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Chapter 1
Business Activity

A need is a good or service essential for living.
A want is a good or service which people would like to have, but which is not essential for living.

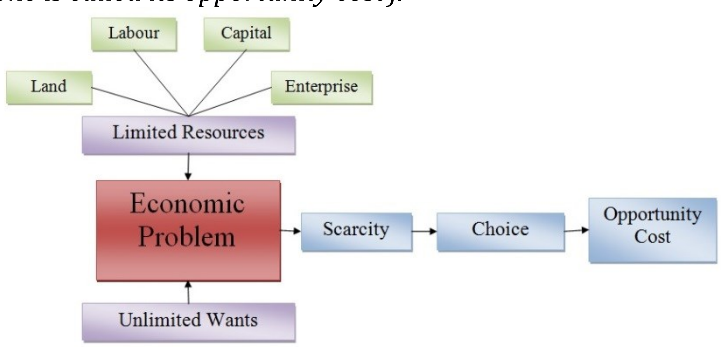
The Economic Problem – There exist unlimited wants but limited resources to produce the goods and services to satisfy those wants. This creates scarcity.

Factors of production are those resources needed to produce goods or services. There are four factors of production and they are in limited supply.

Factor of Production	Economic Meaning
Land	Land means natural resources on the planet e.g. land, iron, copper, air, water.
Labour	Labour is the human input into the production process e.g. workers in the factory, teachers in the college.
Capital	Capital means man-made physical goods which are used to produce other goods and services e.g. Buildings, Machinery, Tools etc.
Enterprise	An entrepreneur organises the three other factors of production, and takes the risk of the venture.

Opportunity Cost

Human wants are unlimited.
Resources to meet these wants are Scarce. *(Scarcity means insufficiency of resources to satisfy all of man's wants)*.
Therefore man has to make choice between wants. *(Choice is the process of allocating resources between competing alternative uses)*.
This choice is to be made rationally. *(Rational behavior means making decisions that result in the optimal level of benefit for the person undertaking them)*
A rational behaviour considers opportunity cost. (*The cost of an item measured in terms of the alternatives forgone is called its opportunity cost*).



Division of labour/Specialisation

Because there are limited resources, we need to use them the most efficient way possible. Therefore, we now use production methods that are as fast as possible and as efficient (costs less, earns more) as possible. The main production method that we are using nowadays is known as specialization, or division of labour.
"Division of Labour/Specialisation is when the production process is split up into different tasks and each specialized worker/ machine performs one of these tasks."

1. *Higher productivity*	1. ***Monotony***
2. *Lower cost (due to efficiency)*	2. ***Too much interdependence***
3. *Less training cost*	3. ***Lack of job pride***
4. *Standardized products*	4. ***Lack of responsibility (if fault occur)***

Why Specialisation is needed

- Provides goods and services from limited resources to satisfy unlimited wants.
- Scarcity results from limited resources and unlimited wants.
- Choice is necessary for scarce resources. This leads to opportunity costs.
- Specialisation is required to make the most out of resources.

Purpose of Business Activity

Businesses combine factors of production to make products (goods and services) which satisfy people`s wants.

Purpose

- To combine factors of production to create goods and services.
- To produce Goods and services satisfy people's wants.
- To employ people and pays them wages so they can consume other products.

Added Value

Added value is equivalent to the increase in value that a business creates by undertaking the production process.

Adding value = the difference between the price of the finished product/service and the cost of the inputs involved in making it.

Business can add value by increasing S.P and reducing the cost of material.
Business can increase the selling price by

- Building a brand
- Delivering excellent service
- Product features and benefits
- Offering convenience

The key benefits to a business of adding value include

- Charging a higher price
- Creating a point of difference from the competition
- Protecting from competitors trying to steal customers by charging lower prices
- Focusing a business more closely on its target market segment

Chapter 2
Classification of businesses

Stages of economic activity
Primary Sector
Primary sector industries include all those activities which are connected with extraction, producing and processing of natural resources. The types of workers in this sector include farmers, coal miners and hunters.
Example: Farming, fishing, forestry, quarrying , mining etc.

Secondary sector
The secondary sector involves the transformation of raw materials into goods. This transformation results in wood being made into furniture, steel are being made into cars or textiles being made into clothes, as examples. The types of workers in this sector include a seamstress, factory worker or craftsmen.
Example: OGDCL, Toyota, Unilever, CAT , Construction , Manufacturing etc.

Tertiary sector
The tertiary sector of industry is the segment of the economy that provides services to its consumers; this includes a wide range of businesses such as financial institutions, schools and restaurants.
Example: banking, warehousing, transportation, insurance, airlines, cinemas, shops, restaurants etc.

Importance of economic sector
Sectors can be compared by

- Percentage of the country workers employed in each sector
- Value of output of goods and services and proportion of output in terms of national output

In developing countries primary sector is more than other two sectors. As most population lives in rural areas and standard of living is also very low so there is little demand of tertiary services. Employment and output of primary sector is more than other two sectors.

In most developed countries most of the workers are employed in tertiary sector. The output of tertiary sector is often higher than the other two sectors combined. Mostly manufactured goods are bought from other nation.

In countries where industrialization started many years ago, the secondary and tertiary sectors are likely to employ many more workers than the primary sector.

Changes in sector importance
Decline of primary sector
- Running of raw material (Dutch disease or resource curse)
- Volatile nature of products (changes in price and output)
- Demographic changing
- More competition in international market

Increase in tertiary sector
- People have higher income
- Better education
- More leisure time
- Need for Communication
- Need to provide better service(Staff)

- Increase in Financial Market

In many countries there is de-industrialization because these countries are losing international competitiveness

Tertiary sector is increasing more in developed countries due to its independent nature, high income and increase in total wealth of countries (increase in standard of living).

Mixed economy

Mixed economy is that economy in which both government and private individuals exercise economic control.

Under this system there is co-existence of public and private sectors. In public sector, industries like defence, power, energy, basic industries (water supply), health etc., are set up. On the other hand, in private sector all the consumer goods industries, agriculture, small-scale industries are developed. The government encourages both the sectors to develop simultaneously.

PRIVATE SECTOR

PRIVATE SECTOR IS THAT PART OF THE ECONOMY, SOMETIMES REFERRED TO AS THE CITIZEN SECTOR, WHICH IS RUN BY PRIVATE INDIVIDUALS OR GROUPS, USUALLY AS A MEANS OF ENTERPRISE FOR PROFIT, AND IS NOT CONTROLLED BY THE STATE. THIS INCLUDES EVERY BUSINESS RUN BY ANYONE OTHER THAN THE GOVERNMENT, FROM SMALL BUSINESSES TO MULTINATIONAL CORPORATIONS

PUBLIC SECTOR

THE PUBLIC SECTOR REFERS TO THE PART OF THE ECONOMY CONCERNED WITH PROVIDING BASIC GOVERNMENT SERVICES. THE PUBLIC SECTOR INCLUDES SUCH SERVICES AS THE POLICE, MILITARY, PUBLIC ROADS, PUBLIC TRANSIT, PRIMARY EDUCATION AND HEALTHCARE FOR THE POOR. THE PUBLIC SECTOR MIGHT PROVIDE SERVICES THAT NON-PAYER CANNOT BE EXCLUDED FROM (SUCH AS STREET LIGHTING), SERVICES WHICH BENEFIT ALL OF SOCIETY RATHER THAN JUST THE INDIVIDUAL WHO USES THE SERVICE (SUCH AS PUBLIC EDUCATION), AND SERVICES THAT ENCOURAGE EQUAL OPPORTUNITY

Privatisation

Privatisation involves the government selling national businesses to the private sector to increase output and efficiency.

Advantages

- *New incentive (profit) encourages the business to be more efficient*
- *Competition lowers prices*
- *Individuals have more capital than the government*
- *Business decisions are for efficiency, not government popularity*
- *Privatisation raises money for the government*

Disadvantages

- *Essential businesses making losses will be closed*
- *Workers could be made redundant for the sake of profit*
- *Businesses could become monopolies, leading to higher price*

CHAPTER 3
ENTERPRISE, BUSINESS GROWTH AND SIZE

Entrepreneur is a person who organizes, operates and takes the risk for a new business venture.

Benefits of being an entrepreneur

1. Independence – able to choose how to use money and time.
2. Able to put own ideas into practice.
3. May become famous.
4. May be profitable and the income might be higher than working as employee.
5. Able to make use of personal interests and skills.

Disadvantages of being an entrepreneur

1. *Risk – business may fail.*
2. *Lack of capital.*
3. *Lack of knowledge and experience.*
4. *Opportunity cost i.e. lost income from not being an employee of another business.*

Characteristics of successful entrepreneurs

1. Hardworking (working long hours and short holidays).
2. Risk taker (producing goods and services that might be risky).
3. Creative (making business different from existing firms)
4. Optimistic (if you think only of failure you will fail)
5. Self-Confident (it is necessary to convince stakeholders)
6. Innovative (flexibility)
7. Independent (able to work without any help)
8. Effective communicator (Talking clearly and confidently to stakeholders)
9. Result Driven (Focused on achieving result and make sure product are sold)
10. Multi-skilled (good understanding of finance , operations, human resource and marketing)

Why government support business start-ups

- To reduce unemployment
- Increase competition
- Increase output
- Benefit society (social enterprise)
- to support sunrise firms to grow further

Business Start Ups Need	Government often give support by
Business Idea and Help	Organizing advice and support sessions offered
Premises	Enterprise Zones
Finance	Loan for small business at low interest rates Grants, if business startup in depressed areas
Labour	Grants to small business to train employees and help increase their productivity
Research	Encouraging universities to make their research facilities available to new business
Lower taxation rates	

Business Plan

A business plan is a document containing the business objectives and important details about the operations, finance and owners of the new business.

Business plan gives details about products, cash flow, business costs , location, resources , market aimed for etc.

Uses of Business plan

1. To help gain finance.
2. Careful planning reduces risk.
3. To persuade lenders
4. Give sense of purpose and direction
5. Provide targets and enable business to monitor progress

Comparing the size of businesses

Businesses vary in size, and there are some ways to measure them. For some people, this information could be very useful:

- Investors - how safe it is to invest in businesses
- Government - tax
- Competitors - compare their firm with other firms
- Workers - job security, how many people they will be working with
- Banks - can they get a loan back from a business?

Ways of measuring the size of a business

- Number of employees.
  It is easy to calculate.
  Does not work on capital intensive firms that use machinery and whether 2 part time employees will be counted as one or two.
- Value of output.
  It is used to compare size in same industry.
  Does not take into account people employed. Does not take into account sales revenue (produced output and sold output might differ).
- Value of sales.
  It is used in comparing the size of retailing business – especially retailers selling similar products.
  It could be misleading while comparing the size of business that sells very different products.
- Capital employed.
  This means the total value of capital invested into the business.
  Do not take into account labour intensive firms.

You cannot measure a business's size by its profit, because profit depends on too many factors not just the size of the firm.

Business Growth

All owners want their businesses to expand. They reap these benefits:

- Higher profits
- More status, power and salary for managers
- Low average costs (economies of scale)
- Higher market share (greater power to control the market)
- Protection from the risk of takeover

Types of expansion

1. Internal Growth: Organic growth. Growth paid for by owner's capital or retained profits.
2. External Growth(integration): Growth by taking over or merging with another business.

> ***A merger is when the owners of two businesses agree to join their firms together to make one business.***
>
> ***A takeover or acquisition is when one business buys out the owners of another business which then becomes part of the "predator" business.***

Types of Mergers (and main benefits)

- Horizontal Merger

merging with a business in the same business sector.

- Reduces no. of competitors in industry
- Economies of scale
- Increase market share

- Vertical merger

Forward vertical merger

- Assured outlet for products
- Profit made by retailer is absorbed by manufacturer
- Prevent retailer from selling products of other businesses
- Market research on customers transferred directly to the manufacturer

Backward vertical merger

- Constant supply of raw materials
- Profit from primary sector business is absorbed by manufacturer
- Prevent supplier from supplying other businesses
- Controlled cost of raw materials

Conglomerate merger

- Spreads risks
- Transfer of new ideas from one section of the business to another

Type of integration	Advantages	Disadvantages	Impact on stakeholders
Horizontal integration – integration with firms in the same industry and at same stage of production	■ eliminates one competitor ■ possible economies of scale ■ scope for rationalising production, for example concentrating all output on one site as opposed to two ■ increased power over suppliers	■ rationalisation may bring bad publicity ■ may lead to monopoly investigation if the combined business exceeds certain market share limits	■ consumers now have less choice ■ workers may lose job security as a result of rationalisation
Vertical integration – forward integration with a business in the same industry but a customer of the existing business	■ business is now able to control the promotion and pricing of its own products ■ secures a secure outlet for the firm's products – may now exclude competitors' products	■ consumers may suspect uncompetitive activity and react negatively ■ lack of experience in this sector of the industry – a successful manufacturer does not necessarily make a good retailer	■ workers may have greater job security because the business has secure outlets ■ there may be more varied career opportunities ■ consumers may resent lack of competition in the retail outlet because of the withdrawal of competitor products

Vertical integration – backward integration with a business in the same industry but a supplier of the existing business	■ gives control over quality, price and delivery times of supplies ■ encourages joint research and development into improved quality of supplies of components ■ business may now control supplies of materials to competitors	■ may lack experience of managing a supplying company – a successful steel producer will not necessarily make a good manager of a coal mine ■ supplying business may become complacent due to having a guaranteed customer	■ possibility of greater career opportunities for workers ■ consumers may obtain improved quality and more innovative products ■ control over supplies to competitors may limit competition and choice for consumers
Conglomerate integration – integration with a business in a different industry	■ diversifies the business away from its original industry and markets ■ this should spread risk and may take the business into a faster-growing market	■ lack of management experience in the acquired-business sector ■ there could be a lack of clear focus and direction now that the business is spread across more than one industry	■ greater career opportunities for workers ■ more job security because risks are spread across more than one industry

Problems of business growth – and how to overcome them

Problems results from expansion	***Possible ways to overcome problem***
Diseconomies of scale (difficult to control)	Decentralization (operate the business in small units)
Poor communication	(operate the business in small units and use technology)
Short of finance	Expand more slowly and ensure sufficient long term finance
Different management styles	Introduce a different style of management requires good communication with the workforce.

Why some businesses stay small:

There are some reasons why some businesses stay small. They are:

1. **Type of industry the business is in:** Industries offering personal service or specialized products. They cannot grow bigger because they will lose the personal service demanded by customers. E.g. hairdressers, cleaning, convenience store, etc.
2. **Market size:** If the size of the market a business is selling to is too small, the business cannot expand. E.g. luxury cars (Lamborghini), expensive fashion clothing, etc.
3. **Owner's objectives:** Owners might want to keep a personal touch with staff and customers. They do not want the increased stress and worry of running a bigger business.
4. **Market denomination** (difficulty in obtaining loans)
5. **Access and availability of Capital** (strong brand loyalty of others and lower prices offered by others)

Why some businesses fail

1. Poor management (lack of experience and lack of professional managers in family business)
2. Failure to plan for change (lack of flexibility and nor responding effectively to environmental changes)
3. Poor financial management (Shortage of cash and failure to plan or forecast cash flows)
4. Over-expansion (management problem if business expands too quickly)
5. Risks of **new** business start-ups (poor planning , inadequate research , lack of finance and lack of experience in new business)
6. Economic Influences (unemployment , high interest rates and taxation may leads to lower sales)
7. Competition (Multinational and globalization)

Chapter 4
Types of Business Organization

Private Sector

Private sector is that part of the economy, sometimes referred to as the citizen sector, which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled by the state. This includes every business run by anyone other than the government, from small businesses to multinational corporations

Sole Traders

Sole traders are the most common form of business in the world, and take up as much as 90% of all businesses in a country. The business is owned and run by one person only. Even though he can employ people, he is still the *sole proprietor* of the business. These businesses are so common since there are so little legal requirements to set up:

- The owner must register with and send annual accounts to the government Tax Office.
- They must register their business names with the Registrar of Business Names.
- They must obey all basic laws for trading and commerce.

There are advantages and disadvantages to everything, and here are ones for sold traders:

Advantages

1. There are so few legal formalities are required to operate the business.
2. The owner is his own boss, and has total control over the business.
3. The owner gets 100% of profits.
4. Motivation because he gets all the profits.
5. The owner has freedom to change working hours or whom to employ, etc.
6. He has personal contact with customers.
7. He does not have to share information with anyone but the tax office, thus he enjoys complete secrecy.
8. Business secrets are not shared.

