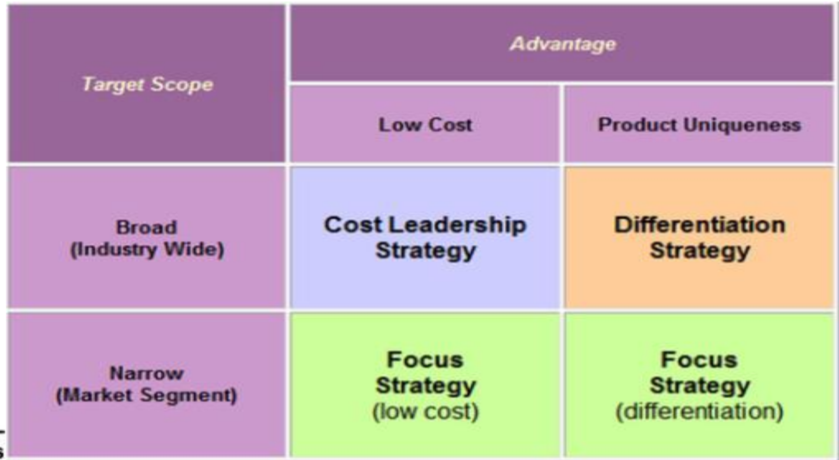
ANTI COMPETITIVE BEHAVIOUR

Examples of Anti-competitive behaviour	PREDATORY PRICING with very low prices to deter new entrants, CARTELS who restrict output, market share or PRICE FIX to increase price by means of formal COLLUSION & therefore act as a PURE MONOPOLY
Competition regulation	The OFT & the Competition & Markets Authority are responsible for ensuring competition is fair.

PORTER'S GENERIC STRATEGIES – TO IDENTIFY A SOURCE OF COMPETITIVE ADVANTAGE

COST LEADERSHIP	With this strategy, the objective is to become the **lowest-cost producer in the industry**.
DIFFERENTIATION	With differentiation leadership, the business targets much larger markets and aims to achieve **competitive advantage through differentiation across the whole of an industry.**
COST FOCUS	Here a business seeks a lower-cost advantage in just one or a small number of market segments.
DIFFERENTIATION FOCUS	In the differentiation focus strategy, a business aims to differentiate within **just one or a small number of target market segments.**





3.1. WHAT IS BUSINESS?

3.1.1. UNDERSTANDING THE NATURE & PURPOSE OF BUSINESS

WHY BUSINESSES EXIST	• Businesses create employment • Businesses create income • Businesses create new products • Businesses can enhance a country's reputation
THE RELATIONSHIP BETWEEN MISSION & OBJECTIVES	Mission statements – vision & reason for existence Aims – long term plans from which goals derived Objectives – medium to long term SMART targets
COMMON BUSINESS OBJECTIVES	Profit maximisation Growth Cash flow Social & ethical objectives Diversification – offering unrelated services to spread risk & grow
WHY BUSINESSES SET OBJECTIVES	Common goals Motivational Progress monitored Use in performance appraisals.
THE MEASUREMENT & IMPORTANCE OF PROFIT	Monitor costs & revenue Budget setting to fit with targets Profits reflect customers helped/ problems solved Easier to obtain finance to grow Profitable firms may attract takeover bids Suppliers will feel more confident in dealing with profitable firms.

3.1.2. UNDERSTANDING DIFFERENT BUSINESS FORMS

REASONS FOR CHOOSING DIFFERENT FORMS OF BUSINESS & FOR CHANGING BUSINESS FORM	Sole traders & Partnerships Private limited companies Public Limited Companies Public Sector businesses Not for profit businesses
THE ROLE OF SHAREHOLDERS & WHY THEY INVEST	Influence on decision making – more shares = more impact Desire for growth and/ or dividends
INFLUENCES ON SHARE PRICE & SIGNIFICANCE OF SHARE PRICE CHANGES	Expectations of future price growth Economic & political conditions also affect share prices Central Bank liquidity & QE is price supportive
THE EFFECTS OF OWNERSHIP ON MISSION, OBJECTIVES, DECISIONS & PERFORMANCE	Rising share price speaks well of management team & current performance which may enable bonuses and ease of access to capital. And the opposite holds true for falling share prices.

TYPES OF BUSINESS ORGANISATION

UNINCORPORATED BUSINESSES have no separate legal identity between the owner & the business.

INCORPORATED BUSINESSES have a separate legal identity between the owner & the business.

		PROS	CONS
SOLE TRADER	An individual who runs an UNINCORPORATED business on his or her own.	• 100% control • Keep 100% profits	• Unlimited liability • Workload
PARTNERSHIP	A partnership is an association of two or more people formed for the purpose of running an UNINCORPORATED business.	• Split roles/ workload • More capital	• Unlimited liability • Disagreements
PRIVATE LIMITED COMPANY	An INCORPORATED company offers shares to friends & family members only.	• Limited liability • Raise greater finance • Retain large proportion of control	• Legal process • Sharing
PUBLIC LIMITED COMPANY	The company's shares are offered for sale to the general public and members' liability is limited to the amount unpaid on shares held by them.	• Raise even greater capital • Publicity benefits	• Investor & media Scrutiny • Divorce of control

KEY POINTS TO CONSIDER IN CHOOSING TO BECOME A PLC

Objectives, Debt vs equity argument, Will be subject to much scrutiny, Release of quarterly results, Divorce of control, Desire for publicity, Stage in economic cycle which will effect price, Potential for short-termism – focus on IPO.

EFFECTS OF BUSINESS OWNERSHIP ON BUSINESSES:

	MISSION	OBJECTIVES	DECISIONS	PERFORMANCE
SOLE TRADER	Sole owner provides direction/ mission	Personal or mission goals	Rapid & responsive but may lack long term strategy	Lack of scale means must trade on quality or service
PRIVATE LIMITED COMPANY	Mission focused on family or founding principles	Financial stability, profit satisficing.	Some specialist input, decisions made by partners	Benefits of being large scale.
PUBLIC LIMITED COMPANY	Company image & mission are closely aligned.	Likely to relate to costs, prices, image, & market share & link to LT financial performance	Complex & have long term implications. Some decisions require specialist input. Many routine decisions also need to e made.	Scale & shareholders mean a need for price competitiveness & product desirability.
NOT-FOR-PROFIT	Mission ensures clear ethos which underpins decision making.	Non-financial objectives such as benefiting the community or the environment.	May lack specialists, desire to meet social objectives.	Double bottom line. Profits remain vital.

3.1.3. UNDERSTANDING THAT BUSINESSES OPERATE WITHIN AN EXTERNAL ENVIRONMENT

COMPONENTS OF THE EXTERNAL ENVIRONMENT	1. Market conditions & competition 2. Incomes 3. Interest rates & credit availability 4. Demographic Factors 5. Environmental issues & fair trade
MARKET CONDITIONS & COMPETITION	Employment, consumer confidence and other factors will impact upon demand. Competition may lead to more consumer choice.
INCOMES	If GDP is rising, people's incomes will be rising. This will be beneficial for businesses offering normal and luxury goods. Not beneficial for inferior goods with negative YED.
INTEREST RATES & CREDIT AVAILABILITY	Interest rates can affect the level of disposable income or business interest expenses and certain sectors are heavily interest rate dependent e.g. housing, car purchases & holidays. Credit availability helps to fuel inflation and boom bust economic cycles unless it goes to businesses.
DEMOGRAPHIC FACTORS	Rising population – Impacts on businesses may vary. Increased housing demand. Ageing population – Increased demand for healthcare and pension services.
ENVIRONMENTAL ISSUES & FAIR TRADE	Pollution is a major concern. Businesses must do all they can to counter this. Government legislation may increase business costs & thereby increase consumer prices. **Fair trade** is a social movement that operates with the goal of assisting businesses in less developed countries to achieve improved living standards.

POTENTIAL POSITIVE & NEGATIVE FACTORS ARISING FROM CHANGES IN EXTERNAL ENVIRONMENT

A single market with a standardised system of laws that apply in all member states.
It allows free movement of people, goods, services and capital.

Arguments in favour	Arguments against
• Product becomes popular or fashionable, raising demand. • A major competitor leaves a market • The number of consumers in a country increases • Interest rates fall, making it cheaper to borrow money to buy products. • Consumers enjoy steadily rising incomes, increasing demand for products.	• Consumers demand environmentally friendly products, increasing businesses' costs • New businesses enter a market, increasing the degree of competition • A market is over-supplied

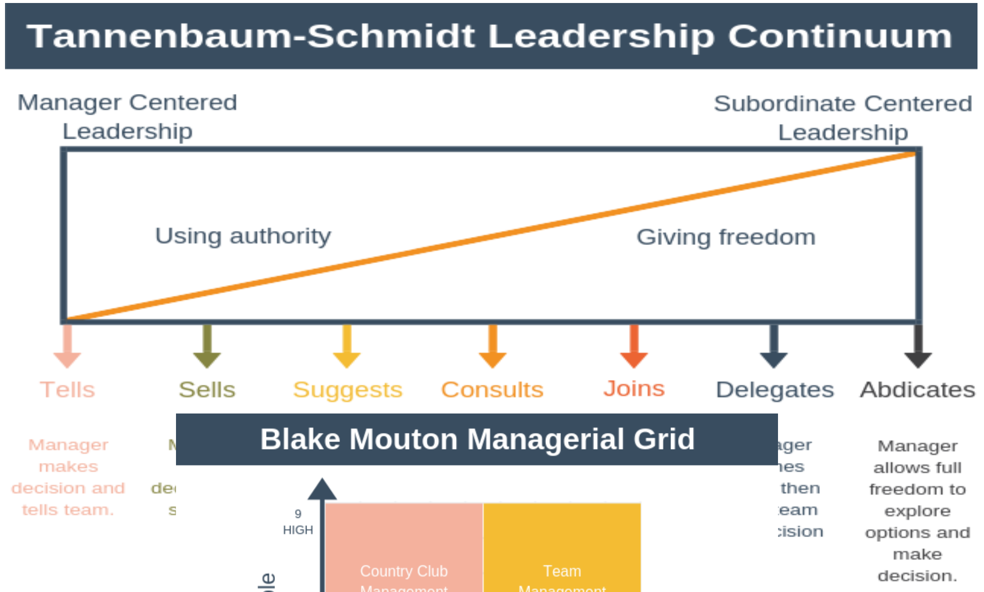
3.2. MANAGERS, LEADERSHIP & DECISION MAKING