Disadvantages

1. Nobody to discuss problems with.
2. Unlimited liability.
3. Limited finance/capital, business will remain small.
4. The owner normally spends long hours working.
5. Some parts of the business can be inefficient because of lack of specialists.
6. Does not benefit from economies of scale.
7. No continuity, no legal identity.

Unlimited liability The owners of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they made in the business.

Sole traders are recommended for people who

- ✓ ***Are setting up a new business.***
- ✓ ***Do not require a lot of capital for their business.***
- ✓ ***Require direct contact for customer service.***

Partnership

A partnership is a group consisting of 2 to 20 people who run and own a business together. They require a Deed of Partnership or Partnership Agreement, which is a document that states that all partners agree to work with each other, and issues such as who put the most capital into the business or who is entitled to the most profit. Other legal regulations are similar to that of a sole trader.

Advantages

1. More capital than a sole trader.
2. Responsibilities are split.
3. Any losses are shared between partners.
4. Business secrets are not shared.

Disadvantages

1. Unlimited liability.
2. No continuity, no legal identity.
3. Partners can disagree on decisions, slowing down decision making.
4. If one partner is inefficient or dishonest, everybody loses(Partners Joint Liability).
5. Limited capital, there is a limit of 20 people for any partnership.

Recommended to people who:

- ✓ ***Want to make a bigger business but does not want legal complications.***
- ✓ ***Professionals, such as doctors or lawyers, cannot form a company, and can only form a partnership.***
- ✓ ***Family, when they want a simple means of getting everybody into a business (Warning: Nepotism is usually not recommended).***

NOTE: IN SOME COUNTRIES INCLUDING THE UK THERE CAN BE LIMITED PARTNERSHIPS. THIS BUSINESS HAS LIMITED LIABILITY BUT SHARES CANNOT BE BOUGHT OR SOLD. IT IS ABBREVIATED AS LLP.

Private Limited Companies

Private Limited Companies have separate legal identities to their owners, and thus their owners have limited liability. The company has continuity, and can sell shares to friends or family, although with the consent of all shareholders. This business can now make legal contracts. Abbreviated as Ltd (UK), or Proprietary Limited, (Pty) Ltd.

Advantages

1. The sale of shares make raising finance a lot easier.

2. Shareholders have limited liability, therefore it is safer for people to invest but creditors must be cautious because if the business fails they will not get their money back.
3. Original owners are still able to keep control of the business by restricting share distribution.

Disadvantages

1. Owners need to deal with many legal formalities before forming a private limited company

THE ARTICLES OF ASSOCIATION

THIS CONTAINS THE RULES ON HOW THE COMPANY WILL BE MANAGED. IT STATES THE RIGHTS AND DUTIES OF DIRECTORS, THE RULES ON THE ELECTION OF DIRECTORS AND HOLDING AN OFFICIAL MEETING, AS WELL AS THE ISSUING OF SHARES.

THE MEMORANDUM OF ASSOCIATION

THIS CONTAINS VERY IMPORTANT INFORMATION ABOUT THE COMPANY AND DIRECTORS. THE OFFICIAL NAME AND ADDRESSES OF THE REGISTERED OFFICES OF THE COMPANY MUST BE STATED. THE OBJECTIVES OF THE COMPANY MUST BE GIVEN AND ALSO THE AMOUNT OF SHARE CAPITAL THE OWNERS INTEND TO RAISE. THE NUMBER OF SHARES TO BE BOUGHT B EACH OF THE DIRECTORS MUST ALSO BE MADE CLEAR.

CERTIFICATE OF INCORPORATION

THE DOCUMENT ISSUED BY THE REGISTRAR OF COMPANIES THAT WILL ALLOW THE COMPANY TO START TRADING.

2. Shares cannot be freely sold without the consent of all shareholders.
3. The accounts of the company are less secret than that of sole traders and partnerships. Public information must be provided to the Registrar of Companies.
4. Capital is still limited as the company cannot sell shares to the public.

Public Limited Companies

Public limited companies are similar to private limited companies, but they are able to sell shares to the public. A private limited company can be converted into a public limited company by:

1. A statement in the Memorandum of Association must be made so that it says this company is a public limited company.

2. All accounts must be made public.

3. The company has to apply for a listing in the Stock Exchange.

A prospectus must be issued to advertise to customers to buy shares, and it has to state how the capital raised from shares will be spent.

Advantages

1. Limited liability.
2. Continuity.
3. Potential to raise limitless capital.
4. No restrictions on transfer of shares.
5. High status will attract investors and customers.

Disadvantages

1. Many legal formalities required to form the business.
2. Many rules and regulations to protect shareholders, including the publishing of annual accounts.
3. Selling shares is expensive, because of the commission paid to banks to aid in selling shares and costs of printing the prospectus.
4. Difficult to control since it is so large.
5. Owners lose control, when the original owners hold less than 51% of shares.

CONTROL AND OWNERSHIP IN A PUBLIC LIMITED COMPANY:

THE ANNUAL GENERAL MEETING (AGM) IS HELD EVERY YEAR AND ALL SHAREHOLDERS ARE INVITED TO ATTEND SO THAT THEY CAN ELECT THEIR BOARD OF DIRECTORS. NORMALLY, DIRECTOR ARE MAJORITY SHAREHOLDERS WHO HAS THE POWER TO DO WHATEVER THEY WANT. HOWEVER, THIS IS NOT THE CASE FOR PUBLIC LIMITED COMPANIES SINCE THERE CAN BE MILLIONS OF SHAREHOLDERS. ANYWAY, WHEN DIRECTORS ARE ELECTED, THEY HAVE TO POWER TO MAKE IMPORTANT DECISIONS. HOWEVER, THEY MUST HIRE MANAGERS TO ATTEND TO DAY TO DAY DECISIONS. THEREFORE:

- SHAREHOLDERS OWN THE COMPANY
- DIRECTORS AND MANAGERS CONTROL THE COMPANY

THIS IS CALLED THE DIVORCE BETWEEN OWNERSHIP AND CONTROL.

BECAUSE SHAREHOLDERS INVESTED IN THE COMPANY, THEY EXPECT DIVIDENDS. THE DIRECTORS COULD DO THINGS OTHER THAN GIVE SHAREHOLDERS DIVIDENDS, SUCH AS TRYING TO EXPAND THE COMPANY. HOWEVER, THEY MIGHT LOSE THEIR STATUS IN THE NEXT AGM IF SHAREHOLDERS ARE NOT HAPPY WITH WHAT THEY ARE DOING. ALL IN ALL, BOTH DIRECTORS AND SHAREHOLDERS HAVE THEIR OWN OBJECTIVES.

Joint ventures

Two businesses agree to start a new project together, sharing capital, risks and profits.

Advantages

1. Shared costs are good for tackling expensive projects. (e.g aircraft)
2. Pooled knowledge. (e.g. foreign and local business)
3. Risks are shared.

Disadvantages

1. Profits have to be shared.
2. Disagreements might occur.
3. The two partners might run the joint venture differently.

Franchising

The franchisor is a business with a successful brand name that recruits franchisees (individual businesses) to sell for them. (E.g. McDonald, Burger King)

	Advantages for the franchisor	Disadvantages for the franchisor
1	The franchisee has to pay to use the brand name.	The failure of one franchise could lead to a bad reputation of the whole business.
2	Expansion is much faster because the franchisor does not have to finance all new outlets.	The franchisee keeps the profits.
3	The franchisee manages outlets	
4	All products sold must be bought from the franchisor.	

	Advantages for the franchisee	Disadvantages for the franchisee
1	The chance of failure is much reduced due to the well know brand image.	Less independence
2	The franchisor pays for advertising.	May be unable to make decisions that would suit the local area.
3	All supplies can be obtained from the franchisor.	License fee must be paid annually and a percentage of the turnover must be paid.
4	Many business decisions will be made by the franchisor (prices, store layout, products).	
5	Training for staff and management is provided by the franchisor.	
6	Banks are more willing to lend to franchisees because of lower risks.	

	Sole trader	Partnership	Private co	Public co	Franchise
Who owns	1 owner	Partners	Shareholders	Shareholders	Franchisee
Size	Small	Fairly small	Most fairly small but some large	Large	Small but may be part of very large organisation.
Liability	Unlimited	Most Unlimited	Limited	Limited	Limited
Who takes Profits	One owner	Partners	Shareholders	Shareholders	Divided between franchisor and franchisee
Access to Capital	Limited	Usually fairly limited	Less than for PLC	Extensive	Limited by owner's capital
Disadvantage	Hard work	Disagreements between partners	Limited capital	May be taken over	Franchisee has to share profit with franchisor

Public Sector

The Public sector refers to the part of the economy concerned with providing basic government services. The public sector includes such services as the police, military, public roads, public transit, primary education and healthcare for the poor. The public sector might provide services that non-payer cannot be excluded from (such as street lighting), services which benefit all of society rather than just the individual who uses the service (such as public education), and services that encourage equal opportunity

Public corporations:

A business owned by the government and run by Directors appointed by the government. These businesses usually include the water supply, electricity supply, etc. The government gives the directors a set of objectives that they will have to follow:

- To keep prices low so everybody can afford the service.
- To keep people employed.
- To offer a service to the public everywhere.

These objectives are expensive to follow, and are paid for by government subsidies. However, at one point the government would realize they cannot keep doing this, so they will set different objectives:

- To reduce costs, even if it means making a few people redundant.
- To increase efficiency like a private company.
- To close loss-making services, even if this mean some consumers are no longer provided with the service.

Advantages

1. Some businesses are considered too important to be owned by an individual. (electricity, water, airline)
2. Other businesses, considered natural monopolies, are controlled by the government. (electricity, water)
3. Reduces waste in an industry. (e.g. two railway lines in one city)
4. Rescue important businesses when they are failing.
5. Provide essential services to the people (e.g. the BBC)

Disadvantages

1. Motivation might not be as high because profit is not an objective.
2. Subsidies lead to inefficiency. It is also considered unfair for private businesses.
3. There is normally no competition to public corporations, so there is no incentive to improve.
4. Businesses could be run for government popularity.

Municipal enterprises

These businesses are run by local government authorities which might be free to the user and financed by local taxes. (e.g., street lighting, schools, local library, rubbish collection). If these businesses make a loss, usually a government subsidy is provided. However, to reduce the burden on taxpayers, many municipal enterprises are being privatized.

Chapter 5
Business objectives and stakeholder objectives

Business Objectives are the aims or targets that a business works towards.

Importance of setting objectives

- Provide clear target.
- Business performance can be analyzed.
- Make decision making easy.

Objectives of Private Sector

1. Survival

If a business does not survive, its owners lose everything. Therefore, businesses need to focus on this objective the most when they are: starting up, competing with other businesses, or in an economic recession.

2. Profit

Profit is what keeps a company going and is the main aim of most businesses. Normally a business will try to obtain a *satisfactory level of profits* so they do not have to work long hours or pay too much tax.
Profits are needed to

- Pay return to the owners
- Provide finance for further investment

3. Returns to Shareholders

This is to discourage shareholders from selling their shares and it helps managers to keep their jobs. Return to shareholders are increased in two ways

- Increasing profit (to give dividend)
- Increasing share price (by growth in business)

4. Growth

Growth can only be achieved when customers are satisfied with a business.
When businesses grow

- They create more jobs and make them more secure.
- The status and salary of managers are increased.
- a business is able to spread risks by moving to other markets,
- It gains a larger market share.
- It gains cost advantages, called economies of scale.

5. Market share

Market share is the proportion of total market sales achieved by one business.
Increased market share give a business

- Good publicity
- Increased influence over suppliers
- Increased influence over consumers

6. *Providing a service to society*

A social enterprise has social objectives as well as an aim to make a profit to reinvest back into the business. Social entrepreneur has often three objectives

- To provide jobs and support for disabled and homeless
- To Protect environment
- To make a profit (to invest back into the social enterprise to expand the social work)

Why Business objectives could change

- When survival has achieved business may works towards higher profits
- When high market share is achieved business may work for higher return to shareholders
- Profit making business may set survival as short-term objective if there is recession in economy.

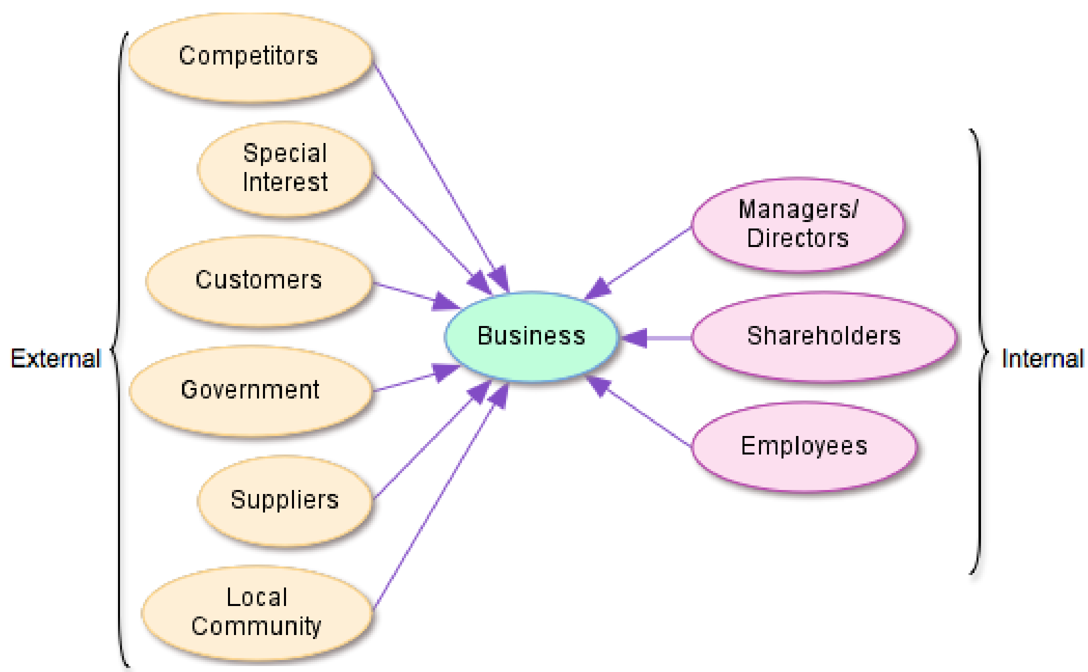
Objectives of public sector businesses

- To provide service to the public and meet quality targets set by government.(service)
- To protect or create employment in certain areas.(Social)
- To meet profit targets set by government.(financial)

Stakeholders

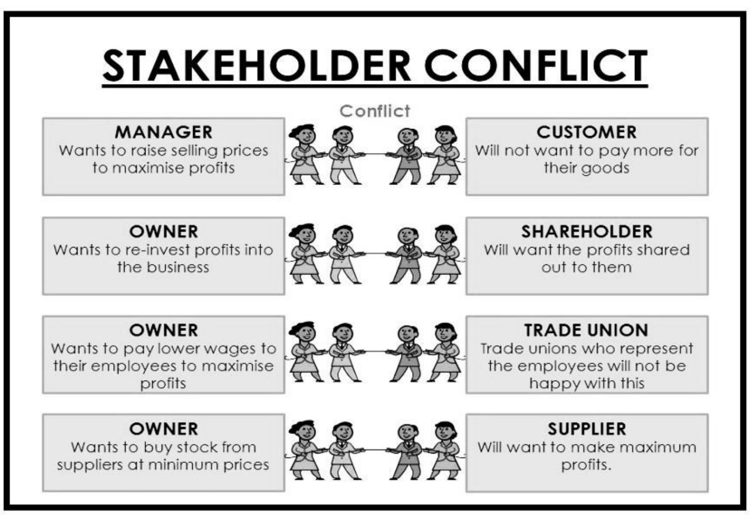
A stakeholder is any person or group with a direct interest in the performance and activities of a business.

Stakeholders can be internal or external.



	Stakeholder group	Main Features	Most likely objectives
Internal Stakeholders	Owners	• Risk takers • Investors • Lose of money in loss • Get share of profits	• Profit, return on capital. • Growth, increase in value of business.
	Workers	• Employees • Get training • May get redundant • May be part or full time	• High salaries. • Job security. • Job satisfaction.
	Managers	• Take important decisions • Employees and control company • Responsible for success or failure of business	• High salaries. • Job security. • Growth of business so they get more power, status, and salary.
External Stakeholders	Customers	• Important for business • Dissatisfaction leads to failure	• Safe products. • High quality. • Value for money. • Reliability of service and maintenance.
	Government	• Responsible for economy • Pass laws	• Employment. • Taxes. • National output/GDP increase
	Community	• Affected by business activity • May get jobs and beneficial services	• Employment. • Security. • Business does not pollute the environment. • Safe products that is socially responsible.
	Banks	• Provide finance	• Repayment of principal amount • Repayment of interest

Conflict of Stakeholders Objectives



Business decision/ activity	Possible impact on employees	Possible impact on local community	Possible impact on customers
Expansion of the business by building a new head office	■ more job and career opportunities ■ disruption during building and more complex lines of communication after expansion	■ more jobs for local residents and increased spending in other local businesses ■ disruption caused by increased traffic and loss of green fields for amenity use	■ better service provided by bigger business with more staff ■ larger business could be less personal and therefore offer inferior customer service
Takeover of a competing firm (horizontal integration)	■ the larger business may be more secure and offer career promotion opportunities ■ rationalisation may occur to avoid waste and cut costs – jobs might be lost	■ if the business expands on the existing site, local job vacancies and incomes might increase ■ rationalisation of duplicated offices or factories might lead to some closures and job losses	■ the larger business may benefit from economies of scale, which could lead to lower prices ■ reduced competition could have the opposite effect – less customer choice might result in higher prices
Significant application of IT into production methods	■ training and promotion opportunities might be offered ■ fewer untrained staff will be required and those unable to learn new skills may be made redundant	■ local businesses providing IT services could benefit from increased orders ■ specialist workers may not be available locally, so more commuting by staff in cars might be necessary	■ more efficient and flexible production methods might improve quality and offer more product variety ■ IT reliability problems could cause supply delays

Chapter 6
Motivating Workers

MOTIVATION IS THE REASON WHY EMPLOYEE WANTS TO WORK HARD AND WORK EFFECTIVELY FOR THE BUSINESS.

Why people work

- Money: to satisfy needs and wants.
- Security: knowing that you are physically safe and have job security.
- Social needs: to belong to a group, making friends at work.
- Esteem needs (self-importance): feeling important, feeling the job you do is important.
- Job satisfaction: enjoyment from the feeling of having done a good job.

Benefits of Well-Motivated Employee

- Improved productivity
- Low rate of absenteeism
- Low rate of labour turnover (low recruitment cost)
- Better quality goods and services
- Easier to manage well motivated workforce

Motivation theories

F.W Taylor

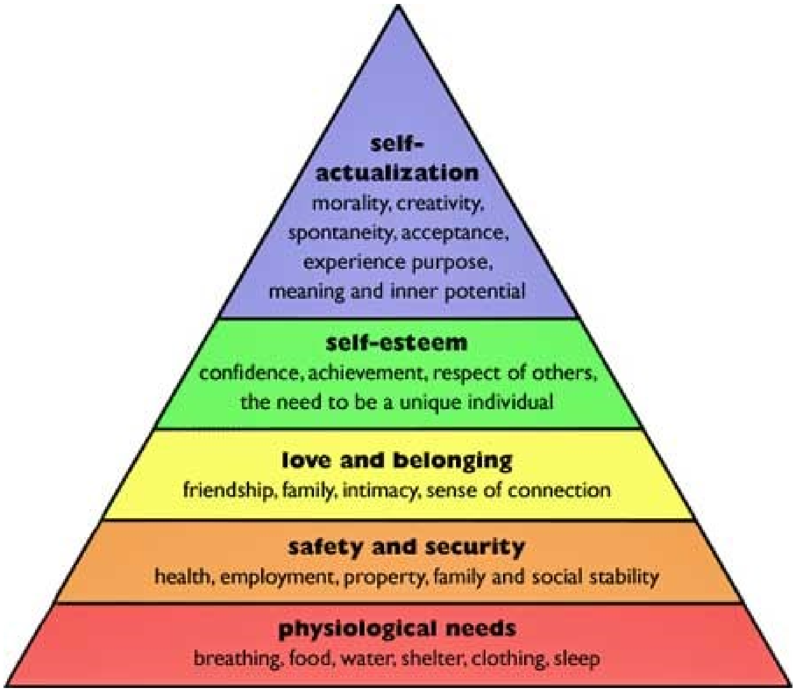
- Money is the main motivator.
- If employees are paid more, they work more.
- Work is broken down into simple processes, and more money is paid which will increase the level of productivity an employee will achieve.
- The extra pay is less than the increased productivity

Criticism

- Workers are seen rather like machines, and this theory does not take into account non-financial motivators.
- Even if you pay more, there is no guarantee of a productivity rise.
- It is difficult to measure an employee's output.

Maslow

Maslow created what is known as the hierarchy of needs.



In this diagram, there are 5 different types of motivation:

- Physiological needs: basic requirements for survival.
- Security needs: the need to by physically safe.
- Social needs: the need to belong and have good relationships with co-workers.
- Esteem needs: the need for self-respect and to be respected by others.
- Self-actualization needs: the need to reach your full potential and be promoted.

Businesses realise that the more levels of motivation are available to workers, the harder they will work. Maslow also suggests that each level of motivation must be achieved before going to the next level. Once one level of motivation is met, more of that will no longer motivate the employee.

Criticism

- Some levels are not present in some jobs.
- Some rewards belong to more than one level on others.
- Managers need to identify the levels of motivation in any job before using it to motivate employees.

Herzberg

To Herzberg, humans have hygiene factors, or basic animal needs of humans. We also have motivational factors/motivators that are required for the human to grow psychologically.

Hygiene factors

- Status.
- Security.
- Working conditions.
- Company policies and administration.
- Relationship with supervisor.
- Relationship with subordinates.
- Salary.

Motivational factors

- Achievement.
- Recognition.
- Personal growth/development.

- Advancement/promotion.
- Job satisfaction.

To Herzberg, if the hygiene factors are not satisfied, they will act as demotivators. They are not motivators, since the motivating effect quickly wears off after they have been satisfied. True motivators are Herzberg's motivational factors.

HOW TO MOTIVATE WORKERS

There are three ways to motivate a workforce

- ♦ financial motivators
- ♦ non-financial motivators
- ♦ ways to increase job satisfaction

Financial rewards

Pay may be the basic reason why people work, but different kinds of pay can motivate people differently. Here are the most common methods of payment:

Wages

Wages are paid every week, in cash or straight into the bank account, so that the employee does not have to wait long for his/her money. People tend to pay wages to manual workers. Since wages are paid weekly, they must be calculated every week which takes time and money. Wages clerks are paid to do this task. Workers get extra pay for the overtime that they do. There are some ways that wages could be calculated:

Time rate

Time rate is payment according to how many hours an employee has worked. It is used in businesses where it is difficult to measure the output of a worker.

- ✓ Easy to calculate the wage of the employee. A time-sheet must be filled out by the Accounts department to calculate the wage.
- × Both good and bad workers get paid the same wages.
  Therefore, more supervisors are needed to maintain good productivity. A clocking-in system is needed to know how many hours an employee has done.

Piece rate

Piece rates are paid depending on how many units they have produced. There is usually a base pay (minimum wage) and the piece rate is calculated as a bonus on how many units were created. Piece rates are found in businesses where it is possible to measure a workers' productivity.

- ✓ Encourages workers to work faster and produce more goods.
- × Workers will often neglect quality, and businesses will need a quality control system which is expensive.
- × Workers who focus on quality will earn less. Tension is caused when some workers earn more than others.
- × If machinery breaks down, employees earn less. That is why there is a guaranteed minimum pay.

Salaries

Salaries are paid monthly and normally straight into the bank account. They are usually for white collar workers. A salary is counted as an amount per year that is divided into 12 monthly accounts. You do not usually receive overtime. Managers only need to pay their workers once a month, and since the amount is transferred by the bank, the manager loses much less time and money calculates salary. Salaries are usually a standard rate, but other rewards could be given to employees:

Commission

A percentage is paid, usually to sales staff, depending on the value of goods they have sold. Workers are encouraged to sell more. However, they could persuade customers to buy products they don't really want, making the company look bad. Just like the piece rate, in a bad month where there are little sales, worker's pay will fall.

Profit sharing
Employees receive a percentage of the profits made. However, they will get nothing if the business doesn't make a profit. This is often used in the service sector, where it is hard to find an employee’s contribution to the company.
Bonus
A lump sum paid to employees who have done well. It is usually paid at the end of the year or before holidays. However, this could cause jealousy between workers. Giving bonuses to a team works better.
Performance related pay
Employee pay is linked to the effectiveness of their work. It is often used in organisations where it is hard to measure productivity. It uses the system of appraisal: employees are observed and their colleagues are interviewed to determine their effectiveness. Afterwards, the immediate superior of the employee has a meeting with them to discuss their effectiveness.

Advantages	Disadvantages
■ Staff are motivated to improve performance if they are seeking increases in financial rewards.	■ It can fail to motivate if staff are not driven by the need to earn additional financial rewards.
■ Target-setting can help to give purpose and direction to the work of an individual.	■ Team spirit can be damaged by the rivalry generated by the competitive nature of PRP.
■ Annual appraisal offers the opportunity for feedback on the performance of an individual, but as it tends to occur only once a year this is not usually sufficient to achieve a key feature of job enrichment.	■ Claims of manager favouritism can harm manager–subordinate relationships. ■ It may lead to increased control over staff by managers because of the danger that bonuses may not be awarded if workers do not conform.

Table 11.7 Advantages and disadvantages of performance-related pay

Share ownership
Employees receive some shares from the company. They will either benefit from dividends or sell the shares when their price has risen. They will be more motivated because they feel like a part of the company.

Motivating factors - non-financial motivators
There are other factors that motivate people in a business, and they are often called perks or fringe benefits. They may be having free accommodation, free car, etc... However, when you look at it, it is just money in different forms. Here is a list of these motivators:
- Children's education.
- Discounts on company products.
- Free Healthcare.
- Company vehicle.
- Free accommodation.
- Share options.
- Expense accounts.
- Pension.
- Free holidays.

Job satisfaction

Employees will become more motivated by enjoying the job they do. Job satisfaction can come in different ways. However, there are some factors that demotivate employees if they are not satisfied, and must be satisfied before the motivators can take effect. Here are some things that make workers' jobs satisfying

- Pay.
- Promotion.
- Working conditions.
- Fringe benefits.
- Management
- Working hours.
- The nature of the work itself.
- Colleagues, etc...

Herzberg and Maslow stress those things such as responsibility recognition is also crucial to provide job satisfaction. Letting workers contribute to the job would also help, making jobs less boring and more creative. Here are some policies to increase job satisfaction

Job rotation

Workers in a production line can now change jobs with each other and making their jobs not so boring. It helps train the employee in different aspects of their jobs so that they can cover for other employees if they do not show up.

Job enlargement

Adding tasks of a similar level to a worker's job. Job enlargement simply gives more variety to employees' work which makes it more enjoyable.

Job enrichment

Adding tasks of a higher level to a worker's job. Workers may need training, but they will be taking a step closer to their potential. Workers become more committed to their job which gives them more satisfaction.

Autonomous work groups or team working

This is when group of workers are given total responsibility to organise themselves and perform a task. This makes the employees feel more important, as well as giving them a sense of belonging when they are part of a team. If they organise themselves differently every time, the team could get job enlargement and job enrichment too!

Quality Circles

Quality circles are groups of workers who meet regularly to discuss work related issues. Workers come up with solution to problems or suggest how improvements can be made. This approach is similar to Herzberg`s “responsibility” motivator

Chapter 7
Organisation and Management

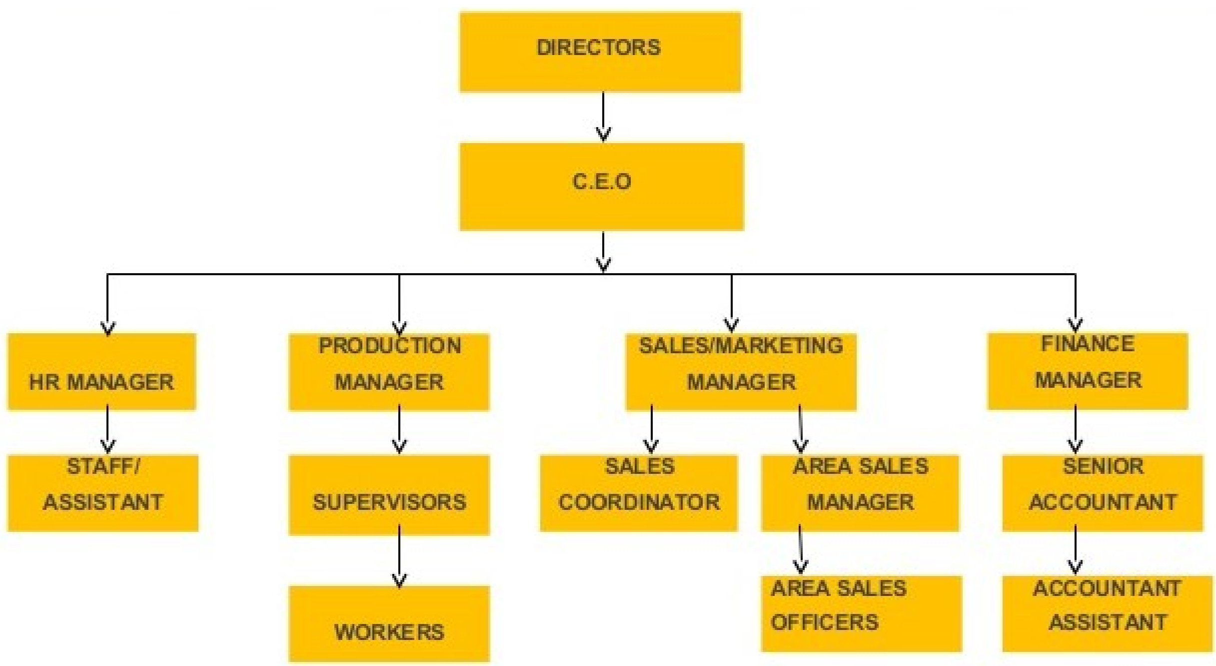
Organisational structure refers to the levels of management and division of responsibilities within a business, which could be presented in the form of an organisational chart.

For simpler businesses in which the owner employs only himself, there is no need for an organisational structure. However, if the business expands and employs other people, an organisational structure is needed. When employing people, everybody needs a job description. These are its main advantages:

- People who apply can see what they are expected to do.
- People who are already employed will know exactly what to do.

Organisational charts

Eventually, when a business grows larger and employs many people, they will have to create an organisational chart to work out a clear structure for their company. Here is another example of an organisational chart



Important features

- It is a hierarchy. There are different levels in the business which has different degrees of authority. People on the same level have the same degree of authority.
- It is organised into departments, which has their own function.
- It shows the chain of command, which is how power and authority is passed down from the top of the hierarchy, and span of control, meaning how many subordinates one person controls, of the business.

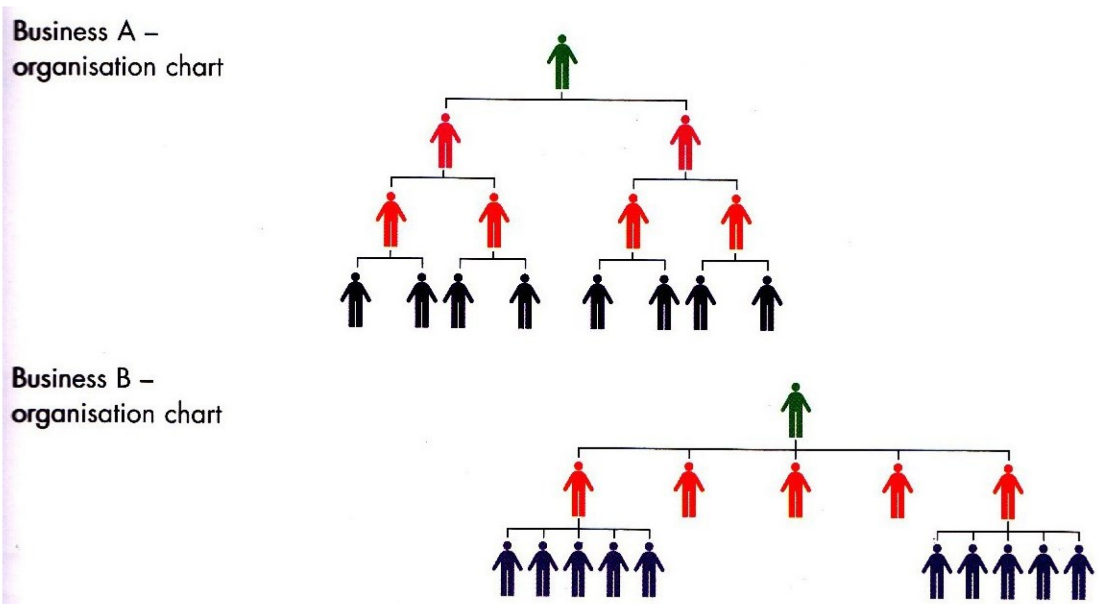
Advantages

- The chart shows how everybody is linked together. Makes employees aware of the communication channel that will be used for messages to reach them.
- Employees can see their position and power, and who they take orders from.
- It shows the relationship between departments.
- Gives people a sense of belonging since they are always in one particular department.