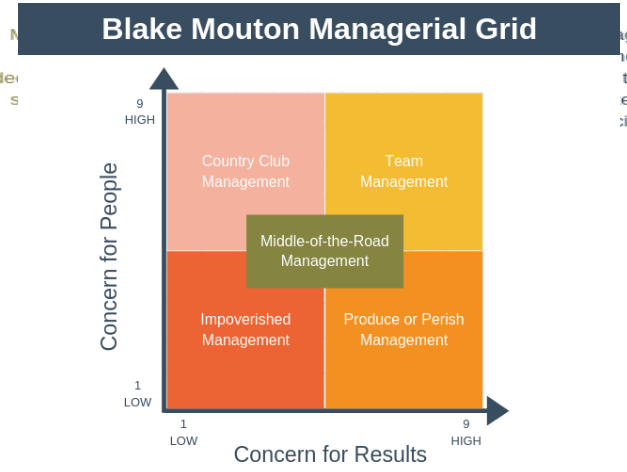
3.2.1. UNDERSTANDING MANAGEMENT, LEADERSHIP & DECISION MAKING

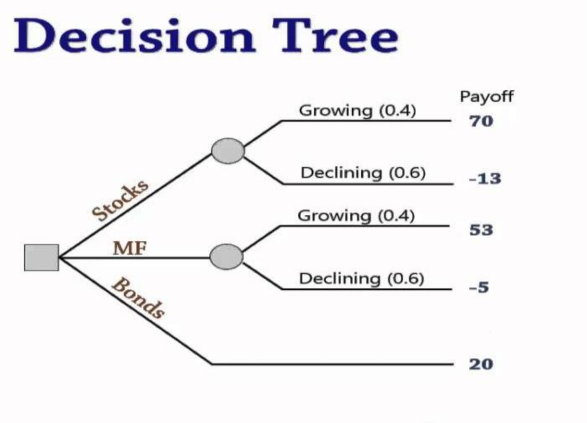
WHAT MANAGERS DO	**Planning** – setting objectives or targets, conducting analysis, drawing up plans, resource needs. **Organising** – assembling resources to realise objectives. **Directing** – Motivating, communicating & coordinating. **Controlling** – Financial performance, employee performance.
TYPES OF MANAGEMENT & LEADERSHIP STYLES	**Trait Theory** – certain personality traits differentiate a good leader from others. **Behavioural Theories** – how individuals behave in a management or leadership role. **Autocratic leadership** – Where decision making is best kept at the top of the society. This involves minimal delegation, or decentralisation & requires close supervision of employees. **Democratic leadership** – where decision making is made by a majority. This involves large delegation, actively promotes employee participation & a leader who consults on decisions. **Laissez Faire Leadership** – Mild anarchy. Empowered employees with little reference to the leader. May lack a sense of direction, coordination & planning.
INFLUENCES ON THE STYLE OPF MANAGEMENT & LEADERSHIP	The tradition & history of the business The type of labour force The nature of the task & the timescale The personality of the manager or leader
THE EFFECTIVENESS OF DIFFERENT STYLES OF MANAGEMENT & LEADERSHIP	Effective management and leadership will enable objectives of the organisation to be fulfilled. Different leadership styles may be suitable in different situations. Managers do not work in isolation and depend upon the support of others. An autocratic style may cramp innovation and lead to poor staff retention.

3.2.2. UNDERSTANDING MANAGEMENT DECISION MAKING

THE VALUE OF DECISION MAKING	Scientific decision making should include understanding & interpreting decision trees & calculating expected values & net gains. Decision making should include consideration of: Risks & Rewards, Uncertainty, Opportunity cost.
DECISION MAKING PROCESS	1. Setting objectives. 2. Gathering & interpreting information. 3. Identify options & select the chosen option. 4. Implementing the decision. 5. Reviewing effectiveness of decision.
TYPES OF DECISIONS	1. Programmed (easily defined problems) & non-programmed decisions (unstructured) 2. Tactical (short term) & strategic (long term) decisions 3. Decision making involves risks & rewards
DECISION TREES	Models that represent the likely outcomes for a business of a number of courses of action on a diagram showing the financial consequences of each.
ASSESSING THE VALUE OF DECISION TREES	• Makes managers consider options & likely outcomes • Using decision trees may result in a less rushed process based on evidence • Forces managers to quantify the impact of decisions • Enables a logical comparison of options to be made.
INFLUENCES ON DECISION MAKING	1. The business's mission & objectives 2. Ethics 3. The risk involved 4. The external environment 5. Resource constraints







Alternatives	Growing	Declining
Stocks	70	-13
Mutual Funds	53	-5
Bonds	20	20
Probability	0.4	0.6

3.2.3. UNDERSTANDING THE ROLE & IMPORTANCE OF STAKEHOLDERS

Stakeholders are groups or individuals that are affected by and/or have an interest in the operations of the business.
To manage its stakeholders well, a business effectively has to make choices. It is very difficult to meet the needs of every stakeholder group and most decisions will end up being "win-lose": i.e. supporting one stakeholder means another misses out.

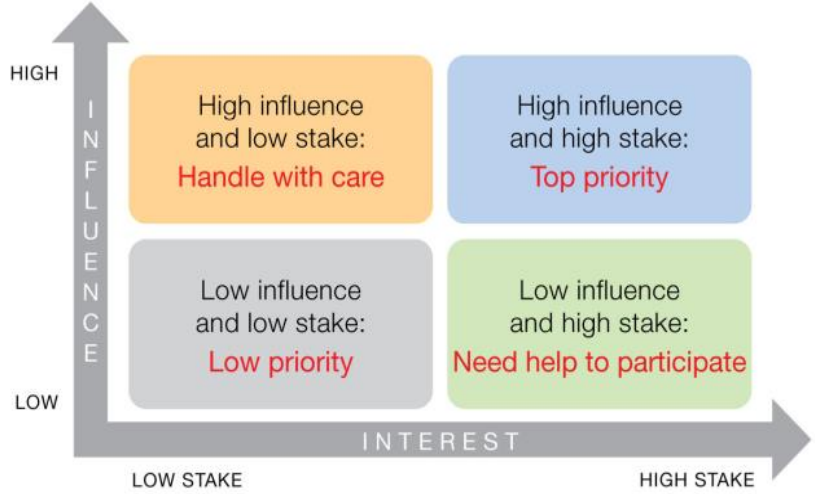
PRIMARY STAKEHOLDERS	Are individuals or groups that are affected by a particular business activity, such as a decision to increase production.
SECONDARY STAKEHOLDERS	Do not have direct functional or financial relationships with the business although they are affected by, or can influence, its actions.
INTERNAL/ EXTERNAL STAKEHOLDERS	Internal are part of the organisation e.g. directors, shareholders, managers & employees. External exist outside of the organisation. E.g. customers & suppliers.
STAKEHOLDER CONFLICTS	Stakeholder objectives often conflict e.g. local residents may oppose expansion of a factory site.
SOURCES OF CONFLICT	Internal Factors: Business objectives, Management & leadership styles, The size, growth and ownership of the business, Ethics. External Factors: Market conditions, the power of stakeholder groups, government policies (government madness).
POSSIBLE APPROACHES TO STAKEHOLDER MANAGEMENT	1. Partnership. 2. Participation 3. Consultations 4. 'Push' communications – one way communication to stakeholder groups 5. 'Pull' communications – Engagement with stakeholders.

	PROS	CONS
STAKEHOLDER APPROACH	• Appreciates different objectives • Good reputation	• Cost & Opportunity cost • Impact on profit/ survival/ dynamic efficiency
SHAREHOLDER APPROACH	• Firm focus on profit • Maximises ROCE	• Impact on workforce/ external stakeholders • Short-termist? Quarterly results announced.

EVALUATION

Should profit be the main objective & then redistribute some to stakeholders e.g. charities. Isn't the primary responsibility of a business to make good products, offer good employment & therefore make a profit? Failing to do so, won't satisfy anyone.

Stakeholder	Need/expectation	Example
Shareholders	steady flow of income, possible capital growth and the continuation of the business	If capital is required for growth, the shareholders will expect a rise in the dividend stream.
Customers	satisfaction of customers' needs will be achieved through providing value-for-money products and services	Any attempt to for example increase the quality and the price, may lead to customer dissatisfaction.
Suppliers	paid promptly	If a decision is made to delay payment to suppliers to ease cash flow, existing suppliers may cease supplying goods.
Finance providers	ability to repay the finance including interest, security of investment	The firm's ability to generate cash.



3.3. DECISION MAKING TO IMPROVE MARKETING PERFORMANCE

3.3.1. SETTING MARKETING OBJECTIVES

MARKETING	Provides the link between the customer and the business. This involves a mutually beneficial exchange process where the business provides a good or service in exchange for currency. Marketing aims to satisfy or ideally delight customers. It is about building a relationship with your customers and promoting brand loyalty
WHAT IS A MARKET?	Wherever buyers and sellers come together.
THE MARKETING PROCESS	Setting marketing objectives Analyse marketing data Make marketing decisions Implement decisions Monitor and analyse progress
ETHICS & MARKETING	Marketing must fit with the firms' ethical practice. E.g. marketing fast food t youngsters is questionable as is using pester power for certain cereals.
MARKETING OBJECTIVES	1. Sales volume & sales value targets 2. Sales growth targets 3. Market share 4. Brand loyalty
THE VALUE OF SETTING MARKETING OBJECTIVES	Helps to coordinate activities Clear objectives clarify the key direction for the business Marketing objectives will also determine objectives for other functional areas.
INFLUENCES ON MARKETING OBJECTIVES	1. INTERNAL: Business strategy, ambitions of managers, the amount the business can produce, business positioning. 2. EXTERNAL: Political & legal environment, Economic environment, social changes, technological changes, the competitive environment. PEST –C : Political / Legal, Economic, Social, Technological, Competitive.

3.3.2. UNDERSTANDING MARTKETS & CUSTOMERS

MARKETING RESEARCH	Involves gathering & analysing data relevant to the marketing process. Uses Include: analysing existing position of the business e.g. size of market, trends, deciding on objectives
MARKETING RESEARCH PROCESS	Identify & define what the business wants to find out, gather the data, analyse the data, interpret the findings.
PRIMARY & SECONDARY RESEARCH	Primary involves collecting & analysing research data for first time marketing purposes. Secondary involves using existing market information not designed for the specific purpose.
SAMPLING	Selecting a group of people or items selected to represent the target population. Sampling can help improve the accuracy of market research.
INTERPRETATION OF DATA	Quantitative data – data in numerical form. Obtained via surveys Qualitative data – Descriptive data such as opinions or insights. Obtained via focus groups, observations & interviews
MARKET MAPPING	Analyses market conditions to identify the position of one product or brand relative to others in the market in terms of given criteria.

INTERPRETING MARKETING DATA

CORRELATION	Occurs when there is an apparent relationship between one factor and another. E.g. price may lead to fewer sales.
EXTRAPOLATION	Examining past performance to determine likely future performance
CONFIDENCE LEVELS & INTERVALS	Probability that the research findings are correct. – degree of confidence will depend upon size of sample and how the sample was constructed.

PRICE ELASTICITY OF DEMAND (PED)

Measures the responsiveness of demand following a change in price. **NOTE: INVERSE relationship & Negative PED.**
Measured by the % change in QD / % change in price.