Chain of command and span of control

CHAIN OF COMMAND IS THE STRUCTURE IN AN ORGANISATION WHICH ALLOWS INSTRUCTIONS TO BE PASSED DOWN FROM SENIOR MANAGEMENT TO LOWER LEVELS OF MANAGEMENT.

THE SPAN OF CONTROL IS THE NUMBER OF SUBORDINATES WORKING DIRECTLY UNDER A MANAGER.



Here are two organisations, one having a long chain of command and the other a wide span of control. Therefore, the longer the chain of command, the taller the business hierarchy and the narrower the span of control. When it is short, the business will have a wider span of control.

In recent years, people have began to prefer to have their business have a wider span of control and shorter chain of command. In some cases, whole levels of management were removed. This is called de-layering.

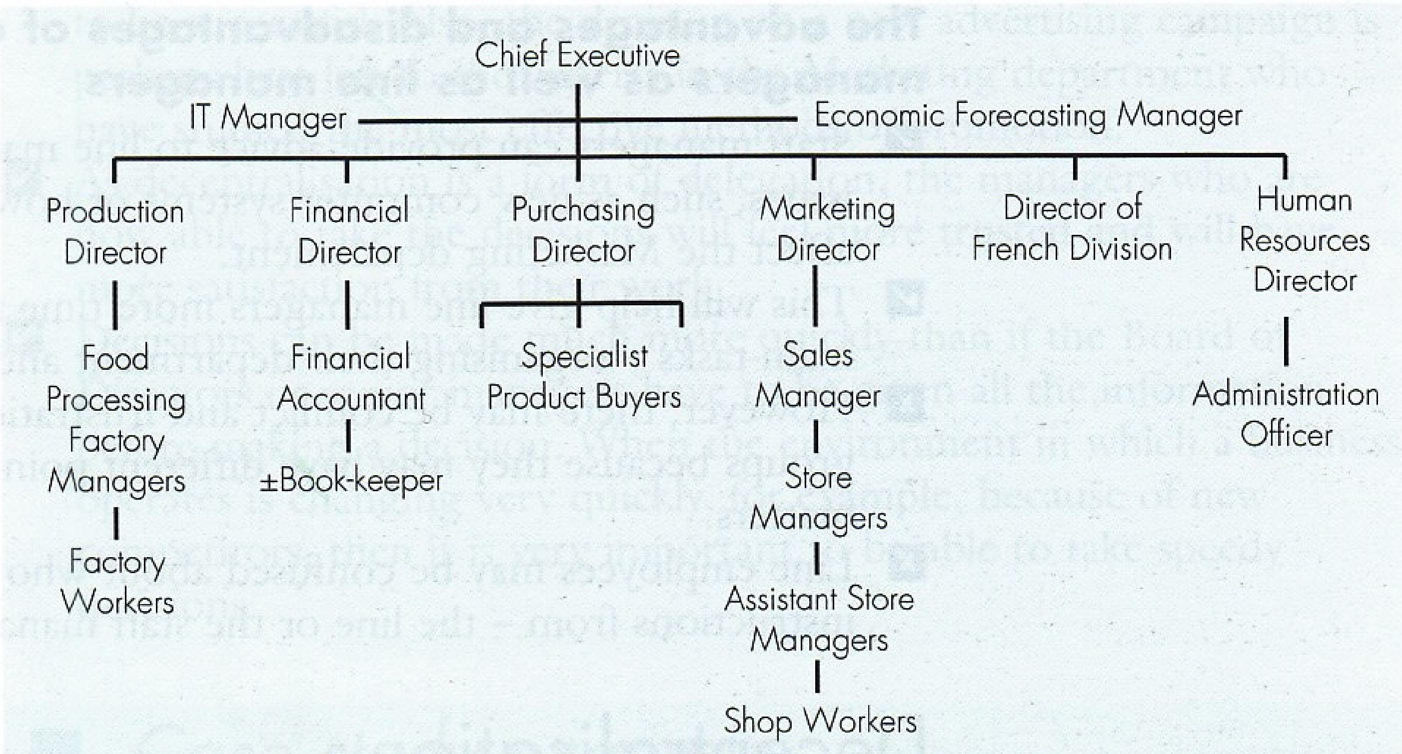
Advantages of Short chain of Command/ Wide Span of Control

- Communication is faster and more accurate. The message has to pass through less people.
- Managers are closer to all employees so that they can understand the business better.
- Spans of control will be wider, meaning that the manager would have to take care of more subordinates, this makes:
  - ✓ More delegation.
  - ✓ Workers gain more job satisfaction and feel trusted because of delegation.

- However, if the span of control is too wide, managers could lose control. If the subordinates are poorly trained, many mistakes would be made.

Advantages of Long Chain of Command / Narrow Span Of Control

- Better control over workers and their work
- More managers/supervisors increases promotion opportunities
- Long chain of command is linked with narrow span of control so this will enable effective communication



Key features of this graph

- The business is divided into functional departments. They use specialists for each job and this creates more efficiency. However, workers are more loyal to their department than to the organisation as a whole. Therefore, conflict can occur between different departments. ***Managers working in these departments are called line managers, who have direct authority and the power to put their decisions into effect over their department.***
- There are also other regional divisions that take care of outlets that are situated in other countries. They use the local knowledge to their advantage.
- There are some departments which do not have a distinctive function but still employs specialists and report directly to the CEO/Board of Directors. These departments are the IT department, and the Economic Forecasting department. ***These departments give specialist advice and support to the board of Directors and line managers, and the managers of these departments are called staff managers. They are often very highly qualified personnel who specialises in only their area.***

Employment of staff managers

Advantages

- Staff managers help and provide advice for line managers on things such as computer systems.
- Helps line managers concentrate on their main tasks.

Disadvantages

- There may be conflict between the two groups on important decisions and views.
- Line employees may be confused and do not know who to take orders form, line or staff managers.

Role of Management

Planning

Planning for the future involves setting goals for a business. These goals give the business a sense of direction and purpose. Now the whole business will have something to work towards.

Managers also need to plan for resources which will be needed.

Organising

A manager cannot do everything by himself. Therefore, jobs must be delegated to employees. Employees need sufficient resources to complete their job, so managers need to organise people and resources effectively.

Co-ordinating

Managers need to bring people together in a business for it to succeed. This is called co-ordination.

If different functional departments do not co-ordinate, they could be doing completely different things which does not follow any common plan. Managers could co-ordinate the departments by holding regular meetings or setting up a project team with different members from different departments.

Commanding

Commanding refers to guiding, leading and guiding subordinates which is very important in any organisation.

Managers need to make sure that all subordinates are following targets and deadlines. It is the responsibility of the manager to ensure that all tasks are completed and therefore instruction and guidance must be provided to employees so that they can do so.

Controlling

Controlling includes evaluating the performance of subordinates. So that corrective action can be carried out if the subordinates are not sticking to goals.

To sum up, this is what management gives to any organisation

- A sense of control and direction.
- Co-ordination between departments, preventing wastage of efforts.
- Control of employees.
- Making the most out of resources (organisation).

An effective manager would also have these qualities

- Intelligence: to understand difficult ideas and deal with different issues.
- Initiative: to be able to think of solutions and take control of situations.
- Self-confidence: to be willing to lead others and be a model image.
- Assertiveness and determination: to be able to take command of others and take ideas and solutions to the end.
- Communication skills: to be able to inform subordinates in a clear way so that they will respond positively.
- Energy and enthusiasm: to work with high effort and involvement so that others will follow.

Delegation

Delegation refers to giving a subordinate the responsibility and authority to do a given task. However, the final responsibility still lies with the person who delegated the job to the subordinate.

Advantages for the manager

- ✓ By letting subordinate do smaller tasks, managers have more time to do more important tasks.
- ✓ Managers are less likely to make mistakes if tasks are done by specialist employees.
- ✓ Managers can measure the success of their task more easily.

Advantages for the subordinates

- ✓ Work becomes more interesting and rewarding.
- ✓ Employees feel important and trusted.
- ✓ Helps train workers, giving them better career opportunities.

Why some managers don't want to delegate

- Managers are afraid that their employees will fail.
- Managers want total control.
- Managers are scared that the subordinate will do tasks better than them, making them feel insecure.

Delegation must mean

- A reduction in direct control by managers or supervisors.
- An increase in trust of workers by managers or supervisors.

Leadership

Autocratic leadership

- The manager controls all aspects of their subordinates' work.
- They keep themselves separate from employees.
- Employees are expected to obey every command and cannot contribute to decisions.
- Communication is only top-down.

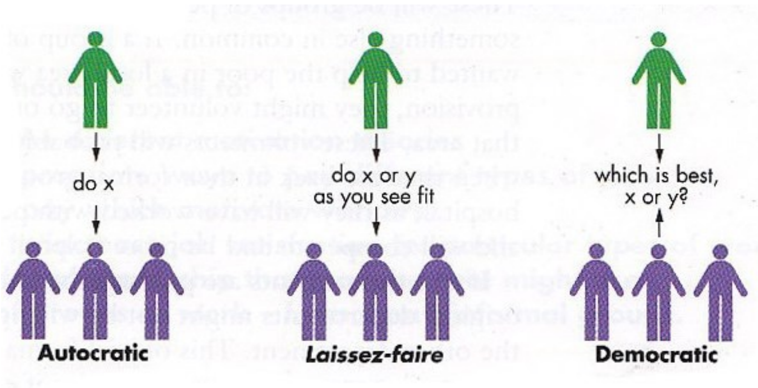
Laissez-faire leadership

- Objectives are shown to employees, but the task is completely delegated to them.
- Communication can be difficult since clear instructions are not given.
- The manager has a limited role in this type of leadership.

Democratic leadership

- The manager discusses tasks with his employees before making decisions.

- Communication will be two-way, both top-down and bottom-up.



Choosing a Leadership Style

- The skills and experience of workforce
- The time available to make a decision
- The personality of manager
- The task to be completed (Whether task is innovative/creative)

Trade Union

A TRADE UNION IS A GROUP OF WORKERS WHO JOINED TOGETHER TO ENSURE THEIR INTERESTS ARE PROTECTED.

Advantages of joining a trade a union

- ✓ Strength in numbers.
- ✓ Improved conditions of employment.
- ✓ Improved working conditions.
- ✓ Improved sickness benefits, pensions, and retrenchment benefits.
- ✓ Improved job satisfaction and encourage training.
- ✓ Advice/Financial support if a worker is dismissed unfairly/made redundant or is asked to do something not part of their job.
- ✓ Improved fringe benefits.
- ✓ Employment where there is a closed shop, which is when all employees in a business must belong to the same union.

A closed shop is when all employees must join one union in order to be employed. It is because its members feel that the union is doing nothing when non-members receive the same pay rises as them. They think it is unfair. Trade unions also gain greater strength if all the employees are members of the union.

Disadvantages

- ✗ May be required to take industrial action even if worker doesn't agree.
- ✗ Cost money to be member(Subscription)

Trade unions also seek to

- *Put forward their views in the media to influence government decisions on pay, employment etc.*

- *Improve communications between workers and managers.*

Chapter 8
Recruitment, selection and training of workers

The work of the Human Resources department

Recruitment and selection
Involves selecting and attracting the best workers.

Wages and salaries:
Must be enough to motivate or attract workers.

Industrial relations
There must be effective communication between representatives of the management and of the workforce.

Training programmes
Must meet the training needs of employees and accomplish business objectives.

Health and safety
To make sure that it complies with all laws on health and safety.

Redundancy (Retrenchment) and dismissal
To make sure to comply with all the laws on redundancy, dismissal and disciplinary matters.

Recruitment and selection
Workers are needed when a business

- starts up
- expands or
- an existing employee leaves

Businesses use the recruitment process to successfully employ the right people. This process is usually undertaken by the HR department.

The recruitment process

1. Vacancy arises.
2. A job analysis is done, which identifies the responsibilities and tasks of the job.
3. A job description lists that responsibilities and tasks to the candidates who apply for the position.
4. A job specification outlines the required qualifications, expertise and experience a candidate needs so that they can be accepted.
5. The job is advertised in the appropriate media. (e.g. newspapers)
6. Candidates fill out application forms, which are short-listed so that only the best candidates remain.
7. Interviews are held with remaining candidates, and the ones suitable for the job are selected.
8. Vacancy filled.

Job analysis
When a new employee is needed, a job analysis needs to be taken to identify the tasks and responsibilities of the position. This should be easy for a job that needs replacement, but not so much for a job that has just been created.

Job description
Job description has several functions

- Given to candidates so they will know what the job will involve.
- Allows a job specification to be drawn up which will state the requirements for the job.
- Shows whether an employee carries out the job effectively or not. It helps solve disputes between employees and employers about wages, working hours, etc.

The job description for any business will usually contain

- The title of the job.
- The department one will work in.
- Who will be in charge of the job-holder?

- Who the job-holder will be in charge for.
- The purpose of the job (job summary).
- The main duties of the job.

Job description sometimes contains information about

- The conditions of employment – working hours, wages, pension schemes.
- Training that will be offered.
- Opportunities of promotion.

Job specification / Person Specification

After the job description has been drawn up, the qualifications for the job can be identified. They usually include:

- The level of educational qualifications.
- The amount and type of experience.
- Special skills, talents or knowledge.
- Personal characteristics. (e.g. type of personality)

Advertising the vacancy

The next stage is on how to get people to know that you have a job to be filled.

Internal recruitment

The vacancy can be filled by an employee already in the business. It might be suitable for employees seeking promotion.

Advantages of internal recruitment

- ✓ Saves time and money.
- ✓ The candidates' reliability, ability and potential are already known.
- ✓ The candidates know the expectations and rules of the company.
- ✓ Motivates other employees to work harder to get promoted too.
- ✓ Less training cost as no need of induction training.

Disadvantages of internal recruitment

- ✗ No new ideas or experience come into the business.
- ✗ May create jealousy and rivalry between existing employees.
- ✗ There will still be a vacancy to fill, unless the worker`s previous job has become redundant.

External recruitment

Most vacancies are filled with external recruitment, which always involves advertising the vacancy. Here are some suitable media of advertising:

- <u>Local newspaper</u>
  Usually for office and manual workers. These people are plenty since the job does not require too much skill.
- <u>National newspaper</u>
  Used to find workers for senior positions that requires a lot of skills. It can be read by people anywhere in the country or overseas.
- <u>Specialist magazines</u>
  Used for particular technical specialists such as physicists. Can be used to hire people in the home country or abroad.
- <u>Recruitment agencies</u>
  They Keeps details of qualified people, and will send the suitable applicants to interviews when a business asks for a worker. Many businesses prefer to use recruitment agencies to find them workers because it is easier. However, it is expensive since their fee is based on a percentage of the workers' pay.
- <u>Government job centres</u>
  Place where businesses can advertise their vacancies. These vacancies are usually for unskilled or semi-skilled workers.

Benefits of internal recruitment	Benefits of external recruitment
■ applicants may already be known to the selection team ■ applicants will already know the organisation and its internal methods – no need for induction training ■ culture of the organisation will be well understood by the applicants ■ often quicker than external recruitment ■ likely to be cheaper than using external advertising and recruitment agencies ■ gives internal staff a career structure and a chance to progress ■ staff will not have to get used to new style of management approach if vacancy is a senior post	■ external applicants will bring in new ideas and practices to the business – this helps to keep existing staff focused on the future rather than 'the ways things have always been done' ■ should be a wide choice of potential applicants – not just limited to internal staff ■ avoids resentment sometimes felt by existing staff if one of their colleagues is promoted above them ■ standard of applicants could be higher than if just limited to internal staff applicants

Job advertisement

This is what a business needs to decide when drawing up an advertisement:

- What should be included?
  Job description
  Job specification
- Where the ad will be placed.(depends on job)
- Advertising budget.(depends on job)

Applications forms and CVs/résumés

When a person applies for a job, he will have to fill out an application form, or write an application letter with a CV enclosed. CVs are descriptions about one's qualifications and skills in a set format.

CVs should contain

- Name
- Address
- Telephone Number
- Date of Birth
- Nationality
- Education and qualifications
- Work experience
- Positions of responsibility
- Interests
- Names and addresses of references.

The letter of application should contain briefly

- Why the applicant wants the job.
- Why the applicant feels he/she would be suitable.

Applicant forms ask for the same information as the application letter and CV, but may ask for other types of information.

Interviews

Interviews are the most popular form of selection. However, interviews are not always the most reliable process of selection. They aim to find out these things:

- The applicant's ability to do the job.
- Personal qualities that is advantageous and disadvantageous.
- General characteristics – whether they can "fit in"?

Interviews can be one-to-one, two-to-one, or a panel of people to interview people which is used to select people for important jobs. Some businesses include tests in their selection.

- Skill tests: To test the skills of the candidates.
- Aptitude tests: To test how easily candidates can be trained/learn new things.

- Personality tests: To test for people who have specific personal qualities which will fit into jobs – e.g. that has a lot of stress; requires you to work with a team.
- Group situation tests: To test how well applicants work with other people.

Rejecting unsuccessful applicants

When applicants fail to get the job, they should be informed and thanked for applying.

The Contract of employment

In some countries it is legal requirement. It includes the following

- Name of employer and name of the employee
- Job title
- Date when employment begins
- Hours to be worked
- Rate of pay and any other benefits such as bonus, sick pay, pension
- When payment will be made
- Holiday entitlement
- Amount of notice to be given to terminate the employment that the employer or the employee must give to end the employment.

Part time and full time workers

A part time worker is someone who works fewer hours than a full time worker.

Advantages of part time worker

- ✓ More flexible in the hours of work
- ✓ Easier to ask employees to work at busy times
- ✓ Easier to extend business opening/operating hours
- ✓ Easier to recruit as they can work at lower pay
- ✓ Less expensive than employing a full time worker

Disadvantages of part time worker

- ✗ Less committed
- ✗ Less likely to be promoted
- ✗ More difficult to communicate(when they are not on work)
- ✗ Take longer to recruit two part time worker than one full time worker
- ✗ Less likely to be trained

NOTE: FULL TIME WORKER ADVANTAGES AND DISADVANTAGES ARE OPPOSITE OF PART TIME WORKER

Training

Training is often needed to do achieve the needs listed below. These needs can be long-term or short-term.

- Introduce a new process or equipment.
- Improve efficiency.
- Decrease supervision needed.
- Improve the opportunity for internal promotion.
- Decrease the chance of accidents

Employees should know the benefits of training for them to take it seriously. Here are some objectives of training:

- Increase skills.
- Increase knowledge.
- Change attitude, raise awareness.

There are three main types of training:

Induction training

- Introducing a new employee to their business/management/co-workers/facilities.
- Lasts one to several days.

Advantages

- ✓ Helps to settle to new job quickly

- ✓ Workers are less likely to make mistakes
- ✓ May be a legal requirement.

Disadvantages

- ✗ Time consuming
- ✗ Wages are still but no work is being done
- ✗ Delays the start of the employee commencing their job

On-the-job training

- Employees are trained by watching professionals do a job.
- Only suitable for unskilled and semi-skilled jobs.

Advantages

- ✓ Cuts travel cost(due to individual tuition)
- ✓ Ensures some production while training
- ✓ Costs less than off job training
- ✓ Trains to the specific needs of the business

Disadvantages

- ✗ The trainer's productiveness is decreased because he has to show things to the trainee.
- ✗ The trainer's bad habits can be passed to the trainee.
- ✗ It may not necessarily be recognized training qualification.
- ✗ Worker make more mistakes when learning and this increases waste.

Off-the-job training

- Workers go to another place for training (e.g. school).
- Methods are varied and usually more complex.
- Usually classroom training.
- Employees still work during the day.
- Employees can learn many skills.

Advantages

- ✓ Broad range of skills can be taught.
- ✓ It is economical if training is carried out in evening.
- ✓ Employees become versatile so job rotation is more flexible.
- ✓ Use of expert trainers who have up to date knowledge.
- ✓ Payment of course fee is there while production is still going.

Disadvantages

- ✗ Costs are too high.
- ✗ Additional qualification means workers may become occupational mobile.
- ✗ Wages are still paid but work is not being done by employee.

Workforce planning

A business will need to forecast the type and number of employees needed in the future. This depends on the firm's growth and objectives. The forecast can be done by:

- Finding out the skills of all current employees.
- Counting out people who are leaving soon (e.g. retirement).
- Talk to staff about who would want to retrain for new jobs.
- Provide a recruitment plan. (how many new staff are needed, and how they should be recruited, internal or external)

Sometimes business will need to downsize the workforce. This can be because of

- Automation
- Falling demand of products

- Factory/office/shop closure
- Relocating their factory
- Merger or takeover

Business can reduce the number of employees by

- Dismissal
- Redundancy

Workers may also leave their job because they

- Retire
- Resign

Dismissal

This is done due to the fault of employee

- A worker is fired for unsatisfactory work or behaviour.
- A worker is fired for not working at the standard level.

Redundancy

- Employees are no longer needed.
- Not the fault of the employee.

Employees are given some money to compensate for their lost job.

- The money is often negotiated with trade unions.
- Some government has laws that make businesses pay for their workers this way.

Factors to be considered for retention and redundancy of employee

- Length of time employed by the business
- Workers with essential skills
- Employment history of worker
- Some workers may volunteer (due to other job or retirement)
- Department of the business

Legal control over employment issues

Protecting employees' rights

Employees need protection in the following areas:

- Unfair discrimination
- Health and safety at work
- Unfair dismissal
- Wage protection

Protection against unfair discrimination

Often workers are discriminated in a job because of various reasons stated below

- Different race or colour
- Different religion
- Opposite sex
- Too old/ too young for the job
- Disability

Health and Safety at work

According to laws businesses has to

- protect workers from dangerous machinery.
- provide safety equipment and clothing.
- maintain reasonable workplace temperatures.
- provide hygienic conditions and washing facilities.
- do not insist on excessively long shifts and provide breaks in the work timetable.

MANAGERS NOT ONLY PROVIDE SAFETY FOR THEIR EMPLOYEES ONLY BECAUSE LAWS SAY SO. SOME BELIEVE THAT KEEPING EMPLOYEES SAFE AND HAPPY IMPROVES THEIR MOTIVATION AND KEEPS THEM IN THE BUSINESS. OTHERS DO IT BECAUSE IT IS PRESENT IN THEIR MORAL CODE. THEY ARE THEN CONSIDERED MAKING AN ETHICAL DECISION. HOWEVER, IN MANY COUNTRIES, WORKERS ARE STILL EXPLOITED BY EMPLOYERS.

Protection against unfair dismissal

Employees need protection from being dismissed unfairly. The following reasons for the employee to be dismissed are unreasonable:

- For joining a trade union.
- For being pregnant.
- When no warnings were given beforehand.

WORKERS WHO THING THEY HAVE BEEN DISMISSED UNFAIRLY CAN TAKE THEIR CASE TO THE INDUSTRIAL TRIBUNAL TO BE JUDGED AND HE/SHE MIGHT RECEIVE COMPENSATION IF THE CASE IS IN HIS/HER FAVOUR.

Wage Protection

Employers must pay employees the same amount that has been stated on the contract of employment, which states:

- Hours of work.
- Nature of the job.
- The wage rate to be paid.
- How frequently wages will be paid.
- What deduction will be made from wages, e.g. income tax.

A minimum wage rate is present in many Western countries and the USA. There are Advantages and cons of the minimum wage:

Advantages

- ✓ Prevents strong employees to exploit unskilled workers who could not easily find work.
- ✓ Encourages employers to train unskilled employees to increase efficiency.
- ✓ Encourages more people to seek work.
- ✓ Low-paid workers can now spend more.

Disadvantages

- ✗ Increases costs, increases prices.
- ✗ Owners who cannot afford these wages might make employees redundant instead.
- ✗ Higher paid workers want higher wages to keep on the same level difference as the lower paid workers. Costs will rise.

Chapter 9
Internal and external communication

Communication is the transferring of a message from the sender to the receiver, who understands the message.
The message is the information or instructions being passed by the sender to the receiver.

Effective communication and its importance

Communication between two or more people or groups of people will only be effective if:

- The message is sent using the correct communication media
- The message is sent to and received by the right person
- The receiver understands the message
- The receiver provides feedback to the sender to confirm they have received and understood the message.

Effective communication brings a number of benefits to business including:

- Reducing the risk of mistakes
- Enabling faster decision making
- Enabling quicker responses to market changes
- Improving coordination between departments
- Improving morale and motivation of the workforce
- Improving customer relationship

One way communication and two way communication

One-way communication is when there is no feedback required for the message, or the receiver is not allowed to reply.
Example: no smoking, give me the documents.
The other is two-way communication, when feedback is required. Therefore, both people are now involved in the communication process. This could lead to better and clearer information.
Example: face to face conversation, telephonic conversation.

Whether following are two way communication or not

	Two-way communication?
Notice on table	No. It can only be read; there is no way for the receivers to reply.
Face-to-face conversation with worker	Yes. The worker can reply to the manager immediately.
Notice on board	No. There is no way of telling who has read the notice.
Telephone call	Yes, as long as it is not an answering machine!
Email	Yes, an email can be sent in reply quickly.
Sign	No. It cannot be responded to.
Letter	Yes, but only a relatively slow response by post.
Meeting	Yes, as long as the chair of the meeting encourages all those attending to give their opinions.

Internal and External Communication

Internal communication is messages sent between people inside a business. For example:

- The boss talking to his subordinates.
- A report sent to the CEO.

External communication refers to messages sent to people or organisations outside the business. For example:

- Orders for goods from suppliers.
- Talking to customers.
- Advertising to the public.

Both types of communication is almost the same, the only difference is who is being communicated with.

Different ways of communication

Oral and verbal communication

Verbal/Oral communication might be:

- One-to-one talks.
- Telephone conversations.
- Video conferencing.
- Meetings.

Written communication

- Letters
  Used for both external and internal communication. Follows a set structure(formal).
- Memos/memorandum
  Used only for internal communication.
- Reports
  Detailed documents about any problem are available. They are done by specialists who send them to managers to analyse before meetings. These reports are often so detailed that they cannot be understood by all employees.
- Notices
  Pinned to notice boards that offer information to everyone. However, there is no certainty on whether they are read or not.
- Agenda
  Used to show the order for the conduct of a meeting
- Job description
- Invoice
- Company magazine
- Purchase order

Electronic communication

- Faxes
  Written messages sent to other offices via telephone lines.
- E-mails
  Messages sent between people with the same computing facilities. The message is printed if a hard copy is needed.
- Text messaging
  INTRANET (A NETWORK INSIDE A BUSINESS WHICH LETS ALL EMPLOYEES WITH A COMPUTER MESSAGE EACH OTHER)
  INTERNET (THE GLOBAL NETWORK FOR MESSAGING ANYONE. (E.G. CUSTOMERS, SUPPLIERS))

Visual Communication

- Films, videos, and PowerPoint displays
  Often to help train new staff or inform sales people about new products.
- Posters
  Can be used to explain a simple but important message. (E.g. propaganda poster)
- Charts and diagrams
- Can be used in letters or reports to simplify and classify complicated data. Computer technology could help in the design of these charts or diagrams. A printed copy might be needed for hard data to add to reports and documents.

Method	Benefits	Limitations
Oral	• Personal contacts between sender and receiver • Allow for immediate feedback • Language used can be altered to the needs of the receiver	• No permanent record • Receiver might not listen • Receiver might not hear the message correctly because of noise
Written	• Provides a permanent record • Can be used by the receiver more than once, to check understanding • Can be sent to many receivers • The message cannot be changed	• No personal contact • Feedback is lower • Might not be understood because language is too complex, or message is to long • Time consuming for both sender and receiver
Electronic	• Very quick • Some methods(email) provide a permanent record and can be looked at more than once to check understanding • Can be sent to many receivers at the same time • Can be used to create a more interesting message (company website)	• Not everyone has access to the equipment needed • Equipment and software can be expensive • No personal contact except for video conferencing • Risk of the message being received by people whom it is not intended for – lose confidentiality
Visual	• Can simplify complex data so more easily understood • Creates interest and grabs the attention of receivers • Receivers often remember visual messages especially if moving images are used	• Some detail might be lost • Different receivers might interpret the information differently

Choosing the best method of communication

When choosing the best method of communication, businesses need to think about:

- How urgent message is (telephone call or face to face conversation)
- The length and complexity of the message (Written communication would be better)
- How many people need to receive the message (letter or email if more people are involved)
- How far away the receiver is from the sender (email , text , phone call , letter)
- How important it is for all receivers to receive the message at the same time (Meetings , emails)
- The cost of media
- How important it is to have a written record of the communication
- If the message discussion (meetings, telephone call, video conferencing)
- How confidential the message is

Communication media	advantages	disadvantages
Letters	• Written record • Confidential	• Postage cost
Memorandum	• Written record	• Only used for internal communication
Email and text messaging	• Written record	• Cost of equipment • Might not be confidential
Telephone	• Can discuss message to make sure it is understood	• Cost • Not face to face
Meetings	• Everyone gets the same message • Allow for the possibility of discussion and feedback	• Time consuming • Costly if people have to travel from different locations

		• No written record unless minutes are taken
Interviews	• Confidential • Allow for the possibility of discussion and feedback	• Time consuming • No written record unless minutes are taken
Video conferencing	• Reduce travel cost • Less time consuming as no need to travel	• Cost of equipment • Problem with different world time zones
Charts and diagrams	• Information is easier to understand	• Loses some of the detail

Barriers to effective communication

Problem with	***Case***	***Solution***
sender	1. Language is too difficult to understand. Technical jargon may not be understood 2. There are problems with verbal means of communication. (e.g speaking too quickly) 3. The sender sends the wrong message to the wrong receiver. 4. The message is too long with too much detail which prevents the main points from being understood.	1. The sender should ensure that the receiver can understand the message. 2. The sender should make the message as clear as possible and ask for feedback. 3. The sender must ensure that the right person is receiving the right message. 4. The message should be brief so that the main points are understood.
the medium	1. The message may be lost. 2. The wrong channel has been used 3. Message could be distorted after moving down a long chain of command. 4. No feedback is received. 5. Breakdown of the medium.	1. Check for feedback. Send the message again! 2. Ensure the appropriate channel is selected. 3. The shortest channel should be used to avoid this problem. 4. Ask for it! Use different methods of communication (e.g. meeting) 5. Use other forms of communication.
the receiver	• They might not be listening or paying attention. • The receiver might not like or trust the sender, and may be unwilling to act upon the message.	1. The importance of the message should be emphasized. Request feedback. 2. Trust is needed for effective communication. Use another sender to communicate the message.
the feedback	• There is no feedback. • The feedback is received too slowly and may be distorted.	1. Ask for feedback. Use a different method of communication which allows feedback. 2. Direct lines of communication should be available between the subordinate and the manager.

Overall Communication barriers can be removed/ reduced by

- Using appropriate language (i.e. simple instead of complex).
- Keeping the channel of communication as short as possible.
- Insisting on feedback as this shows that message has been received and understood.
- Using appropriate medium for the message.