Co efficient values	> 1 means **price elastic (sensitive)**. A small change in price causes a large change in QD. 0 to 1 means **price inelastic (insensitive)**. A change in prices causes a smaller impact on QD. **REMEMBER TO IGNORE THE SIGN. (IT IS ALWAYS NEGATIVE.)**
Factors influencing Price elasticity of demand	1. The number of close substitutes for a good 2. The cost of switching between products 3. The degree of necessity or whether the good is a luxury 4. The % of a consumer's income allocated to spending on the good 5. The time period allowed following a price change 6. Whether the good is addictive 7. Peak and off-peak demand
Firms can use PED estimates to predict	• The effect of a change in price on the total revenue & expenditure on a product • The effect of a **change in an indirect tax (e.g VAT, fuel or other duties)** on price and quantity demanded and also whether the business is able to pass on some or all of the tax onto the consumer. • Information on the PED can be used by a business as part of a policy of **price discrimination**. This is where a business decides to charge different prices for the same product to different segments of the market e.g. peak and off peak rail travel. • A business contemplating a tactical price-war or planning a promotional discount based on price (e.g. 50% off for a limited period) will want to know how responsive customer demand will be to the pricing tactics used.
ECONOMIC FACTORS & PED	
Falling GDP/ Rising unemployment	People will become more price sensitive when incomes are falling & vice-versa.
Exchange rates	**W£IDEC** / **SPICED** will directly effect prices of imports & exports. Therefore PED should be analysed.
Inflation/ falling real wages	If inflation is high, changing prices will effect demand. Consumers may become more price sensitive.
Interest rates	This will effect variable rate borrowing. An increase in interest rates may reduce disposable income for these consumers & they will be more price sensitive.
Taxation	**DIRECT TAXATION** will influence disposable incomes & thereby the degree of price sensitivity for consumers. **INDIRECT TAXATION** changes will effect the price level & therefore PED is relevant.

INCOME ELASTICITY OF DEMAND (YED)

Measures the responsiveness of demand following a change in income.
Measured by the % change in QD / % change in income.

Co efficient Values	• **POSITIVE YED** represents **NORMAL GOODS**. E.g. Branded consumer goods. So as consumers' income rises more is demanded at each price i.e. there is an outward shift of the demand curve • **NEGATIVE YED** represents **INFERIOR GOODS.** Here, demand falls as income rises. E.g. Value brand products. • A YED value between 0 & +1 is likely to mean necessity products e.g. fuel.
Luxury goods	The income elasticity of demand is usually strongly positive for luxury goods such as Fine wines and spirits, high quality chocolates and luxury holidays overseas. Sports cars, Consumer durables - audio visual equipment, smart-phones Sports and leisure facilities (including gym membership and exclusive sports clubs).
Other goods	In contrast, income elasticity of demand is lower for Staple food products such as bread, vegetables and frozen foods. Mass transport (bus and rail). Beer and takeaway pizza! Income elasticity of demand is negative (inferior) for cigarettes and urban bus services.
Firms can use YED estimates to predict	Knowledge of income elasticity of demand helps firms predict the effect of an economic cycle on sales. **Luxury products** with high income elasticity see greater sales volatility over the business cycle than **necessities** where demand from consumers is less sensitive to changes in the cycle. They could also choose to locate in areas of high or low incomes depending upon whether they sell LUXURY or INFERIOR GOODS.

ECONOMIC FACTORS & YED

Falling GDP/ Rising unemployment	People will tend to buy more INFERIOR GOODS at these times & less NORMAL & LUXURY GOODS.
Inflation/ falling real wages	If inflation is high, changing prices will effect demand. Consumers may become more price sensitive & SUBSTITUTE NORMAL GOODS for INFERIOR GOODS.
Interest rates	This will effect variable rate borrowing. An increase in interest rates will encourage these consumers to be more price sensitive
Taxation	DIRECT TAXATION will influence disposable incomes & thereby the degree of price sensitivity for consumers. If disposable incomes increase due to an income tax cut, **NORMAL** & **LUXURY GOODS** will become more popular. **INDIRECT TAXATION** changes will effect the price level & therefore real incomes. E.g. a VAT increase will reduce disposable incomes due to higher prices.

VALUE OF TECHNOLOGY IN GATHERING & ANALYSING DATA FOR MARKETING DECISION MAKING

THE USE OF 'BIG DATA'	Just think of Google searches, YouTube & NETFLIX home pages to try to keep you watching.
DATA & SUCCESS	Data doesn't guarantee success. It all needs monitoring and reviewing & algorithms need improving.
WHY MARKET RESEARCH GOES WRONG	Changes in markets – trends may change. Mistakes in the way the information is gathered. Avoidance of expensive research gathering to make mistakes. Customers can't always identify their wants.

3.3.3. SEGMENTATION, TARGETING & POSITIONING

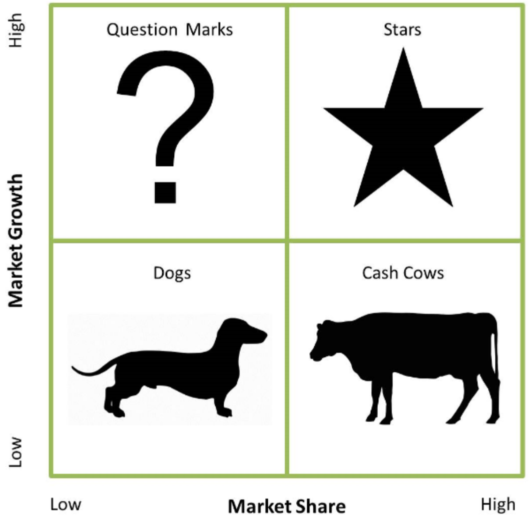
PROCESS OF SEGMENTATION	Identifying different groups of similar needs. These different groups represent market segments.
BEHAVIOURAL SEGMENTATION	Focus on what customers actually do. For instance, how regularly they buy something, How much they tend to buy, brand loyalty, the benefit they want from the product.
DEMOGRAPHIC SEGMENTATION	Demographics reflects characteristics of the people in the target population. The stage of life that people are at e.g. at university, first time buyers, over 60s.
GEOGRAPHIC SEGMENTATION	Groups needs & wants based on the geographical area in which customers are based.
INCOME SEGMENTATION	Commonly undertaken through socio-economic grouping based on A-C1 are white collar workers, C2-D – blue collar workers & E low income groups.
THE VALUE OF SEGMENTATION	More focused & efficient marketing Better answer customer needs.
TARGETING	Segmentation uses market research to identify which segments exist in a market. Choosing which segments to focus on is known as targeting.
INFLUENCES ON CHOOSING THE TARGET MARKET	Some segments may be too small to make sufficient profits to justify investment. It has the ability to be competitive and gain sales.

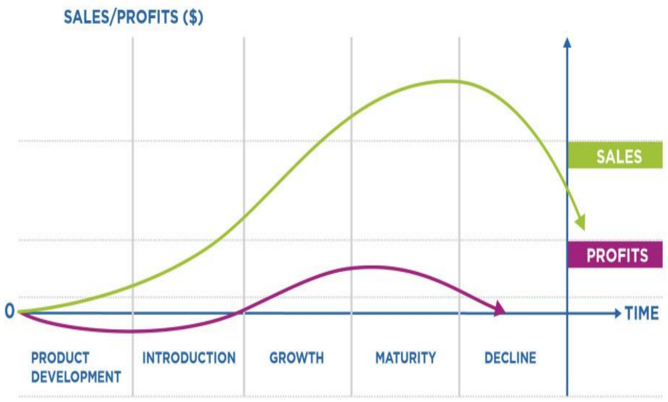
NICHE & MASS MARKETING

MASS MARKETING	A product/service that appeals to a large part of the market. For example, Milk or Cadbury Dairy Milk.
ADVANTAGES	More potential sales, Market leader in a mass market can be very profitable, Less risky.
DISADVANTAGES	More competition, need to be able to operate on a larger scale. Product harder to personalise.
NICHE MARKETING	A niche market is a small segment of a much larger market. Sales will be lower but prices can be higher. For example, Aston Martin targets luxury sports cars.

POSITIONING	
POSITIONING	Identifies the benefit & price combination of a product relative to competitors. This will depend upon price, benefits, brand image, the level of service.
POSITIONING & COMPETITIVENESS	The combination of benefits & price relative to other businesses will determine the competitiveness of a firm's offering.
INFLUENCES ON THE POSITIONING OF A PRODUCT	The strengths of the business Ability to innovate Competitors – where established firms are currently positioned. Market conditions – External influences on positioning can be analysed using the PEST-C model.

3.3.4. MAKING MARKETING DECISIONS: USING THE MARKETING MIX	
THE ELEMENTS OF THE MARKETING MIX	PRICE, PRODUCT, PROMOTION, PLACE, PEOPLE, PROCESS, PHYSICAL ENVIRONMENT
THE MARKETING MIX	The combination of marketing choices that can be used by a business to influence consumers to buy products.
CHANGES IN THE MARKETING MIX	Changes are often needed to a marketing mix over time. This could be due to **INTERNAL FACTORS:** Changes to the financial position – new product development Changes to staff bringing about new marketing opportunities. Changes to operations – wider products could be offered Changes to objectives- New Managers may set new targets and objectives. **EXTERNAL FACTORS:** PEST-C Factors. Changes here may require changes to the marketing mix.





PRODUCT LIFE CYCLE

PRODUCT	
CONSUMER PRODUCTS	Bought by individuals for final consumption.
INDUSTRIAL PRODUCTS	Goods bought for use in business processes.
TYPES OF CONSUMER PRODUCTS	**Convenience Items**: Milk & newspapers. **Shopping goods**: Products where customers compare features & price between different options. **Speciality products**: These are products such as sports cars
ANALYSIS OF PRODUCT DECISIONS	The Core Benefit – the need or want the product solves The Tangible Product – Product specifications, durability & design. The Augmented Product – Refers to the brand name, guarantees and delivery.
FEATURES OF A PRODUCT	Consideration of Product Portfolio Analysis Product Life cycle How the products fit together Branding
PRODUCT LIFE CYCLE	Shows the sales of a product over its lifetime – launch, intro, growth, maturity, decline. Also extension strategies used to extent the lifetime – increase use of product, reduce price, adapt the product, promotional offers, change image
EXTENSION STRATEGIES	Prevent sales from falling & avoid or delay decline stage. METHODS: • Increase promotional expenditure • Revamp the product • Target new market segments • Find new usage for the product.
VALUE OF THE PRODUCT LIFE CYCLE	The product life cycle model is by definition simplistic. It is used to predict a likely shape of sales growth for a typical product. Whilst there are many products whose sales do indeed follow the classic shape of the life cycle model, it is not inevitable that this will happen. For example, some products may enjoy a rapid growth phase, but quickly move into a decline phase if they are replaced by superior products from competitors or demand in the market overall declines quickly. Other products with particularly long life cycles seem to enjoy a maturity phase that lasts for many years.

PRODUCT

BOSTON MATRIX	Plots the position of each product in terms of its market share & the relative growth of the market. Effective businesses will have products in each segment of the matrix.
PRODUCT PORTFOLIO ANALYSIS	Product portfolio analysis examines the products of a business in terms of market share and growth – Q marks, cash cows, stars and dogs.
USE & LIMITATIONS OF THE BOSTON MATRIX	Too many dogs identified, too many cash cows so need to develop stars, too many question marks may lead to vulnerability. An unbalanced portfolio will help to identify key strategies for the business in their marketing plan
A BALANCED PORTFOLIO	Is an appropriate mix of products, in terms of their market share and market growth.
NEW PRODUCT DEVELOPMENT DECISIONS	New product development involves investment to modify an existing product or replace it with a new one.
WHY NEW PRODUCT DEVELOPMENT IS NECESSARY	Existing products are coming to an end. New opportunities are opening up due to market changes Desire to build on the strengths of the brand It is a way of achieving growth To match what competitors are doing.
RISKS OF NEW PRODUCT DEVELOPMENT	Some ideas may not prove to be viable in terms of production and costs. Many products do not sell well & are withdrawn. Misdiagnosis of needs & wants.