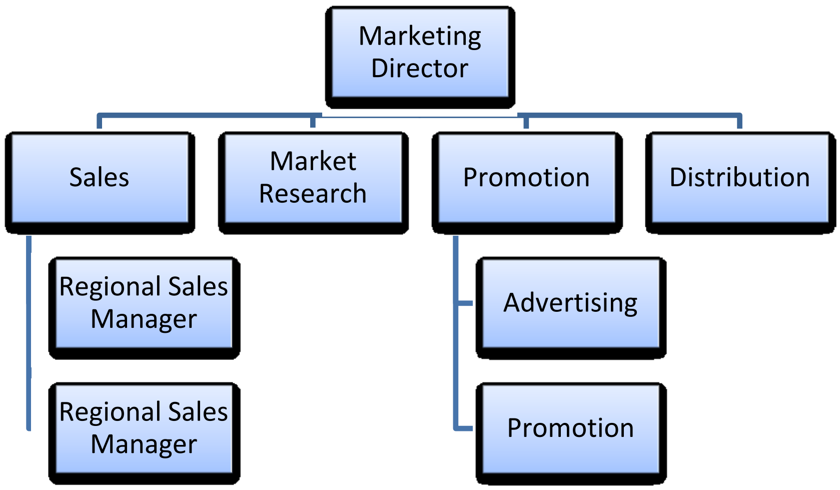
- Coping with physical barriers (Noise).
- Building a culture of trust and respect between all employees.

Chapter 10
Marketing, Competition and the customer

Marketing is the management process which identifies consumer wants, predict future wants, create wants and find ways to use these wants to the fullest (most profitably).
Marketing covers a wide range of activities such as: advertising, packaging, promotion, etc…

The Marketing department

Most businesses will have a Marketing department, which will have a Marketing Director. He will be in charge of things such as R&D, distribution and pricing. Here is an organisational chart showing what departments the marketing director controls



- Sales department
  Responsible for sale and distribution of products for each region. There may also be an export department.
- Research and Development department
  Responsible for finding out consumer needs, market changes, the impact of competitor's action and developing new products.
- Promotion department
  It deals with organizing the advertising for products.it also decides on the type of promotion that will be included in campaigns. It will need a marketing budget which limits the amount of money it can spend.
- Distribution department
  It transports products to their markets.

The role of Marketing

- To identify customer needs
- To satisfy customer needs
- To maintain customer loyalty
- To gain information about customer
- To anticipate changes in customer needs

By fulfilling all these role business will be able to

- Raise customer awareness
- Increase sales revenue
- Increase or maintain market share
- Maintain or improve the image of products or a business
- Target a new market or market segment

- Enter new market at home or abroad
- Develop new products or improve existing products

MARKET CHANGES

Target market: individuals or organizations identifies by a business as the customers or consumers of their products.

Change in consumer spending pattern

- Change in consumer taste and fashion
- Change in technology
- Change in incomes
- Changes in population size and structure(Ageing Population)

Changes in Market

Most of the markets are competitive due to

- Globalisation
- Improvements in transportation
- Internet/ E-commerce

How can businesses respond to changing spending patterns and increased competition?

In order to remain successful, a business need to

- Maintain good customer relationship
  It is often cheaper to keep existing customers than gain new ones.
- Keep improving its existing product(Apple)
- Bring out new products to keep customer interest(Microsoft)(Product Development)
- Keep cost low to maintain competitiveness. (Improve efficiency)
- Look for new markets

Market

A market is where buyers and sellers come together and exchange their products for money. It can be in the streets, on the internet, in shops around the world etc.

Mass Market

Mass Market is where there is a very large number of sales of a product.

Advantages	*Disadvantages*
• **Very large sales**	• High level of competition
• **Economies of scale**	• High cost of advertising
• **Risk is spread**	• Standardized products are there only, so no any customized product (loss of sales)
• **Opportunities for growth of the business**	

Niche Market

Niche market is a small, usually specialized segment of much larger market.

Advantages	*Disadvantages*
• **Low competition**	• Limited number of sales.
• **Provision of customized and specified products**	• Risk of failure due to specialisation in one product.
• **Firms has opportunity to charge high prices**	• Economies of scale are unlikely to be achieved.
• **Small firms are able to survive and earn profits**	• Small changes in consumer spending patterns could

even in markets that are dominated by larger firms.	have a very significant impact on firms operating in niche market.

Market Segmentation
Market segmentation is when a market is broken down into subgroups which share similar characteristics.
Market segments are parts of a market which contains people which have similar preferences for their products. The Marketing department should know which segment their product fits the most, so that they can advertise and sell their products to it.

Benefits

- Higher sales and profits
- Increased sales
- Making marketing expenditure cost effective

Ways of Market Segmentation
- Socio-economic group (income)(branded and non-branded products)
- Age(cloths)
- Region/location
- Gender
- Use of product(cars and heavy machinery)
- Lifestyle(restaurants)

Chapter 11
Market Research

A market orientated company is one that organise its activities, products and services around the wants and needs of its customers.

A product-orientated firm has its primary focus on its product and on the skills, knowledge and systems that support that product.(Ford Company in past)

Successful companies recognize the importance of both approaches. Products must start with the needs and wants of customers. But delivery of a profitable product depends on efficiency and quality in production.

In the real world, market and product orientation are closely intertwined so that companies like Gillette, Coca-Cola and Travis Perkins, will:

- carry out market research into what consumers want
- organise product research in line with the results of market research
- constantly engage in qualitative market research to find out what focus groups of customers think of new ideas
- test market new products in smaller market areas before launching them onto a wider market
- Evaluate ongoing customer perception of goods and services, in order to make improvements to technologies and product offerings.

> ***Market orientation gets the right product: product orientation gets the product right.***

Market Research

Market research is the process of collecting, recording and analysing data about the customers, competitors and market for a product.

Market research is used to try to find out the answer to these questions.

- What feature of the product do they like/dislike?
- Are people willing to buy the product?
- What price are people prepared to pay?
- Location of the selling point of the product.
- Type of customer who buys the product.
- Type of promotion that will be effective.
- Competition in the same industry.

There are two main types of information that can be gathered from market research:

1. Qualitative information: information where opinion or judgment is necessary.
2. Quantitative information: information about the quantity of something.

There are two ways to gather any information for market research:

1. Primary research or field research.
2. Secondary research or desk research.

Primary Research

Primary research is the collection and collation of original date. It involves direct contact with potential or existing customers.

There are various types of primary research method

- Questionnaires
- Interviews(consumer surveys)
- Focus group
- Observation
- Test Market

The process of primary research

1. Identify the purpose of the market research.
2. Decide on the best method of research. (primary, secondary or both)
3. Decide on the size and type of sample (group of people who will be asked)
4. Carry out the research.
5. Collate data and analyse results.
6. Produce a report. (may include recommendations of action paths to take)

Methods of primary research

Questionnaires

Questionnaires involve asking people questions. Deciding what questions to ask since sometimes questions may mislead people and make them answer what they don't really think.

Advantages:

1. Detailed qualitative information can be gathered.
2. Customers' opinions can be gathered.
3. Can be carried out online.
4. People can be encouraged by giving prizes on filling the questionnaires.

Disadvantages:

1. If the questions are not well thought out it could mislead customers.
2. Takes time and money
3. Collating and analysing the results is also time-consuming.

Interviews

Interviews are face-to-face conversations with customers where the interviewer has a set of prepared questions.

Advantages

1. The interviewer can explain any questions the interviewee does not understand.
2. Detailed information about customers' opinions.

Disadvantages

1. Interviewer bias. The interviewer might unconsciously lead the interviewee to answer in a certain way.
2. Time consuming and expensive.

Samples

A group of people who are chosen to do market research on. There could be

Random sample: A random number of people are selected.

Quota sample: People are selected for some certain characteristics.

Stratified Sampling: Population is divided into groups with specific characteristics and then a

sample is randomly selected

Focus groups
Focus groups are groups of people who agree to provide information and spending patterns about a product. They may even test it and give feedback on likes and dislikes.

Advantages

- They provide detailed information about a product.

Disadvantages

- They can be time consuming, expensive, and biased if opinions of some is influenced by others.

Observation
Observation involves

1. Recording: e.g. meters can be fitted to a monitor to see what people are watching.
2. Watching: e.g. see how many people go into a shop and actually buy something.
3. Audits: e.g. counting inventory to see what has sold well. (inspecting)

Advantages

- It is economical.

Disadvantages

- Only provide basic figures and not reasons why people do things.

Secondary research
Secondary research means taking information that has been already collected by others. The information may be from either internal sources or external sources.

Internal sources of information
Data collected from past researches could easily be used again if it is needed. Examples of internal sources of information include:

- Sales department: sales records, pricing data, customer records, sales records.
- Distribution and PR personnel.
- Finance department.
- Customer service department.

External sources of information
Data collected from sources outside the business. The data may still be useful but there are many limitations since it has been gathered for other purposes. Sources include

- Internet: gives all sorts of information, but the info must be validated.
- Trade and employer associations: gives info about things in an industry.
- Specialist journals.
- Research reports.
- Newspapers: about the economy and disposable income of workers.
- Government reports and statistics: contains things such as age groups and culture.
- Media reports.
- Market research agencies' reports: detailed reports on the economy. Expensive to buy.

Secondary research is often a much cheaper way of obtaining information. It also gains access to data which cannot be gathered by primary research such as government issues or the economy.

	Benefits	Limitations
Primary Research	• Data is up-to-date	• It is costly to collect
	• Data is relevant to specific needs.	• Date may be inaccurate due to sampling error or interviewer biasness.
	• Data is not available to others so business has competitive advantage	• It is time consuming
Secondary Research	• It is economical to obtain	• It is not up-to-date
	• It is easier and quicker	• May not be reliable and relevant

Who carries out market research?

Normally, research is done by any business that needs it. In smaller businesses, owners use secondary research since they cannot afford to conduct primary research. However, if a business has enough money, it can afford to have a specialist market research agency to do the research for it.

Accuracy of market research information

The reliability or accuracy of the data that has been collected depends largely on

1. How carefully the sample was drawn up.
2. How questions were phrased.
3. The sample selected.
4. The size of sample.
5. Whether questions were rephrased or not for better understanding (test on small group first then on large)
6. Type of research (primary or secondary)
7. Biasness
8. Age of the information

How to design and use a questionnaire

Firstly, you need to ask yourself some questions

- What do I need to find out?
- Who do I need to ask?
- Where will I carry out my questionnaire?

Writing the questions

- Ask no more than 12 questions. (impatience)
- Make the questions simple. The answers should be simple enough to collate. (e.g. Yes/No answers)
- Use choice of age groups.
- Avoid open-ended questions.
- Avoid misleading the interviewee with questions. (don't want to cause offence)
- The order of the questions should be logical.

Carrying out the questionnaire

First you need to figure out

- How you will ask the questions.
- How you will collate the results.

Then

- Where are you going to carry out the questionnaire?
- Who are you going to ask?

And finally:

- How many people will be asked?
- When will you ask the questions? (time)

Analysing questionnaires

Analysing the results should be straightforward if you have easily collated the data. It simply involves reading the answers and thinking about what they mean. It takes practice.

Presentation of data from market research

Presentation of data is important because it converts raw data into a form that is easier to understand. Information can be displayed as:

Table/tally chart

It is the most suitable method of presenting data when raw data is needed. However, it offers little more than that and the information should be converted into other forms if it needs to be understood or analyse carefully. It is sufficient for info that is brief or does not contain a lot of different things.

- ✓ It is easy to extract numerical data.
- ✓ Large amount of data can be grouped and presented more clearly.
- ✗ They lack visual impact.
- ✗ Too much data in the table can make it difficult to understand

Bar chart

Charts are a more meaningful and attractive way to present data. They are normally used to compare two or more sets of stats with each other.

- ✓ You can easily see the importance of each piece of data.
- ✓ You can read numerical values from the axis.
- ✗ When the data values are similar then it is difficult to compare the different parts and the chart loses visual impact.

Pie chart

Pie charts are ways to show the proportion that each components take up compared to the total figure.

- ✓ Show how important each part of the data is compared to the other parts.
- ✓ Being easier for people who do not understand numerical values or dislike numerical values.
- ✗ If there are too many slices then it is difficult to see the relative importance of different parts of the data.

Line graph

Graphs show the relationship between two variables. It can be drawn in a straight or curved line. It is usually to compare things with time and to identify trends.

- ✓ They clearly shows trends
- ✓ Values can be read off from both axis.

- ✓ Data can be added for future time periods.
- ✗ They can be difficult to draw and accuracy depends on choosing appropriate scales for both axis.

Chapter 12
The Marketing Mix: Product

The marketing mix is a term which is used to describe all the activities which go into marketing a product or service. These activities are often summarized as four Ps – Product, Price, Place and Promotion.

The role of product in the marketing mix

The product itself is the most important element in the marketing mix. Without it, the other three wouldn't exist. Most companies today are market oriented, and will identify a suitable product for the market before moving on to determine the other 3 elements. Large companies have R&D departments which spends all its time developing new product and analysing the pros and cons of competitors' products.

Marketing is the process that identifies, anticipates and supplies customer requirements profitably. The elements of the marketing mix must be combined together in an integrated way so that each one reinforces the other three.

- **Product** includes design, function, colour, level of service and quality.
- **Price** may be high or low in relation to costs or competitors' prices.
- **Promotion** is the methods used to inform or persuade consumers, including advertising, offers and sponsorship.
- **Place** is the methods used to get the product to the customer. It includes physical means of transport and where and how customers can obtain the product.

Types of products

- Consumer goods: Goods that are used up by consumers. (e.g. food, cake)
- Consumer services: Services that are produced for people. (e.g. education)
- Producer goods: Goods produced for businesses. (e.g. machinery)
- Producer services: Services for businesses. (e.g. accounting, insurance)

Each type of product determines the price, promotion and place to sell the product.

What make a products successful

- Products need to satisfy consumer wants/needs to be successful.
- The product must be at the right quality so that customers are willing to pay for it.
- Costs should be low enough to make a profit.
- Design of a product is important. This means that its quality and durability should meet expectations and match the price of the product. The design should also enhance the products brand image.
- Products should have novelty factor. (The first business to produce the new product or introduce new changes to the original product).
- Products can stimulate new wants.

Product development

Most businesses use a general process to develop any product:

1. **Generate ideas**
   Ideas can be generated by:
   - Employees.
   - Customers.
   - Competitor's products.
   - R&D department.
   - Sales department.
2. **Further research**
   The best ideas are selected and further research is done to see their pros and cons.
3. **Will there be enough sales**
   To see whether there will be enough sales of the product to break-even (development costs included).
4. **Develop a prototype**
   To see how a product could be manufactured and identify its problems.
5. **Test launch**
   To see if the product can sell or not.
6. **Full launch**

The cost and benefits of developing new products

- ✓ USP(Unique Selling Point)
- ✓ Diversification
- ✓ Business Expansion(New market)
- ✓ Business Expansion(Existing Market)

- ✗ Cost of Market Research
- ✗ Cost of trial products
- ✗ Lack of sales if target market is wrong
- ✗ Loss of company image if product fails.

The importance of branding

Traditionally, a product's unique features and quality were explained by the sellers who made the product. However, since products are usually sold in private retail shops nowadays, these points need to be projected differently. Products therefore need to be branded with an unique brand name and the products features and quality will be projected with advertisement. The price of branded goods is usually higher, since customers are more confident to buy them.
Here are things that are involved with branding:

- Unique name.
- Unique packaging.
- Needs advertising to enforce the brand's qualities.
- Higher price than unbranded products.
- Higher quality than unbranded products.
- Creates a brand image (unique image associated with using the product)
- Creates brand loyalty.
- Consistent quality.

Packaging

Getting the packaging right is very important. Packaging performs several tasks:

- Protecting the product (also includes preserving foods)

- Making it easy to transport.
- Allow the product to be used easily. Container must be able to be opened easily. (e.g. juice in a can)
- Suitable for the product to fit in.
- Packaging also helps promote the product:
- Make it eye-catching.
- Carries information about the product.
- Promotes the brand image.

The product life cycle

Product life cycles show the stages that a product goes through from its introduction, to its growth, and then to its decline. Here is a graph to show the product life cycle:

1. Development
   The product is under development.
2. Introduction
   The product is introduced. Sales grow slowly and informative advertising start to attract customers. Price skimming could be used if the product is new to the market. The main aim of sales is to breakeven.
3. Growth
   Prices rise rapidly. Persuasive advertising is used to encourage brand loyalty. Prices may be reduced a little. Sales start to generate profits since costs have been covered.
4. Maturity
   Sales rise more slowly. Competition forces prices to be lowered and the firm uses competitive pricing. Advertising is used to maintain sales. Profits are at their highest.
5. Saturation
   Sales reach their limit. There are no new competitors. Sales and advertising becomes stable but profits fall because of lowered prices to be competitive.
6. Decline
   Product goes out of fashion and sales and profits decline. Advertising eventually stops. It is no longer profitable to product the product.

The length of each stage varies with products. The business needs to identify which stage their products are in so that they can use a suitable marketing strategy for it.

Phase of the product life cycle	Price	Promotion	Place (distribution outlets)	Product
Introduction	■ may be high compared to competitors (skimming) or low (penetration)	■ high levels of informative advertising to make consumers aware of the product's arrival on the market	■ restricted outlets – possibly high-class outlets if a skimming strategy is adopted	■ basic model
Growth	■ if successful, an initial penetration pricing strategy could now lead to rising prices	■ consumers need to be convinced to make repeat purchases – brand identification will help to establish consumer loyalty	■ growing numbers of outlets in areas indicated by strength of consumer demand	■ planning of product improvements and developments to maintain consumer appeal
Maturity	■ competitors likely to be entering market – there will be a need to keep prices at competitive levels	■ brand imaging continues – growing need to stress the positive differences with competitors' products	■ highest geographical range of outlets possible – developing new types of outlets where possible	■ new models, colours, accessories, etc. as part of extension strategies
Decline	■ lower prices to sell off stock – or if the product has a small 'cult' following, prices could even rise	■ advertising likely to be very limited – may just be used to inform of lower prices	■ eliminate unprofitable outlets for the product	■ prepare to replace with other products – slowly withdraw from certain markets

Table 18.2 The marketing mix and phases of the product life cycle

Extending the product life cycle

When a product has reached its maturity or saturation stage a business may adopt extension strategies to stop sales from falling which extends the product life cycle. Sales are given a boost by these strategies.

- Introducing new variations of the product.
- Sell into new markets.
- Make small changes to the products design and packaging.
- Sell through additional, different retail outlets.
- Update the product (make it better)
- Use a new advertising campaign.

Extension strategies aim to prolong the maturity stage of a product. Successful extension strategies may result in something like this:

Nevertheless, it must be noted that businesses manufacture more than one product. They should have a product in growth stage to counteract an older one which is declining.

Chapter 13
Price

Pricing strategies

If a product is easily recognizable from other products, it would probably have a brand name. And if it has one, it would need a suitable pricing strategy to complement the brand name that should improve its brand image. Here are the strategies that are used:

Cost-plus pricing

Cost-plus pricing involves covering all costs and adding a percentage mark-up for profit.

- ✓ Easy to apply.
- ✗ You lose sales if your price is higher than your competitor's price.

Penetration pricing

Penetration pricing is used to enter a new market. It should be lower than competitors' prices.

- ✓ Ensures that sales are made when a product enters a market.
- ✗ Prices will be low. Sales revenue will be low.

Pricing skimming

High prices are used when a new product is introduced into a market, partly because it has a novelty factor, and because of the high development costs. High prices could be charged because a product is high quality. One last use of it is to improve the brand image of a product, since people usually associate high price with good products.

- ✓ Skimming can help establish a product as being good quality.
- ✗ It may lose potential customers because of high price.

Competitive pricing

Competitive pricing means setting your price to a similar or lower level than your competitor's prices.

- ✓ Sales will be high because your price is at a realistic level (not under/over-priced).
- ✗ You have to research on your competitors prices which cost time and money.

Promotional pricing

Promotional pricing means that you lower the prices of goods for a short time.

- ✓ Help get rid of unwanted stock.
- ✓ Can renew interest in a product.
- ✗ Sales revenue will be lower.

Psychological pricing

Psychological pricing involves setting the price that changes consumers' perception of a product. This may be by:

- Using high price to make using the product give the user a status symbol.
- Pricing a product at just below a whole
- number (e.g. $99) which gives it an impression that it is cheaper.
- Supermarkets charge low prices for products that are bought on a daily basis to give consumers an impression that they are being given good value for money.

- ✓ It ensures that sales are made by reinforcing customer perception
- ✓ Little sales revenue is lost
- ✗ The competitors may do the same and so reduce its effect

Dynamic Pricing

In dynamic pricing, the price is not firmly set; instead it changes based on changing circumstances, such as increases in demand at certain times, type of customer being targeted or changing marketing conditions. This type of pricing strategy is especially common in certain types of business, particularly those providing a service, such as airlines, but can also be used with product pricing.

- ✓ Increases sales revenue and profits
- ✗ Cost more due to changing prices

Pricing Method	When to use	Justification
Cost Plus	Single product business.	Due to fewer competitors a fixed markup can be earned on each product sold.
Competitive	Product difficult to brand and product differentiation.	Consumers will be unlikely to buy a products at high price unless its quality matters.
Psychological	Setting a high price for a quality branded product.	A low price will make consumers believe that the product is not of high quality.
Penetration	Low price for a new product in a competitive market.	Likely to achieve high market share quickly.
Skimming	High price for a newly developed product.	Earns a high profit
Promotional	Low price to sell unwanted inventories.	It will reduce inventory holding cost.
Dynamic	Charging different price to different groups of passengers.(UBER)	To increase revenue

Price Elasticity of Demand

Elasticity is a concept which involves examining how responsive demand (or supply) is to a change in another variable such as price or income.
The price elasticity of demand measures the responsiveness of quantity demanded to a change in price, with all other factors held constant.

The price elasticity of demand, PED is defined as the magnitude of:

$$\frac{\text{Proportionate change in quantity demanded}}{\text{Proportionate change in price}}$$

Since the quantity demanded decreases when the price increases, this ratio is negative; however, the absolute value usually is taken and PED is reported as a positive number.

The product would be said to have price-elastic demand if the percentage change in quantity demanded is greater than the percentage change in price.

The product would be said to have price-inelastic demand if the percentage change in quantity demanded is less than the percentage change in price.

Importance of Price Elasticity

If the price elasticity of demand is inelastic then it is better for business to increase price to increase revenue.

DETERMINANTS/FACTORS AFFECTING ELASTICITY OF DEMAND

Determinant	How determinant affect Elasticity of Demand
Availability of substitutes	Demand will be elastic if more substitutes are available. (because if price increases, people will switch to other lower-priced substitutes.)
Degree of Necessity	▪ Demand will be elastic for Luxury goods e.g. Cars or Jewellery ▪ Demand will be inelastic for Necessity goods e.g. Food or medicines) (because if price increases, people can live without luxuries but cannot live without necessities)
Scope of definition of a good/market	▪ Demand will be elastic if good is narrowly defined (e.g. Rice or Wheat). ▪ Demand will be inelastic if good is broadly defined (e.g. Food). (Because for broad category, there will be lesser substitutes)
Brand loyalty	Demand will be inelastic if there is brand loyalty. (Because people stick to brands.)
Time Period	▪ Demand will be elastic in long run. ▪ Demand will be inelastic in short run. (because as time passes, people find substitutes or may change habits)
Portion of budget used on item	▪ Demand will be elastic if higher percentage is spent on good e.g. vehicle. ▪ Demand will be inelastic if lower percentage is spent on good e.g. salt. (because people will respond less if budget is affected less)
Degree of addiction	Demand will be inelastic if there is addiction of the good e.g. cigarette/tea. (Because people will not quit their established habit as long as they can afford.)

Chapter 14
Promotion and technology in marketing

Role of promotion

Promotion gives the consumer information about the rest of marketing mix – without it, consumers would not know about the product, the price it sells for or the place where the product is sold.

Promotion includes

- Advertisement (above the line promotion)
- Sales promotion (below the line promotion)

Aims of Promotion

- To introduce new products on to the market
- To inform people about particular issues, often used by government.
- To compete with competitors` product
- To create a brand image
- To increase sales
- To improve the company image

Advertising (Above the line Promotion)

- Informative advertising (Involves giving as much information about the product as possible. (e.g. computer)
- Persuasive advertising (Involves persuading consumers that they need the product and should buy it. (e.g. perfume)

The advertising Process

1. **Set objectives**
   A business needs to determine the purpose of advertising.
   - Is it to capture a new market
   - Is it to increase market share
   - Is it to improve the company image
2. **Decide the advertising budget**
   Set a limit on how much the business can spend on advertising. It can be decided based on:
   - A percentage of predicted sales revenue.
   - How much competitors are spending.
   - How much the business can afford.
3. **Create an advertising campaign**
   Decide on what advertising campaign to run. Can be determined based on:
   - Target audience.
   - Purpose of advertisement
4. **Select the media**
   Using the suitable media for advertising that is the most cost effective. E.g. TV, newspaper.

5. **Evaluate the effectiveness of the campaign**
Has the advertising met objectives.

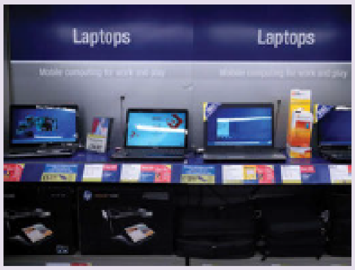
Advertising Media	Advantages	Disadvantages	Examples
Television	✓ Millions of people will see it. ✓ The product can be presented in a very attractive way. ✓ Easy to reach target audience	× Expensive	Food Cars Household tools
Radio	✓ Cheaper than TV. ✓ Uses song or tune which makes ads memorable. ✓ Reaches a large audience	× Cannot use visual message. × Expensive compared to others. × The advert has to be remembered. × Not as wide audience as TV	Local services Shops
Newspaper	✓ Can reach many people. ✓ Cheap for local newspapers. ✓ A lot of info can be put into the ad. ✓ Adverts are permanent*.	× Not eye-catching if they are in black and white. × Does not grab reader's attention.	Local products Cars Banks
Magazines	✓ Can use specialist magazines to reach only target audience. ✓ Magazine ads are in colour	× They are only published once per month/week. × More expensive then newspapers.	Perfume Golf equipment Fashion clothes
Posters/billboards	✓ Permanent* ✓ Cheap ✓ Potentially seen by anyone who passes by them.	× Can easily be missed. × No detailed info can be included.	Events Products bought by a large section of the population
Cinemas	✓ Visual image shows product in a positive way. ✓ Fairly cheap. ✓ Effective if target audience goes to see particular films.	× Only seen by people who go to watch films.	Toys for a children's film.
Leaflets	✓ Cheap ✓ Given to a wide range of people. ✓ Delivered to people's houses.	× May not be read.	Local events. Retail stores like Seven-Eleven

	✓ May contain vouchers to encourage readers to keep the advert. ✓ Permanent*		
Internet	✓ Can be seen by anybody around the world. ✓ Can store lots of info. ✓ Orders can instantly be made.	× Internet searches may not highlight the website and it could be missed. × Internet access is limited in some countries. × Competition from other websites. × Security issues may discourage people from buying online.	Virtual goods. Services such as banking or insurance. Virtually anything that is not too small.
Posters/Billboards	✓ Permanent. ✓ Economical. ✓ Seen by everyone who passes.	× Not detailed × Can easily be missed by many peoples.	Local events Products purchases by large section of population
Cinemas, DVD and blue-ray discs	✓ Economical ✓ Effective ✓ Give visual image	× Seen by only limited numbers of people	Normal Adds when movie is watched.
Other forms(T-shirts, bags , pen)	✓ Economical.	× May not be seen by customers in the target market	Small retailer shops
Product Placement (Drama , shows)	✓ Can target specific audience ✓ Association with the image in shows	× Expensive × May have negative impact	Use of branded cars in Movies (Fast and Furious)

Permanent* : Advertisement can be used for future preferences.

Sales Promotion (Below the Line Promotion)

Method	Method explained	Possible limitations
	Price promotions – these are temporary reductions in price, also known as price discounting. They are aimed at encouraging existing customers to buy more and to attract new customers as the product now appears more competitive.	■ Increased sales gained from price reductions will affect gross profit on each item sold. ■ There might be a negative impact on the brand's reputation from the discounted price.
	Money-off coupons – these are a more versatile and better-focused way of offering a price discount. Coupons can appear on the back of receipts, in newspaper adverts or on an existing pack of the product.	■ They may simply encourage consumers to buy what they would have bought anyway. ■ Retailers may be surprised by the increase in demand and not hold enough stocks, leading to consumer disappointment. ■ The proportion of consumers using the coupon might be low if the reduction it offers is too small.
	Customer loyalty schemes, such as air miles or customer loyalty cards – these are focused on encouraging repeat purchases and discouraging consumers from shopping with competitors. The information stored through these loyalty cards provides a great deal of information about consumers' buying preferences.	■ The discount offered by such schemes cuts the gross profit on each purchase. ■ There are administration costs to inform consumers of loyalty points earned and these may outweigh the benefits from increased consumer loyalty. ■ Most consumers now have many loyalty cards from different retailers, so their loyalty impact is reduced.
	Money refunds – these are offered when the receipt is returned to the manufacturer.	■ These involve the consumer filling in and posting off a form, and this might be a disincentive. ■ Delay before a refund is received may act as a disincentive.

	BOGOF – 'buy one, get one free' – this encourages multiple purchases, which reduces demand for competitors' products too.	■ There could be substantial reduction in gross profit margin. ■ Consumers may consider that if this scheme is able to operate, are they paying a 'normal' price that is too high? ■ Is the scheme being used to sell off stock that cannot be sold at normal prices – impact on reputation? ■ Current sales might increase, but future sales could fall as consumers have stocked up on the product.
	Point-of-sale displays – maximum impact on consumer behaviour is achieved by attractive, informative and well-positioned displays in stores.	■ The best display points are usually offered to the market leaders – products with high market share. ■ New products may struggle for best positions in stores – unless big discounts are offered to retailers.

Stage of life cycle	Promotional options
Introduction	■ informative advertising to make consumers aware of the product's existence, price and main features ■ sales promotion offering free samples or trial periods to encourage consumers to test the product – incentives may need to be offered to the trade to stock the product
Growth	■ to continue some informative advertising, but the focus may now move to brand building and persuasive advertising ■ sales promotion to encourage repeat purchase ■ attempt to develop brand loyalty
Maturity	■ advertising to emphasise the differences between this product and competitors – may be needed to remind consumers of the existence of the product ■ sales-promotion incentives to encourage brand switching and continued loyalty
Decline – assuming no extension strategy	■ minimal advertising, apart from informing consumers of special offers ■ sales promotion – there may be little additional support for the product if the intention is to withdraw it

Table 19.3 How promotional strategies may vary over the life cycle of a product

Chapter 15 Place

Place includes the location where products are sold and the ways in which products are moved from producer to buyer.

Some producers sell directly to customers. Many others use intermediaries through which goods or services pass in a number of stages. Many businesses use more than one distribution method.

Producer → Wholesaler → Retailer → Customer
Producer → Retailer → Customer
Producer → Customer
Producer → Agent → Wholesaler → Retailer → Customer

Intermediaries

- **Wholesalers** — link producer and retailer, break large units to smaller units and provide storage.
- **Retailers** — sell directly to consumers, providing storage and an outlet.
- **Agents** — arrange sales without taking ownership of the product, often for import/export.

Advantages of using intermediaries

- Lower marketing costs as sales have to be made to a smaller number of customers.
- Lower storage costs.

Disadvantages of using intermediaries

- Loss of profit to the intermediary.
- Loss of control over selling conditions.

Factors influencing choice of distribution channel

- **Cost** — a short distribution channel will have a lower cost.
- **Product type** — perishable or short shelf-life products must reach customers quickly. Large, bulky products are likely to be sold direct to the customer by the producer.
- **Market type** — mass-market products will need intermediaries, niche products may be sold more directly. National, international and local markets require different approaches.

- **Customer preference** — customers want different things, so producers must use channels that appeal to different customer wants, e.g. a luxury car is usually sold via a dealer who can provide after-sales service.
- **Producer preference** — producers may wish to keep control of the selling process or they may wish to hand this over to intermediaries who are more specialised in selling.

The role of the internet is now changing these methods as it enables producers and intermediaries to more easily sell directly to the public.