PRICING DECISIONS

MARKET BASED PRICING DECISIONS	• **Penetration** - Aimed at gaining market share by establishing low entry price. Usually new products • **Skimming** - Set a high initial price for a product that is reduced over time. • **Loss Leaders** – pricing set below cost price to bring in customers – Asda value • **Discrimination** – charging different consumers different prices – airline tickets • **Psychological** – 3 for 2 offers and £9.99 • **Dynamic** – occurs when prices are changing rapidly in response to changing demand conditions.
COST BASED PRICING DECISIONS	• **Contribution** - setting prices based on the variable costs of making a product in order to contribute towards the fixed costs and profit. • **Mark up** – adding a fixed mark-up for profit to the unit price of a product • **Absorption** – setting a price by calculating the unit costs and then adding fixed profit margin • **Target** – setting a price that will give the required rate of return at a certain level of sales
COMPETITION BASED	• **Going rate** – setting prices in line with the competition • **Destroyer** – noting a firm’s price and deliberately setting the price lower.

PROMOTIONAL MIX DECISIONS

KEY FACTORS FOR CONSIDERATION	The Target Audience – What method best reaches them? The Promotional Budget – may determine which promotion will be used. The Message – The Method must the message. Technology – May enable more targeted promotion online.
ANALYSING BRAND DECISIONS	• A brand represents a promise made by a business to provide a specific set of benefits. • All decisions must therefore ‘fit’ with the brand’s values. STRONG BRANDS WILL MEAN THAT: • Demand is more likely to be more price inelastic • Customers may become brand ambassadors telling others about the brand & convincing them to try it. • Customers may be more open to other products launched under the same brand name • It may be difficult for other brands to enter the market or gain market share.

DISITRUBTION (PLACE) DECISIONS

KEY FACTORS TO CONSIDER	• The degree of coverage • The costs of different distribution strategies • The nature of the product • The degree of control a business wants over the way its products are priced & promoted • How customers expect to access the product and what technology allows a business to deliver – Multichannel distribution, so customers can buy the product in several ways

PEOPLE, PROCESS, & THE PHYSICAL ENVIRONMENT DECISIONS

KEY FACTORS TO CONSIDER	• The People – expertise & skills needed. Training & development. • The Process – Part of the customer experience in the whole process of buying. Do you have to wait for a long time in the queue? Ease of order online? The process needs to be made as frictionless as possible. • The Physical Environment – Design and ambience.

THE IMPORTANCE OF AN INTEGRATED MARKETING MIX

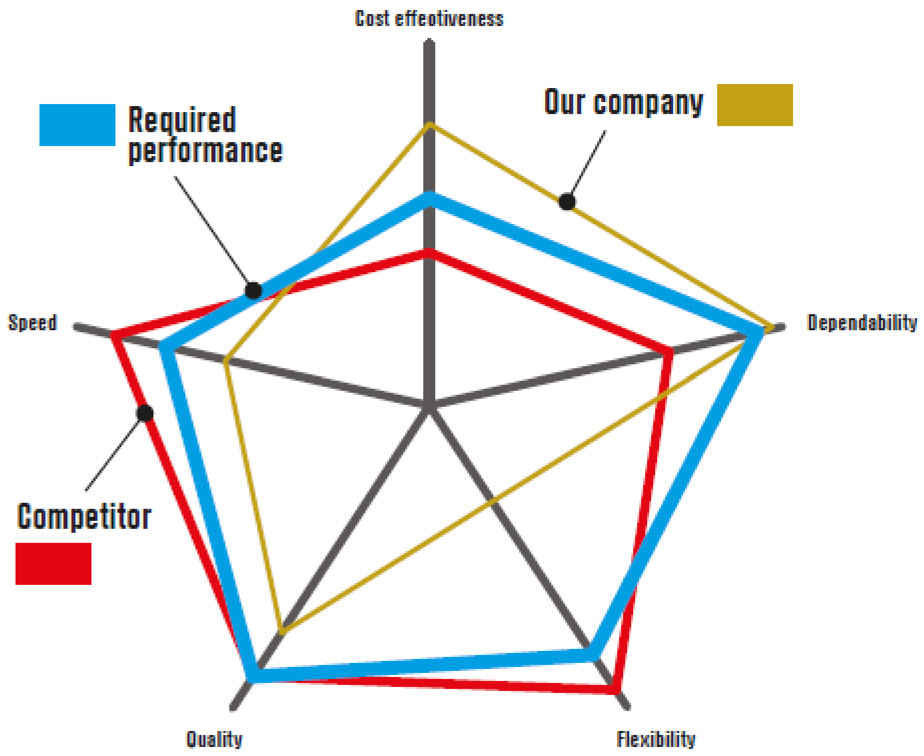
Different elements of the marketing mix must complement each other, that is to be integrated. This requires constant review & revision of the marketing mix.

THE VALUE OF DIGITAL MARKETING & E-COMMERCE

Gather more information, build better relationships with customers, target very specific segments, involve customers more in the marketing process, target global markets 24 hrs a day.

3.4. DECISION MAKING TO IMPROVE OPERATIONAL PERFORMANCE

3.4.1. SETTING OPERATIONAL OBJECTIVES	
OPERATIONS MANAGEMENT	Involves managing the process of converting inputs into outputs. It transforms resources into goods & services.
STAGES OF THE OPERATIONS PROCESS	Raw materials – Manufacturing – Transportation – Retail – Disposal/ Recycling.
ADDING VALUE	INPUTS – PROCESSES (ADDED VALUE) – OUTPUTS
NATURE OF OPERATIONS MANAGEMENT	Gather, analyse & distribute information. Sorting & transporting products. Transforming people Producing goods Bringing products & customers together.
OPERATIONS DECISIONS PROCESS	Identifdying operations objectives Analysing existing position Choosing what actions need to be taken to achieve objectives. Implementing these decisions. Reviewing to see if they are on target
ETHICS, THE ENVIRONMENT & OPERATIONS DECISIONS	How to reward & treat employees Where to locate the business Safety features The environment
TYPICAL OPERATIONAL OBJECTIVES	Quality Speed of response Dependability Costs Flexibility Environmental objectives Defect rates Safety targets
INTERNAL INFLUENCES ON OPERATIONS	Brand values may influence how a product is made Human resources may determine what is possible Finance
EXTERNAL INFLUENCES ON OPERATIONS	PEST – C Factors
CHANGING OPERATIONAL OBJECTIVES	May be necessary after: A crisis Criticism Disappointing financial performance.



3.4.2. ANALYSING OPERATIONAL PERFORMANCE

LABOUR PRODUCTIVITY	Measures output per employee in a given period. Total Output / number of employees
UNIT COST	Measures the cost per unit AKA as average total cost. Total Costs / Total Output
CAPACITY	Measures maximum output with current resources.
CAPACITY UTILISATION	Measures existing output as a percentage of the maximum possible output. (Existing Output / Maximum Possible Output) X 100
USE OF DATA IN OPERATIONAL DECISION MAKING	Identify cause of low labour productivity Identify cause of higher unit costs. Consider need for investment if capacity is low.

3.4.3. MAKING OPERATIONAL DECISIONS TO IMPROVE PERFORMANCE

EFFICIENCY	Getting more output from given inputs.
WAYS TO BOOST EFFICIENCY	Increase capacity utilisation Choose the optimal mix of resources Increase labour productivity Introduce lean production Use technology.
BOOSTING CAPACITY UTILISATION	Improve marketing to boost sales Reduce capacity
BOOST CAPACITY	Outsource to other producers Attempt to forestall demand with wait lists.
INCREASING LABOUR PRODUCTIVITY	Invest in technology Improve training Change the way work is organised Change the way employees are rewarded
USE OF DATA IN OPERATIONAL DECISION MAKING	Identify cause of low labour productivity Identify cause of higher unit costs. Consider need for investment if capacity is low.
DIFFICULTIES IN INCREASING LABOUR PRODUCTIVITY	Increased technological adoption could mean a negative impact on morale. Working harder and faster may cause stress – a balance is needed
INCREASING EFFICIENCY: OPTIMAL RESOURCE MIX	This will depend upon: The process itself What is affordable & achievable
INCREASING EFFICIENCY: ADOPTING LEAN PRODUCTION	Improve quality – zero defects Reduce amount of inventory – JIT Reduce staff waste Andon: Stopping a production line for everyone to resolve issues when they arise.

	DEFINITION	ADVANTAGES	DISADVANTAGES
JIT	Ensuring that stock arrives just as it is needed.	Lower stock holdings means a reduction in storage space, Less working capital tied up in stock, less likelihood of stock wastage in storage.	Little room for mistakes, production highly reliant on suppliers & if stock is not delivered on time the production schedule will be delayed. A need for complex, specialist stock systems.
LEAN	Involves minimising waste. This includes waste of staff talents, cash, stock and time. This requires a commitment to continuous improvement or Kaizen.	Lower stock holdings means a reduction in storage space, Less working capital tied up in stock, less likelihood of stock wastage in storage, use of simultaneous engineering to minimise time wastage, maximise use of staff talents by promoting self checking & personal responsibility this can be enormously motivating for staff. Culture must support lean production.	Little room for mistakes, production highly reliant on suppliers & if stock is not delivered on time the production schedule will be delayed. A need for complex, specialist stock systems. Requires commitment management to obtain feedback to seek continuous improvement in minimising waste.
KAIZEN	refers to activities that continuously improve all functions and involve all employees from the CEO to the assembly line workers.	As ideas come from employees, they are less likely to be too different & therefore simple to implement Small improvements are less likely to require large scale investment Culture must support employee engagement & team working Encourages employees to take ownership of their work.	Subject to diminishing returns – difficult to maintain staff enthusiasm? But "If it ain't broke don't fix it. Improve It" Firms may alternatively use Business Process Reengineering (BPR), which involves dramatic changes – new bosses often like this approach, but requires large capital investment. Evolution (Kaizen) or Revolution (BPR)?!
KANBAN	A scheduling system for lean manufacturing and JIT. Kanban is an inventory control system to control the supply chain.	One of the main benefits of kanban is to establish an upper limit to the work in process inventory, avoiding overloading of the manufacturing system. Reduces waste & provides flexibility.	Kanban not suited in industries with short production runs or variable demands in orders. A breakdown in Kanban can result in the entire production line breaking down.

USING TECHNOLOGY TO IMPROVE OPERATIONAL EFFICIENCY	Flexibility with customer needs Reduced costs by having more efficient processes Be innovative Finance available for investment Ability to judge which technology will be useful in the long term

3.4.4. MAKING OPERATIONAL DECISIONS TO IMPROVE PERFORMANCE: IMPROVING QUALITY

Meeting & or exceeding the needs & expectations of customers. Customer needs & expectations include: Performance, Appearance, Availability & delivery, Reliability/ durability, Price/ value for money.
High quality enables a competitive advantage to be developed!

PROBLEMS OF POOR QUALITY	Lost sales, Cost of reworking/ remaking/ redesigning products, Costs of replacement or refunds, Wasted Materials, Lost competitive advantage, Reputational damage.
IMPORTANCE OF QUALITY	Potential source of competitive advantage, Product becomes price inelastic & can use premium pricing, higher profit margins
QUALITY MANAGEMENT	Controlling activities with the aim of ensuring that products and services are fit for their purpose and meet the specifications. There are two main approaches: 1. Quality control, 2. Quality assurance via TQM.
QUALITY CONTROL	Process of inspecting products to ensure they meet the required quality standards Traditional way of managing quality, Concerned with checking and reviewing production, About detecting rather than preventing defects.
TOTAL QUALITY MANAGEMENT (TQM) & QUALITY ASSURANCE	A Management philosophy committed to a focus on continuous improvement of the product and services with the involvement of the entire workforce. This is a component of lean production. It's an attitude Requires complete buy in from entire workforce & uses quality circles Quality focus on processes at every stage, Quality ensured by workers not inspectors
DIFFICULTIES IN IMPROVING QUALITY	Need to win staff over to more work and greater attention to detail Perception that it is management's job, not the employees. Investment in training and development Need to change suppliers Culture change Need for incentives

3.4.5. MAKING OPERATIONAL DECISIONS TO IMPROVE PERFORMANCE: MANAGING INVENTORY & SUPPLY CHAINS

Inventory refers to the amount of stock a business holds. This includes raw materials, work-in-progress & finished stock

IMPROVING OPERATIONAL PERFORMANCE	Speed of response Dependability Becoming more flexible
VENDOR RATING	Businesses will rate their suppliers (vendors) according to their attainment of some level of performance such as delivery, lead time, quality or price.

	ADVANTAGES	DISADVANTAGES
JUST IN CASE STOCK HOLDING	Customer satisfaction – stock availability Supplier Price Discounts for bulk purchases Protection against order delays Merchandising & promotion	Storage costs Stock Wastage Shifts in demand may lead to excess holdings
JUST IN TIME STOCK HOLDING	Lower stock holdings means a reduction in storage space, Less working capital tied up in stock, less likelihood of stock wastage in storage.	Little room for mistakes, production highly reliant on suppliers & if stock is not delivered on time the production schedule will be delayed. A need for complex, specialist stock systems.
EVALUATION	Stock level depends upon nature of business – consider industry product life cycles JIT takes time to develop, requires much training and development What about the need for Just in Case!?	

TECHNOLOGY & INVENTORY CONTROL

EPOS – ELECTRONIC POINT OF SALE, EDI – ELECTRONIC DATA INTERCHANGE

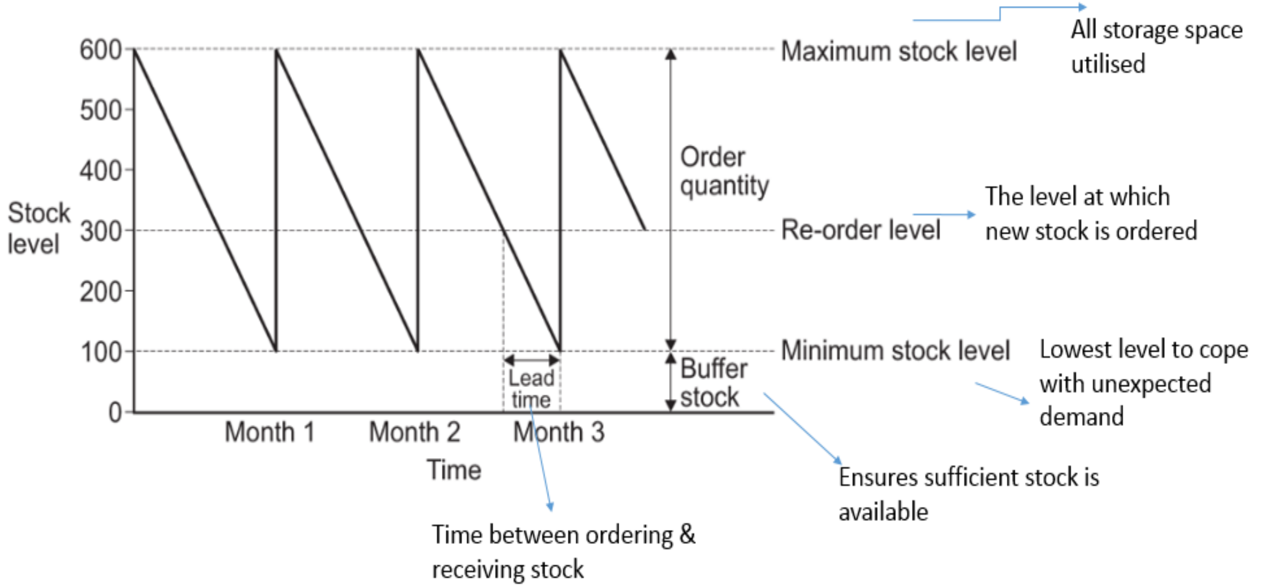
MANAGING SUPPLY TO MATCH DEMAND

Employing a flexible workforce
Using queuing systems or introducing waiting lists to manage high levels of demand.
Increasing prices to reduce demand
Accepting orders to produyce for others if demand is low
Producing to order.

THE SUPPLY CHAIN

A network between a company and its suppliers to produce and distribute a specific product to the final buyer. This network includes different activities, people, entities, information, and resources.

MANAGING THE SUPPLY CHAIN	Which other businesses to work with A supplier strategy to build long term relationships Setting out the terms & conditions of the supplier relationship Deciding on the assurances from the supplier on their operations How much direct involvement to have How centralised purchasing should be Supplier ethics
MANAGING SUPPLY CHAIN EFFECTIVELY	Extent to which suppliers meet the requirements of the business reliably. The costs of the business The ability of the business to be flexible to customer requirements. Vertical integration – when one business joins together with another business at a different stage of the same production process.
INFLUENCES ON THE CHOICE OF SUPPLIERS	The cost of materials & quality Dependability Ethical considerations & Corporate Social Responsibility – the extent to which a business considers stakeholder views.
CHANGING THE SUPPLY CHAIN	After various scandals there is a real need to ensure good supply chain management. This often involves auditing suppliers for ethical behaviour. Globalisation means that suppliers must be internationally competitive but also adds complexity to supply chain management
OUTSOURCING & ITS BENEFITS & LIMITATIONS	When a business uses another provider for some of its goods or services. BENEFITS: • Enables the business to make specialist use of other suppliers • Increase the capacity of the firm at peak times LIMITATIONS: • Managing quality may become problematic • Businesses become liable for behaviour of suppliers • Profit margins need to be carefully managed to ensure these are maintained



3.5. DECISION MAKING TO IMPROVE FINANCIAL PERFORMANCE

3.5.1. SETTING FINANCIAL OBJECTIVES

A FINANCIAL OBJECTIVE is a goal or target pursued by the financial department within an organisation.

DIFFERENCE BETWEEN PROFIT AND CASH	• Businesses usually sell large amounts of goods/services on trade credit (60 or 90 days) this means that they have to find cash to pay for supplies/employees for several months. • Businesses that hold large amounts of inventory which will tie up large amounts of cash • A business may have paid for non-current assets using large sums of cash
DIFFERENT MEASUREMENTS OF PROFIT	• GROSS PROFIT = REVENUE – DIRECT COSTS (COST OF SALES) • OPERATING PROFIT = GROSS PROFIT – EXPENSES • PROFIT FOR THE YEAR = INCLUDES SALES OF EXTRAORDINARY (ONE OFF ITEMS) E.g. asset sales. So it takes into account a business's income from all sources.
FINANCIAL OBJECTIVES	• REVENUE OBJECTIVES – This is about business growth and market share. However, revenue Objectives may not increase profits. • COST OBJECTIVES – This could include cost minimisation & exploiting economies of scale to reduce unit costs. • PROFIT OBJECTIVES – This could be a simple figure, a percentage increase in profits, or a percentage compared to sales. • CASH FLOW OBJECTIVES – Ensuring sufficient liquidity to cover day-to-day costs.
OBJECTIVES FOR INVESTMENT LEVELS & RETURNS	• Setting objectives for the level of investment or capital expenditure (long term investment on non-current assets). This will require the business to have not borrowed excessive amounts already, the business may raise capital by selling more shares. • Targeting a set return on investment = profit from the investment /capital invested X 100
CAPITAL STRUCTURE OBJECTIVES	**Capital structure** – refers to the way in which a business has raised the capital it requires to purchase its assets. This is broken down according to loan capital and share capital. This objective may be influenced by: **The cost of interest** – will determine desire for debt. **Level of inflation** – which helps to erode debt **Potential dividend payments** to shareholders.

INTERNAL & EXTERNAL INFLUENCES ON FINANCIAL OBJECTIVES	INTERNAL: Objectives of the business Nature of the product sold Objectives of business's senior managers	EXTERNAL: The competitive environment The economic environment The technological environment The political & legal environment

3.5.2. ANALYSING FINANCIAL PERFORMANCE

BUDGETS

A detailed financial plan for the future.

TYPES OF BUDGETS	1. Revenue or Income Budgets 2. Expenditure budgets 3. Profit Budgets
CONSTRUCTION OF BUDGETS	Analysing market to predict trends Researching costs for labour Considering government estimates for wages & inflation Past performance
DIFFICULTIES IN CONSTRUCTING BUDGETS	• Difficult to forecast sales accurately • Risk of unexpected changes • Decisions by governments & other public bodies
ANALYSING BUDGETS	1. Analysing budgeted & actual expenditure 2. Analysing revenue data 3. Analysing profit budgets
VARIANCE ANALYSIS Why?	Comparing budget figures with actual figures to identify a favourable or adverse variance. Budget £15000, Actual £12000 = £3000 (F) Identify potential problems, allows managers to focus on problem areas
ADVERSE	Revenue is below budget either because units sold less or selling price was lowered Raw materials costs are higher than planned Labour costs higher due to lack of workers or increased time taken
FAVOURABLE	Sales revenue about budget due to economic growth or competitor's problems Raw material costs are lower because output was less or cost per unit decreased Labour costs are lower Overhead costs are lower
BENEFITS OF BUDGETING	Control finances, Improve financial performance, Direct extra funds to priority areas, Motivate staff, Targets for employees.
COSTS OF BUDGETING	Time consuming, short termism, Impact of changing costs, Impact of external factors e.g. competition.

3.5.2. BREAK EVEN	
Break even output is that level of output or production at which a business's sales generate just enough revenue to cover all its costs of production.	
WHY?	• Decide whether the business idea will be profitable and whether it is viable • Decide the level of output and sales necessary to generate a profit • Results can be used to support bank loan applications • Assess the impact of changes in the level of production on profitability • Assess the effects of different prices and levels of costs on profitability • Judge whether launching a new product/entering a new market is profitable
FORMULA	$\text{Break-Even Point (in units)} = \frac{\text{Fixed costs}}{\text{Selling price} - \text{variable costs}}$
CONTRIBUTION	Difference between sales revenue and variable costs of production (Contribution = Revenue-variable costs)
MARGIN OF SAFETY	Measures the quantity by which a firm's current level of sales exceeds the level of output necessary to break even $\frac{\text{(Current sales level - breakeven point)}}{\text{Current sales level}} \times 100$
USES OF BREAK EVEN ANALYSIS	• Simple and quick technique relatively easy to produce • Valuable in securing finance/loan • Forecast the effect of varying numbers of customers on costs, revenue and profit • Analyse the implications of changing prices and costs on profitability
LIMITATIONS OF BREAK EVEN ANALYSIS	• Simplification of the real world as prices are no always the same so data can be inaccurate. Difficult if a business sells a number of products • Costs do not rise steadily due to bulk buying • Analysis is only as accurate as the data on which it is based
BREAK EVEN & NON-STANDARD PRICES	• Most businesses sell a variety of products and consequently calculating break even can be more complex. Calculating an average price per unit may enable you to calculate break even levels of output.

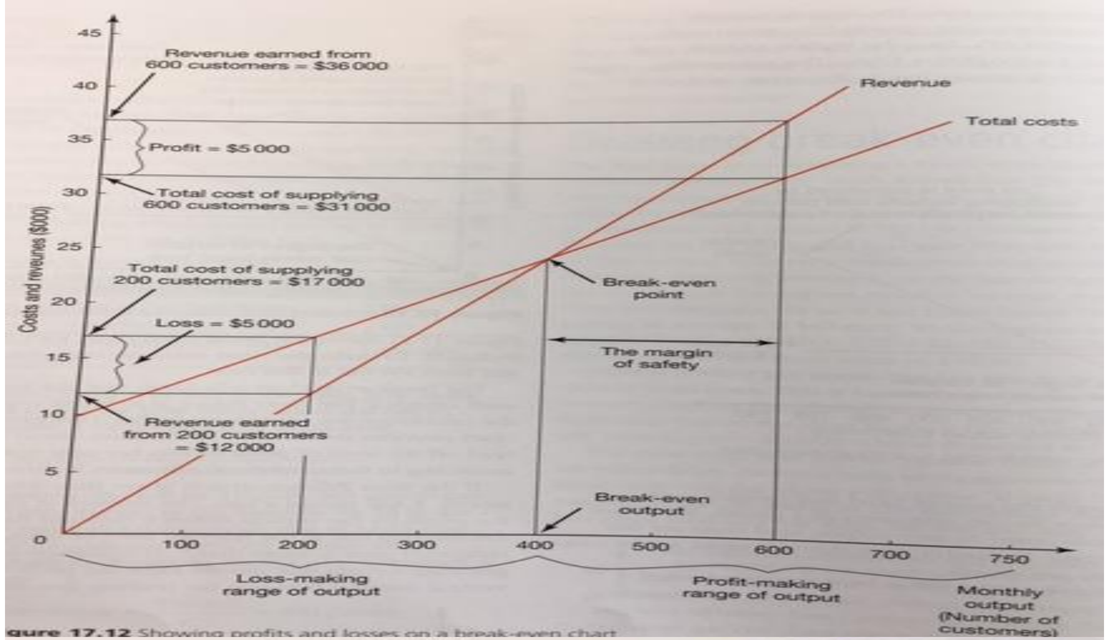


Figure 17.12 Showing profits and losses on a break-even chart

Table 17.4 Changing variables and break-even analysis

Change in business environment	Effect on break-even chart	Impact on break-even output	Other effects
Rise in variable costs	Total cost line **pivots** upwards	Greater output necessary to break even	Due to rise in costs greater revenue (and so more customers and sales) are necessary to break even
Fall in variable costs	Total cost line **pivots** downwards	Smaller output required to break even	Each sale incurs lower costs so that a smaller number of customers is needed to cover total costs
Rise in fixed costs	Fixed cost line and total cost line move upwards in a parallel shift	Greater output required to break even	Business incurs greater costs before earning any revenue, so more sales will be required to cover total costs and break even
Fall in fixed costs	Fixed cost and total cost lines make parallel shift downwards	Smaller output is necessary to break even	The business's total costs are lower and hence fewer sales will be required to break even
Rise in selling price	Revenue line **pivots** upwards	Break-even is achieved at a lower level of output	Each sale will provide the business with greater revenue whilst total costs are unaltered. Hence fewer sales will be necessary to break even
Fall in selling price	Revenue line **pivots** downwards	Break-even is reached at a higher level of output	Every sale will earn the business less revenue so, as total costs are unchanged, more sales will be required to earn sufficient revenue to break even

Analysing Profitability

3.5.2. INCOME STATEMENT		
An accounting statement showing a firm's revenue over a trading period and all the relevant costs generated to earn that revenue.		
PURPOSE/USES	1. Used to measure and compare the performance of a business over time or with other firms. (Using ratio analysis) 2. Actual profit data can be compared with the expected profit levels. 3. Bankers and creditors will need the information to help decide whether to lend money to the business. 4. Prospective investors may assess the value of putting money into a business from the level of profit being made.	
COMPONENTS	1. The Trading Account	• Sales Revenue – total value of sales made during the trading period (selling prices x quantity sold) • COGS (Cost of Goods Sold) – this is the direct cost of the goods that were sold during the financial year. • Gross profit – Equal to sales revenue less cost of sales.
	2. The Profit and Loss Account	• Expenses – Other costs not directly related to the number of items made or sold • Operating profit (ne profit) – gross profit minus overhead expenses • Profit after tax - - operating profit minus interest and corporation tax
	3. Appropriation Account	• Dividends – the share of profits paid to shareholders as a return for investing in the company • Retained profit – the profit left after all deductions, including dividends, have been paid which will be ploughed back into the business
LIMITATIONS	• Accounts cannot show what may happen in the future, but they may illustrate trends • Stakeholders must be aware that financial info. Can be manipulated.	

	27 September 2014 £000	*28 September 2013 £000*
Revenue Cost of sales	195 237 (76 367)	*177 849* *(70 826)*
Gross profit Employee profit sharing Sales and marketing costs Other operating expenses	118 870 (9827) (4672) (86 185)	*107 023* *(6251)* *(3763)* *(83 164)*
Operating profit Investment revenue Finance costs Interest rate derivatives	18 186 652 (2147) 	*13 845* *279* *(3733)* *210*
Profit before tax Taxation	16 691 (4179)	*10 601* *(1457)*
Profit for the year	12 512	*9144*

	27 September 2014	*28 September 2013*
Earnings per share	6.5p	*4.8p*
Share price	107p	*88p*
Annual dividend cost	£3.1 million	*£1.9 million*
Dividend paid (per share)	2.25p	*1.50p*

-	27 December 2012 £m	*29 December 2011 £m*
Revenue Cost of Sales	358.7 (263.9)	*348.0* *(261.5)*
Gross profit Other operating income Administrative expenses	94.8 0.3 (50.9)	*86.5* *0.4* *(44.3)*
Operating profit	44.2	*42.6*
Net finance expense	(5.7)	*(9.2)*
Profit before taxation Tax charge	38.5 (10.8)	*33.4* *(9.5)*
Profit attributable to equity holders	27.7	*23.9*
Earnings per share	19.4p	*16.8p*
Share price	300p	*250p*

	2009 £m	***2008*** *£m*
Revenue	10 414	*9 082*
Cost of sales	(8 303)	*(7 278)*
Gross profit	2 111	*1 804*
Other operating income	182	*153*
Commercial, administrative and R&D costs	(1 119)	*(1 102)*
Operating profit	1 174	*855*

Table 3: Consolidated income statement: **year ended December 31, 2009 (extract)**

These are extracts from past exam papers to show the many ways that Income Statements can be shown – sometimes as complete statements but also as consolidated or extracts

3.5.3. Making Financial Decisions: Sources of Finance

INTERNAL SOURCES	
Retained Profit	After tax and shareholders have been paid, all remaining profit can be used to source future business activities.
Sale of Assets	Assets sold to raise cash that are no longer needed. Sometimes they still need the asset but do not need to own it so can be sold and then leased back to the business.
Evaluation	No direct cost to the business. Doesn't increase debt/risk and no loss of control. Can slow pace of growth depending on level of profit/assets to sell.

EXTERNAL - SHORT TERM (Under a year)	
Overdraft	Bank agrees to a business borrowing up to an agreed amount as and when required.
Trade Credit	Delaying the payment of goods/services to suppliers.
Debt factoring	Selling trade receivables to a debt factor company in exchange for immediate cash/liquidity – only a proportion of the debt will be received in cash.

MEDIUM TERM (1-5 years)	
Hire Purchase	An asset is dole to a company that agrees to pay fixed repayments over an agreed time period – the asset belongs to the company.
Leasing	Using equipment/vehicle under contract, without the intent to buy the asset at the end of the leasing period.
Medium term loan	Usually from a bank to purchase equipment or replace. Not used for longer term, high value expansion.

LONG TERM (Over 5 years)	
Long term loan	Loans from a bank to be paid back over a longer period of time than 5 years. Fixed or variable interest rates. Small loans available from the Dept of Trade and Industry as part of guaranteed loan scheme.
Selling Shares (equity finance)	Selling more shares to raise capital. Both PLCs and LTDs can use this form of finance. LTDs can sell to existing shareholders so not to lose control. LTDs could also decide to float and become a PLC. Never needs to be repaid
Grants	Central govt and European govt grant funds to small businesses or those expanding into developing regions. They come with certain conditions like location or no of jobs to be offered. They do not have to be repaid.

PRINCIPALS

Setting up a business will require **start-up capital** to purchase necessary equipment/premises and then all businesses need **working capital** to run the day-to-day business to pay bills and expenses.

Long term vs short term needs	
Capital / Revenue Expenditure	Capital – any item bought and retained for more than once year (fixed assets) ie. Van Revenue – Any expenditure on costs other than non-current asset expenditure ie Petrol

WHICH TO CHOOSE?	
Debt finance advantages	Ownership does not change. Loans repaid eventually so not permanent increase to liabilities. Lenders have no voting rights. Interest charges are paid before corporation tax is deducted. Gearing increase and gives higher chance of return to shareholders.
Equity capital advantages	It doesn't have to be repaid, permanent capital. Dividends do not have to be paid every year, but interest on loans does.

OTHER SOURCES	
Micro finance	Is the provision of financial services for poor and low-income clients
Crowd funding	Entails collecting relatively small amounts of money from a large number of supporters – the 'crowd'
Finance for unincorporated - sole traders and partnerships	Owner's savings, bank, suppliers, grants, loans **Considerations** – security for lenders, loss of control by owner, evidence of potential to develop/repay, lack of collateral, expense of raising large sums of money

DETERMINANTS OF SOURCES OF FUNDS	
Factors to consider	• Financial position of business (creditors) • Gearing • Reputation • Legal structure and size • External environment – interest rates

3.5.4. Making Financial Decisions: Improving Cash Flow & Profits

CASHFLOW

The sum of cash payments to a business (inflows) less the sum of cash payments (outflows).

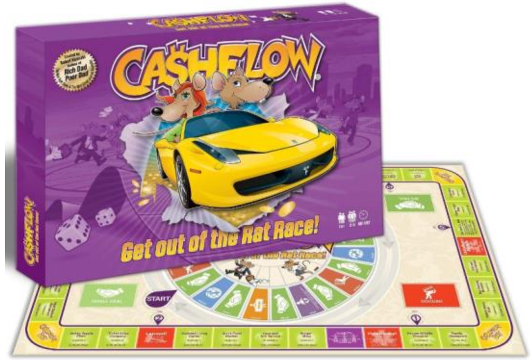
INFLOWS	Payments in cash received by a business – trade receivables (from customers), bank loan
OUTFLOWS	Payments in cash made by a business – to suppliers and employees
IMPORTANCE	Paying the bills and expenses is vital for running the business both short and long term. Cash is always needed and cash flow relates to the timing of the payments and receipts. If creditors and suppliers are not paid then it can force business owners into liquidation of assets if it appears to be insolvent (cannot meet its short term debt).
CASH FLOW FORECAST	Estimate of the firm's future cash inflow and outflow. This is set out in a table (see below) to calculate the net cash flow and opening and closing balances vital for time planning.
NET MONTHLY CASH FLOW	Estimated difference between monthly inflows and outflows. This can be negative for a short period of time as long as the business has a plan for moving it into positive.
OPENING BALANCE	Cash held by the business at the start of the month. Always the same as the previous month's closing balance.
CLOSING BALANCE	Cash held by the business at the end of the month becomes next month's opening balance.
STRUCTURE OF A CASHFLOW	1. Cash inflows – cash sales, cash payments into the business, payments for credit sales and capital inflows 2. Cash outflows – cash payments made by the business, wages, raw materials, rent 3. Net monthly cash flow, opening and closing balances – negative figures shown in brackets

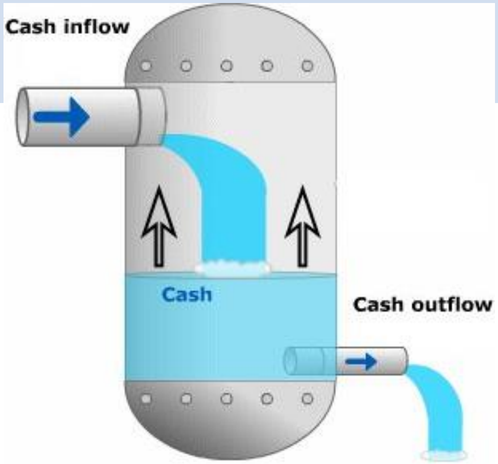
2014 (all data £000s)	June	July
Cash inflows	350	220
Cash outflows:		
Hotel accommodation	150	185
Airline costs	48	35
Employee costs	32	30
Total cash out	230	250
Net cash flow	120	(30)
Opening balance	174	294
Closing balance	294	264

	Jan	Feb	Mar	Apr	May	Jun	Total
CASH INFLOWS							
Investment	10,000						10,000
Credit sales	2,500	10,000	10,000	10,000	10,000	10,000	52,500
Total inflows	**12,500**	**10,000**	**10,000**	**10,000**	**10,000**	**10,000**	62,500
CASH OUTFLOWS							
Project materials		3,000	3,000	3,000	3,000	3,000	15,000
Sub-contract labour	4,000	4,000	4,000	4,000	4,000	4,000	24,000
Marketing	500	500	500	500	500	500	3,000
Legal and accounting	1,250	0	0	0	0	0	1,250
Equipment	2,500	0	0	2,500	0	0	5,000
Sophie & Jack salaries	1,000	1,000	1,000	1,000	1,000	1,000	6,000
Other costs	500	500	500	500	500	500	3,000
Total outflows	**9,750**	**9,000**	**9,000**	**11,500**	**9,000**	**9,000**	57,250
NET CASH FLOW	**2,750**	**1,000**	**1,000**	**-1,500**	**1,000**	**1,000**	5,250
Opening balance	0	2,750	3,750	4,750	3,250	4,250	
Closing balance	2,750	3,750	4,750	3,250	4,250	5,250	

CASHFLOW

DIFFERENCE BETWEEN PROFIT AND CASH FLOW	• Businesses usually sell large amounts of goods/services on trade credit (60 or 90 days) this means that they have to find cash to pay for supplies/employees for several months. • Businesses that hold large amounts of inventory which will tie up large amounts of cash • A business may have paid for non-current assets using large sums of cash
CAUSES OF CASHFLOW PROBLEMS	• Overtrading – rapid expansion without organising funds. Rapid growth usually involves many up front costs. • Allowing too much credit – offering generous trade credit can cause cash flow problems • Poor credit control – not ensuring timely payments from customers and agreeing borrowing limits in advance. • Other factors – Slump in demand, new product lines, external environment changes • Lack of forward planning
LIMITATIONS OF FORECASTING	• Mistakes can be made by inexperienced employees or entrepreneurs • Unexpected costs increases and fluctuations in prices • Assumptions made rather than accurate market research carried out
IMPROVING CASHFLOW	Simply it should be by increasing inflows and/or reducing outflows: 1. Increasing inflow – Overdraft, short term loan, sale of assets, sale and leaseback, reducing credit terms, debt factoring, increasing revenue 2. Reducing outflow – delaying supplier payments, delay spending on capital equipment, using leasing as an alternative to capital spend, cutting overheads
CHOOSING THE MOST EFFECTIVE METHOD	• How established the business is • Level of profitability • Type of business





3.6. Decision making to improve human resource performance

SETTING HUMAN RESOURCE (HR) OBJECTIVES

The aim of Human Resources is to maximise the contribution of employees on an individual and group level to the organisation's overall objectives.

THE VALUE OF HR OBJECTIVES	Goals or targets that a business's HR function or department seeks to achieve.
TYPES OF HR OBJECTIVES	1. Labour Productivity 2. Number & location of the business's workforce 3. Employee engagement & involvement 4. Training 5. Talent development 6. Diversity 7. Alignment of values
EMPLOYEE ENGAGEMENT & INVOLVEMENT	Engagement can refer to the degree of motivation and interest in the job. Job enrichment requires jobs to be redesigned. But HR departments will usually focus solely on staff appraisals.
TALENT DEVELOPMENT	This may focus on accelerating those with most potential for advancement. However, this may cause resentment among other staff members.
TRAINING	Employers should value staff and wish to invest in their training and development. This is motivational for employees and will help with recruitment.
DIVERSITY	The most important form of diversity on a business board is diversity of ideas. This greatly aids problem solving and long term competitiveness. Diversity of ideas is at a massive premium. Yet diversity can also extend to gender and race.
ALIGNMENT OF VALUES	Firms should have core values which are shared by their employees and help to inform decision making.
NUMBER, SKILLS & LOCATION OF EMPLOYEES	The required number of staff can be influenced by demand as well as the ability of technology to replace jobs. At the same time, the location at which staff work and are based is more flexible for some businesses rather than others.

INTERNAL & EXTERNAL INFLUENCES ON HR OBJECTIVES & DECISIONS

INTERNAL INFLUENCES	Influences within the business may include past experiences, character and ambitions of any newly appointed chief executive, financial pressures & changing marketing objectives.
EXTERNAL INFLUENCES	Factors outside of the business may include the level of unemployment, the type of business and its aims, the social and ethical climate as well as legal factors.

ANALYSING HUMAN RESOURCE PERFORMANCE

LABOUR PRODUCTIVITY	Perhaps the most fundamental; indicator of the performance of a group of employees and has implications for a business's costs & hence the prices it can charge. Labour Productivity = total output per time period / number of employees at work
UNIT LABOUR COSTS	Measures the labour cost per unit of output produced. Unit labour costs are determined by two elements: 1. the cost of employing workers; 2. the speed at which they make the products, in other words their productivity.
EMPLOYEE COSTS AS A PERCENTAGE OF REVENUE	Measures the performance of a business's human resources is also referred to as 'employee costs as a percentage of turnover.' Employee costs in relation to revenue are influenced by a range of factors: 1. The productivity rates of the workforce 2. Wage rates 3. Non-wage employment costs 4. The management of capacity.
LABOUR TURNOVER & RETENTION	Labour Turnover = No. of staff leaving during year X 100 / average number of staff This ratio measures the proportion of a workforce leaving their employment at a business over some period of time, usually one year.
LABOUR RETENTION	The extent to which a business holds onto its employees. Employee retention = No. employees employed for one year or more X 100 / average no. of staff

No. of employ ees	Wages £	Output	Labour Product ivity	Labour cost per unit
100	20,000	1,000	10	£20
100		2,000		
50		1,000		
		2,000	40	

3.6.3. Improving Organisational Design & HR Flow

JOB DESIGN & ORGANISATIONAL DESIGN	
JOB DESIGN	The process of grouping together or dividing up tasks and responsibilities to create complete jobs
JOB ENRICHMENT	Occurs when employees' jobs are redesigned to provide them with more challenging and complex tasks.
JOB ROTATION	A particular type of job enrichment where employees switch regularly from one duty to another.
EMPOWERMENT	An important element of job design and one which has become more influential over the years. Empowerment involves redesigning employees' jobs to allow them greater control over their working lives.
INFLUENCES ON JOB DESIGN	• Businesses corporate objectives • Employee performance • Health & safety & other legal requirements • Meeting customer requirements as fully as possible • The existing & potential skills of the workforce • The resources available. • Expected future developments.
ORGANISATIONAL DESIGN	A process to ensure that the organisation is appropriately designed to deliver organisational objectives in the short and long term.
BENEFITS OF ORGANISATIONAL DESIGN	• Improved efficiency • Better communication • More empowering for staff
ORGANISATIONAL STRUCTURE	Highlights: lines of communication, authority, roles and titles & accountability.
KEY FACTORS IN ORGANISATIONAL DESIGN	1. Levels of hierarchy 2. Spans of control 3. Delegation 4. Authority 5. Centralisation & decentralisation

INFLUENCES ON DELEGATION, CENTRALISATION & DECENTRALISATION	
Internal influences on delegation, centralisation & decentralisation	1. Leadership & management styles 2. The business's overall or corporate objectives 3. The skills of the workforce
External influences on delegation, centralisation & decentralisation	1. The technological environment 2. The competitive environment 3. The economic environment
THE VALUE OF CHANGING JOB & ORGANISATIONAL DESIGN	Becoming more competitive Can help to achieve overall objectives Improve performance of workforce Reduced unit labour costs – increased profit margins
HUMAN RESOURCE FLOW	The movement of employees through an organisation, starting with recruitment. • Human inflow - recruitment decisions & implications • Internal human inflow – For those within the organisation • Human outflow – retirement, redundancy or dismissal.
ELEMENTS OF THE HUMAN RESOURCE FLOW	1. Human Resource Planning: recruitment & selection, training, redeployment & redundancy 2. Recruitment & selection 3. Training 4. Dismissal & redundancy 5. Redployment
REDUNDANCY	Takes place when an employee is dismissed because a job no longer exists
DISMISSAL	Takes place when an employer terminates an employee's contract of employment & leads to employees exiting the HR flow
REDEPLOYMENT	Occurs when an employee is offered suitable alternative employment within the same business.

3.6.4 Improving Motivation & Engagement

Motivational Theory

Motivation describes the factors that arouse, maintain and channel behaviour towards a goal. In terms of work, it is the will to work due to enjoyment from within an individual or the desire to achieve a certain target/goal

BENEFITS OF HIGH MOTIVATION	Low absenteeism, Low labour turnover, High labour productivity

THEORISTS

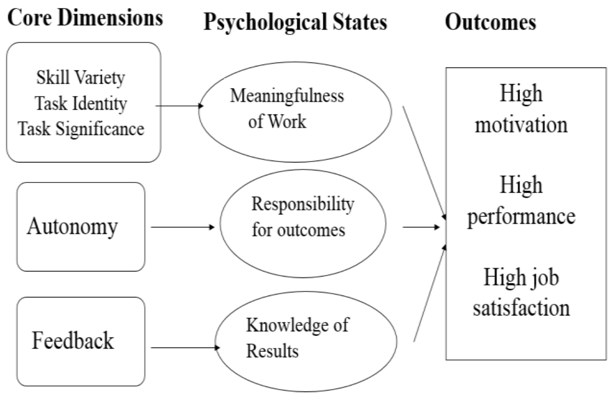
Maslow's Hierarchy of Needs	Theory based on employees have successive requirements that can be fulfilled through work – once a lower level need is satisfied then employees will strive to satisfy needs further up the hierarchy. Abraham Maslow created 5 levels of human needs.

Intellectual needs, fulfilling potential, achieving targets	Opportunities to develop new skills, take on new responsibilities
Recognition and self respect, level of status	Promotional opportunities, delegating authority
Feeling wanted, part of a team, sense of belonging	Opportunity to work in groups, social opportunities
Safe and secure working environment	Job Security, Health and safety policy, Contract
Basic need – food, shelter, clothing	Pay and warm dry working environment

Taylor (Scientific school)	Motivation is achieved through money. Employees should be closely supervised and paid piece rate. Study work processes to achieve most efficient production methods. Workers should be trained and told how to complete tasks. Results – due to close supervision there was raised productivity and so less workers needed. Unpopular approach, resulted in industrial action and dissatisfaction.
Mayo (Human relations school)	Sociological needs introduced to include motivation through social needs – communication, working in groups, consultation between managers and employees). First theorist to focus on employee needs rather than just organisational needs.
McClelland (Theory of needs)	1. Achievement motivation - people who aim for excellence, have a strong need for feedback 2. Authority/Power motivation - people who need personal or institutional power 3. Affiliation motivation - people who seek harmonious relationships with others The combination of these three determine employee behaviour in terms of what motivates them and how they manage/motivate other employees.

THEORISTS

Herzberg (Two-factor theory)	Based on a study of factors: **Hygiene** factors are a group of influences that may result in employee dissatisfaction at work. For example, working conditions, salary, relationships **Motivators** – a series of factors that have a positive influence on performance at work for example, promotion. Both factors must be used simultaneously as that there is minimum dissatisfaction (Hygiene) and as many motivators as possible.
Vroom (Expectancy theory)	Motivation depends on the employees' expectations of the results of their efforts. If they know they can achieve the outcome they want, then they will be motivated. 3 elements: 1. Expectancy refers to the confidence an employee has about their ability to complete a task 2. Instrumentality – Belief of employee that the completion of a task will lead to a desired outcome 3. Valence – strength of desire to achieve the outcome.
Adams (Equity Theory)	Motivation depends on the balance between our work inputs (effort) and outputs (reward) and employees need to feel fairly treated in comparison with their colleagues. • Inputs are effort, knowledge, skills and commitment that an employee gives their organisation • Output is what they get in return, including remuneration and recognition. Their ratio (balance between inputs/outputs needs to be fair in relation to other employees' ratios. Equity if the most important factor and the awareness of individual employee's perceptions.
Hackman & Oldham Job Characteristics Model	Based on the belief that the task itself is key to employee motivation.



COMPARISON	Maslow	Herzberg
Motivators/ higher needs	Self-actualisation Esteem	Achievement Recognition Responsibility
Hygiene/lower needs	Social, Security, Physiological	Policies/admin, supervision, working conditions

MONETARY MOTIVATION

	DEFINITION	PROS	CONS
HOURLY PAY	Time based pay depending on the number of hours worked usually paid weekly or monthly.	• Simple • Easy to calculate	• Clock watching • Refusal to complete tasks outside working hours
SALARY	Payment based on an annual amount divided into equal monthly amounts.	• Easy to plan as equal amounts • Security of income • Higher status than wages • Suitable when output not measurable	• Income not related to productivity • Complacency • No extra pay for additional hours • Regular appraisals needed to assess salary bands
PIECE RATE	A payment to a worker for each unit produced	• Labour cost can help to set price • Encourages greater and faster working	• Requires output to be measurable and standard • Falling quality and safety levels • Workers settle for certain pay level • Security of pay an issue (breakdowns) • Worker reluctant to change as it might result in loss of pay
PERFORMANCE RELATED PAY/BONUSES	A bonus scheme to reward staff for above-average work performance	• Encourage staff to meet targets to give purpose and direction • Annual appraisal offers feedback opportunity • Can be calculated and awarded to teams	• Does it motivate or move workers to perform better short term? • Can create divisions • Bonuses are inadequate • Can lead to favouritism
PROFIT SHARING	A bonus for staff based on the profits of the business – paid as proportion of salary	• More committed to the success of the business • Higher performance and focus on cost saving • Reduce conflict with owners and workers	• Shareholders take issue as profit should be shared with them for risk taking • Schemes are costly to set up and operate esp in large firms with many employees
SHARE OWNERSHIP	Option to purchase shares dependent on length of service. Often matched by business.	• Attract better recruits • Does not add to business costs as one off • If successful with motivation then overall performance increases	• Can increase total number of shares and dilute overall value. • Small no. of shares is not motivational.
FRINGE BENEFITS	Benefits given, separate from pay, by an employer to some of all employees.	• Used in addition to pay to give employees status to higher level staff • Can recruit and retain best staff	• Costly • Some are taxable • Increased loyalty
COMMISSION	A payment made to a sales person for each sale made	• Improved performance due to financial reward.	• Staff too pushy leads to bad reputation • Teamwork not encouraged

NON-MONETARY MOTIVATION

DELEGATION	Passing down authority down the organisation hierarchy so increased trust to perform well.
JOB DESIGN FOR ENRICHMENT	The job is redesigned to provide more challenging and complex tasks. Also called vertical loading. Reduction of direct supervision as workers take more responsibility for their own work and allowed a degree of decision making authority.
JOB ENLARGEMENT	Attempting to increase the scope of a job by broadening or deepening the tasks undertaken. Giving more duties of a similar level of complexity. Known as Horizontal loading.
TEAM WORKING	Production is organised so that groups of workers undertake complete units of work.
EMPOWERMENT	Allowing subordinates the opportunity to make decisions and autonomy for their level of the job. Giving greater control over their working lives.
JOB ROTATION	Increasing the flexibility of employees and the variety of work they do by switching from one job to another.
MODERN TECHNIQUES (SAATCHI AND SWITCH)	Saatchi & Saatchi Switch is a global talent initiative in which top talent from the Saatchi & Saatchi network temporarily switch agencies and roles with one another. The initiative is a network wide programme to help reward and recognise our best talent, whilst encouraging learning.

EMPLOYEE PARTCIPATION

Workers are actively encouraged to become involved in decision making with the organisation

Quality Circles	Groups who meet regularly to identify ways of improving all aspects of quality of their work
Work councils	Discuss issues such as working conditions, pay and training.
Employee shareholders	Employees can buy shares in the company often at discounted rates.

INFLUENCES ON THE CHOICE & ASSESSMENT OF FINANCIAL & NON-FINANCIAL METHODS OF MOTIVATION

1. The costs involved – low profit margins may prevent bonuses.
2. The attitude of the management team – autocratic managers may simply rely on pay as a motivator.
3. The training given to the management team – if managers are trained, they are likely be better motivators
4. The skill level of the workforce
5. The importance of public's perception of the business.
6. The effectiveness of communication within and outside the business.

HOW TO IMPROVE EMPLOYEE ENGAGEMENT & MOTIVATION

1. Find out current position & determine engagement
2. Recruit right managers and train them all.
3. Make managers accountable for employee engagement
4. Recognise the value of communication in employee engagement
5. Involve senior managers
6. Implement actions to help employees value their organisation
7. Align employees' values with those of the organisation.

3.6.5. MAKING HUMAN RESOURCE DECISIONS: IMPROVING EMPLOYER- EMPLOYEE RELATIONS

METHODS OF EMPLOYEE REPRESENTATION	1. Trade Unions 2. Work Councils 3. Other forms of representation e.g. a committee or staff association
TRADE UNION	An organisation of workers established to protect and improve economic position & working conditions of its members.
TRADE UNION ACTIVITIES	1. Maximising pay via collective bargaining 2. Achieving safe and secure working conditions 3. Attaining job security 4. Participating in and influencing decisions in the workplace.
TRADE UNION WAGE PREMIUM	The percentage difference in average gross hourly earnings of union members compared with non-members.
COLLECTIVE BARGAINING	Entails negotiations between management and employees' representatives, often trade unions, over pay and other conditions of employment.
WORK COUNCILS	A forum within a business where workers and management meet to discuss issues such as working conditions, pay and training.

INFLUENCES ON THE EXTENT & METHODS OF EMPLOYEE REPRESENTATION IN DECISION MAKING

1. The leadership & management style used by the business
2. The overall or corporate objectives of the business
3. The history and ownership of the business
4. The nature of the work and employees hired
5. Employment legislation

HOW TO MANAGE & IMPROVE EMPLOYER-EMPLOYEE COMMUNICATION & RELATIONS

1. Email
2. Social Media
3. Intranets
4. Video conferencing
5. Adapting organisational structure to encourage effective communication

AVOIDING INDUSTRIAL DISPUTES

1. No strike & single union agreements – unions & employers agree a no strike policy in return for pay or improved conditions.
2. Advisory, Conciliation & Arbitration Service (ACAS) – which offer a variety of services to employers and employees including preventing & resolving industrial disputes particularly through the use of arbitration and conciliation. Resolving industrial disputes over employment rights.

METHODS OF RESOLVING INDUSTRIAL DISPUTES	1. Arbitration – a procedure for the settlement of disputes, under which parties agree to be bound by the decision of an arbitrator whose decision is in some circumstances legally binding on both parties. 2. Conciliation – A method of resolving individual or collective disputes in which a neutral third party encourages the continuation of negotiations 3. Employment tribunals – informal courts where legal disputes over unfair dismissal or discrimination can be settled.

THE VALUE OF GOOD EMPLOYER- EMPLOYEE RELATIONS

THE BENEFITS TO EMPLOYERS	1. Helping to develop a strong employer brand. 2. Promoting employee engagement 3. Improving the business's corporate image 4. Strengthening competitiveness
THE BENEFITS TO EMPLOYEES	1. Financial benefits 2. Job Security 3. The possibility of greater participation in decision making