Type and main features	Examples of products or services	Possible benefits	Possible drawbacks
1 Direct selling: no intermediaries. Can be referred to as 'zero-intermediary' channel.	■ mail order from manufacturer ■ airline tickets and hotel accommodation sold over the internet by the service providers ■ farmers' markets – selling produce directly to consumers	■ no intermediaries, so no mark-up or profit margin taken by other businesses ■ producer has complete control over the marketing mix – how the product is sold, promoted and priced to consumers ■ quicker than other channels ■ may lead to fresher food products ■ direct contact with consumers offers useful market research	■ all storage and stock costs have to be paid for by producer ■ no retail outlets limits the chances for consumers to see and try before they buy ■ may not be convenient for consumer ■ no advertising or promotion paid for by intermediaries and no after-sales service offered by shops ■ can be expensive to deliver each item sold to consumers
2 One-intermediary channel. Usually used for consumer goods but could also be an agent for selling industrial products to businesses.	■ holiday companies selling holidays via travel agents ■ large supermarkets that hold their own stocks rather than using wholesalers ■ where the whole country can be reached using the one-level route, e.g. a small country	■ retailer holds stocks and pays for cost of this ■ retailer has product displays and offers after-sales service ■ retailers often in locations that are convenient to consumers ■ producers can focus on production – not on selling the products to consumers	■ intermediary takes a profit mark-up and this could make the product more expensive to final consumers ■ producers lose some control over marketing mix ■ retailers may sell products from competitors too, so there is no exclusive outlet ■ producer has delivery costs to retailer
3 Two-intermediaries channel. Wholesaler buys goods from producer and sells to retailer.	■ in a large country with great distances to each retailer – many consumer goods are distributed this way, e.g. soft drinks, electrical goods and books	■ wholesaler holds goods and buys in bulk from producer ■ reduces stock-holding costs of producer ■ wholesaler pays for transport costs to retailer ■ wholesaler 'breaks bulk' by buying in large quantities and selling to retailers in small quantities ■ may be the best way to enter foreign markets where producer has no direct contact with retailers	■ another intermediary takes a profit mark-up – may make final good more expensive to consumer ■ producer loses further control over marketing mix ■ slows down the distribution chain

Chapter 16 Marketing Strategy

Globalisation: the growing trend towards worldwide markets in products, capital and labour, unrestricted by barriers.

Why sell products in other countries?

■ Saturated home markets – one country can have only so many fast-food restaurants. When the market stops growing and competition is severe, a move to another country, with few large competitors, can offer rapid sales increases.

■ Profits – rapid sales growth may be combined with low costs of operation and create high profitability. If the foreign country has low labour and property costs and low tax levels, then selling from there to a high-cost country can off er higher profit margins. In contrast, the great wealth of some Arab oil states gives the opportunity to some luxury goods producers to sell at higher prices than 'back home'.

■ Spreading risks – international marketing means that the sales and profits of a business are much less dependent on economic and legal constraints in the home country.

■ Poor trading conditions in the home market – in 2013, sales of luxury cars in Spain fell due to the Eurozone economic crisis, but sales in China continued to increase.

■ Legal differences creating opportunities abroad – strict legal controls on the selling and advertising of tobacco products in the USA and EU have encouraged most large cigarette manufacturers to target selling in emerging market economies with fewer restrictions. Profitable, yes – but how ethical is this?

International markets – different methods of entry

A decision to market products internationally is just one step in a long and detailed planning process. The next major decision must be the method of entering the markets.

Exporting

Exporting can be undertaken either by selling the product directly to a foreign customer – perhaps the order has been placed via the company website – or indirectly through an export intermediary, such as an agent or trading company based in the country.

International franchising

International franchising means that foreign franchisees are used to operate a firm's activities abroad. This can either take the form of one foreign company being used as a franchisee for all the branches in their own country or individual franchisees are appointed to operate each outlet. McDonald's uses just one franchisee business to operate its branches in Argentina, for example. The benefit ts and limitations of appointing franchisees are the same as explained in Table 2.6 with the additional benefit t that the foreign franchisee(s) will have important local market knowledge.

Joint ventures

An example of this method to enter an international market is the 50-50 joint venture between McDonald's and two Indian restaurant chains; Hard castle Restaurants and Connaught Plaza restaurants.

Licensing

Licensing involves the business allowing another firm in the country being entered to produce its branded goods or patented products 'under licence', which will involve strictly controlled terms over quality. This means that goods do not have to be physically exported, saving on time and transport cost – and making food products fresher too. The 'parent' fi rm avoids the capital cost of setting up its own operating bases abroad. The limitations of this approach include possible lapses in quality, unethical production methods used by the licensee to cut costs – reflecting badly on the main business – and business failure of the licensee causing a hold-up in supplies of the product.

Global localisation

'Thinking global – acting local' is sometimes how this approach to international marketing is summed up. YUM, the world's largest fast-food organisation, with top brands such as KFC and Pizza Hut, has adopted this approach to great success. It offers all of its franchisees and branches around the globe the benefits and security offered by a giant multinational corporation. However, it differentiates most aspects of its marketing mix between different countries and markets.

Potential benefits and strategic opportunities	Potential limitations and threats
■ There is greater opportunity for selling goods in other countries. Opening up new markets, which may not have reached saturation as the domestic market may have done, gives the chance of higher sales, economies of scale and improved profitability. ■ Increased competition gives firms the incentives to become more internationally competitive. Hiding behind trade barriers breeds inefficiency and this will no longer be possible. ■ Pan-European or pan-global marketing strategies can be used to create a global brand identity. This saves on the costs of 'different markets – different products'. ■ There is a wider choice of locations – the opportunity to set up operations in other countries and become a multinational. These locations offer, usually, lower costs and direct access to local markets. Working within each country should lead to better market information. ■ Greater freedom to arrange mergers and takeovers with firms from other nations as restrictions on foreign acquisitions are reduced.	■ Businesses from other countries now have freer access to the domestic market, so there will be increased competition. Wider consumer choices will drive firms that are not internationally competitive out of business. ■ The drive for international competitiveness will also be forcing other firms to become more efficient. ■ Pan-European/global strategies can fail to consider the cultural and taste differences between consumers of different nations. Firms may need to 'think global, but act local' – often called global localisation. ■ International locations can lead to significant transport and communication problems. The risk of unethical practices by managers with delegated authority thousands of miles from head office can lead to problems. ■ Businesses are now increasingly at risk of foreign takeovers, e.g. Land Rover and Jaguar by Tata (India), BAA by Ferrovial (Spain). ■ Increasing activity from anti-globalisation pressure groups may result in bad publicity for multinationals in particular and for those firms found guilty of environmental damage in foreign countries. There is growing concern about the environmental impact of globalisation – especially in emerging economies. Coca-Cola is under pressure to limit production in some Indian states due to shortage of water supplies. ■ Governments will have much less influence on business decisions, e.g. preventing closure of factories to relocate in low-cost countries.

Table 21.1 Globalisation – the potential business benefits and limitations

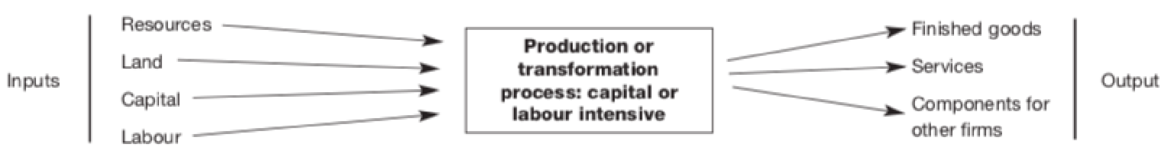
Chapter 17
Production of goods and services

‘Operations’ or ‘operations management’ is concerned with the use of resources called inputs – land, labour and capital – to provide outputs in the form of goods and services. In doing this, operations managers must be concerned with:

- efficiency of production − keeping costs as low as possible will help to give competitive advantage
- quality − the good or service must be suitable for the purpose intended
- flexibility and innovation − the need to develop and adapt to new processes and new products is increasingly important in today’s dynamic business environment.

Essentially, operations managers are aiming to produce goods and services of the required quality, in the required quantity, at the time needed, in the most cost- effective way.

In all businesses at all stages of production, the production process is basically the same. ‘Inputs’ are converted or transformed into ‘outputs’ and this is sometimes called the ‘transformation’ process. This can be simply illustrated



Production is an absolute measure of the quantity of output that a firm produces in a given period of time. Productivity is a relative measure – and is concerned with how efficiently inputs are converted into outputs. The most common measures of productivity are:

$$\text{labour productivity (number of units per worker)} = \frac{\text{total output in a given time period}}{\text{total workers employed}}$$

$$\text{capital productivity} = \frac{\text{output}}{\text{capital employed}}$$

Raising productivity levels

There are four main ways in which productivity levels could be increased:

- Improve the training of staff to raise skill levels:
  Staff with higher and more flexible skill levels should be more productive. As well as being able to perform tasks more efficiently, they could become more interested in work due to their ability to do different jobs. However, training can be expensive and time-consuming and highly qualified staff could leave to join another, perhaps rival, business.

- Improve worker motivation:
  Many different views on the most appropriate ways to do this exist. Increasing pay, as identified by Herzberg, is unlikely to have a permanent impact on productivity.

- Purchase more technologically advanced equipment:
  Modern machinery–from office computers to robot-controlled production machines – should allow increased output with fewer staff. Such expensive investment will only be worthwhile, however, if high output levels can be maintained. In addition to the capital cost, staff may need to be retrained and there may be genuine fear among the workers about lost jobs and reduced security of employment.

- More efficient management:
  There are many ways in which ineffective management can reduce the overall productivity of a business. Failure to purchase the correct materials, poor maintenance schedules for machines or heavy-handed management of staff are just some of these. More efficient operations and people management could go a long way to improve productivity levels.

Production methods

There are several different ways in which goods and services can be produced. They are usually classified into:

- job production
- batch production
- flow production

Job production

This is normally used for the production of single, one-off products. These products may be small or large and are often unique. Thus, good examples of job production would be a specially designed wedding ring, made-to-measure suits or the Yangtze dam in China. In order to be called job production, each individual product has to be completed before the next product is started. Thus, at any one time, there is only one product being made.

Batch production

Batch production involves the production of products
in separate groups, where the products in the batch go through the whole production process together. The production process involves a number of distinct stages and the defining feature of batch production is that every unit in the batch must go through an individual production stage before the batch as a whole moves on to the next stage.

Flow production

The process of flow production is used where individual products move from stage to stage of the production process as soon as they are ready, without having to wait for any other products. Flow production systems are capable of producing large quantities of output in
a relatively short time and so it suits industries where the demand for the product in question is high and consistent.

	Job	Batch	Flow	Mass customisation
Main feature	■ single one-off items	■ group of identical products pass through each stage together	■ mass production of standardised products	■ flow production of products with many standardised components but customised differences too
Essential requirements	■ highly skilled workforce	■ labour and machines must be flexible to switch to making batches of other designs	■ specialised, often expensive, capital equipment – but can be very efficient ■ high steady demand for standardised products	■ many common components ■ flexible and multiskilled workers ■ flexible equipment – often computer-controlled to allow for variations in the product

	Job	Batch	Flow	Mass customisation
Main advantages	■ able to undertake specialist projects or jobs, often with high value added ■ high levels of worker motivation	■ some economies of scale ■ faster production with lower unit costs than job production ■ some flexibility in design of product in each batch	■ low unit costs due to constant working of machines, high labour productivity and economies of scale	■ combines low unit costs with flexibility to meet customers' individual requirements
Main disadvantages	■ high unit production costs ■ time-consuming ■ wide range of tools and equipment needed	■ high levels of stocks at each production stage ■ unit costs likely to be higher than with flow production	■ inflexible – often very difficult and time-consuming to switch from one type of product to another ■ expensive to set up flow-line machinery	■ expensive product redesign may be needed to allow key components to be switched to allow variety ■ expensive flexible capital equipment needed

Inventory management

Inventory-holding costs

These include:

- Opportunity cost:
  Working capital tied up in goods in storage could be put to another use. It might be used to pay off loans, buy new equipment or pay off suppliers early to gain an early-payment discount. The capital could be left in the bank to earn interest.
- Storage costs:
  Inventories have to be held in secure warehouses. They often require special conditions, such as refrigeration. Employees will be needed to guard and transport the goods.
- Risk of wastage and obsolescence:
  If inventories are not used or sold as rapidly as expected, then there is an increasing danger of goods deteriorating or becoming outdated. This will lower the value of such inventories.

Advantages of high level of inventory

- Able to meet orders straightaway to meet increased demand
- Benefit from economies of scale / bulk buy as discounts reduce cash outflow
- Production does not stop which is important if change to flow production
- Avoid supply problems as some raw material might be difficult to obtain
- Able to increase scale of production

Costs of not holding enough inventories

There are real risks to holding very low inventory levels – and these risks may have financial costs for the firm. These costs are often called 'inventory-out' costs:

- Lost sales:
  If a firm is unable to supply customers from goods held in storage, then sales could be lost to firms that hold higher inventory levels. This might lead to future lost orders too. In purchasing contracts between businesses, it is common for there to be a penalty-payment clause requiring the supplier to pay compensation if delivery dates cannot be met on time.
- Idle production resources:
  If inventories of raw materials and components run out, then production will have to stop. This will leave expensive equipment idle and labour with nothing to do. The costs of lost output and wasted resources could be considerable.

- Special orders could be expensive:
  If an urgent order is given to a supplier to deliver additional materials due to shortages, then extra costs might be incurred in administration of the order and in special delivery charges.
- Small order quantities:
  Keeping low inventory levels may mean only ordering goods and supplies in small quantities. The larger the size of each delivery, the higher will be the average level of inventories held. By ordering in small quantities, the firm may lose out on bulk discounts, and transport costs could be higher as so many more deliveries have to be made.

Lean production
Lean production is closely associated with Japanese production methods that are now widely adopted throughout much of the industrialized world. Lean production means producing goods and services with the minimum of wasted resources while maintaining high quality.
Lean production therefore aims to

- Zero delays
- Zero mistakes
- Zero inventories
- Zero accidents
- Zero waiting

The seven main sources of waste in industry are:

1. Excessive transportation of components and products.
2. Excessive inventory holding.
3. Too much movement by working people, e.g. to get supplies of components.
4. Waiting time – delays in the production process.
5. Overproduction – producing ahead of demand.
6. Over-processing – making goods that are too complex as they could have been designed more simply.
7. Defects – products that do not come up to quality standards and have to be rejected or corrected.

Cell production
Cell production is a form of flow production, but instead of each individual worker performing a single task, the production line is split into several self-contained mini production units – known as cells. Each individual cell produces a complete unit of work, e.g. a complete washing-machine motor, not just one small part of it. Each cell has a team leader and below that a single level of hierarchy made up of multi skilled workers

The cell production system has led to:

- significant improvements in worker commitment and motivation because there is teamwork and a sense of 'ownership' of the complete unit of work
- job rotation within the cell
- increased productivity.

Just-in-time (JIT) inventory control
Originating in Japan, this approach to stock control is
now influencing inventory-holding decisions in businesses all over the world. JIT requires that no buffer inventories are held, components arrive just as they are needed on
the production line and finished goods are delivered to customers as soon as they are completed.
there are certain very important requirements that a business must ensure are met:

1. Relationships with suppliers have to be excellent:
2. Production staff must be multi skilled and prepared to change jobs at short notice:
3. Equipment and machinery must be flexible:

Advantages	Disadvantages
■ Capital invested in inventory is reduced and the opportunity cost of inventory holding is reduced. ■ Costs of storage and inventory holding are reduced. Space released from holding of inventories can be used for a more productive purpose. ■ Much less chance of inventories becoming outdated or obsolescent. Fewer goods held in storage also reduces the risk of damage or wastage. ■ The greater flexibility that the system demands leads to quicker response times to changes in consumer demand or tastes. ■ The multiskilled and adaptable staff required for JIT to work may gain from improved motivation.	■ Any failure to receive supplies of materials or components in time caused by, for example, a strike at the supplier's factory, transport problems or IT failure will lead to expensive production delays. ■ Delivery costs will increase as frequent small deliveries are an essential feature of JIT. ■ Order-administration costs may rise because so many small orders need to be processed. ■ There could a reduction in the bulk discounts offered by suppliers because each order is likely to be very small. ■ The reputation of the business depends significantly on outside factors such as the reliability of supplying firms.

Kaizen – continuous improvement

The philosophy behind this idea is that all workers have something to contribute to improving the way their business operates and the way the product is made.

Benefits of technology

- Allows for CAD / help design prototypes / new products / more variety possible [k] which
- could help increase target market / sales
- Automation or capital intensive or flow so can produce more products
- Less workers needed leading to reducing wage costs
- Less errors / less waste / consistent quality improving reputation
- Different skill set for workers
- More complex work possible
- Improve productivity/efficiency / increased speed of production
- Higher output
- Continuous production (24/7) / no breaks
- Improved inventory control

Impact of Technology

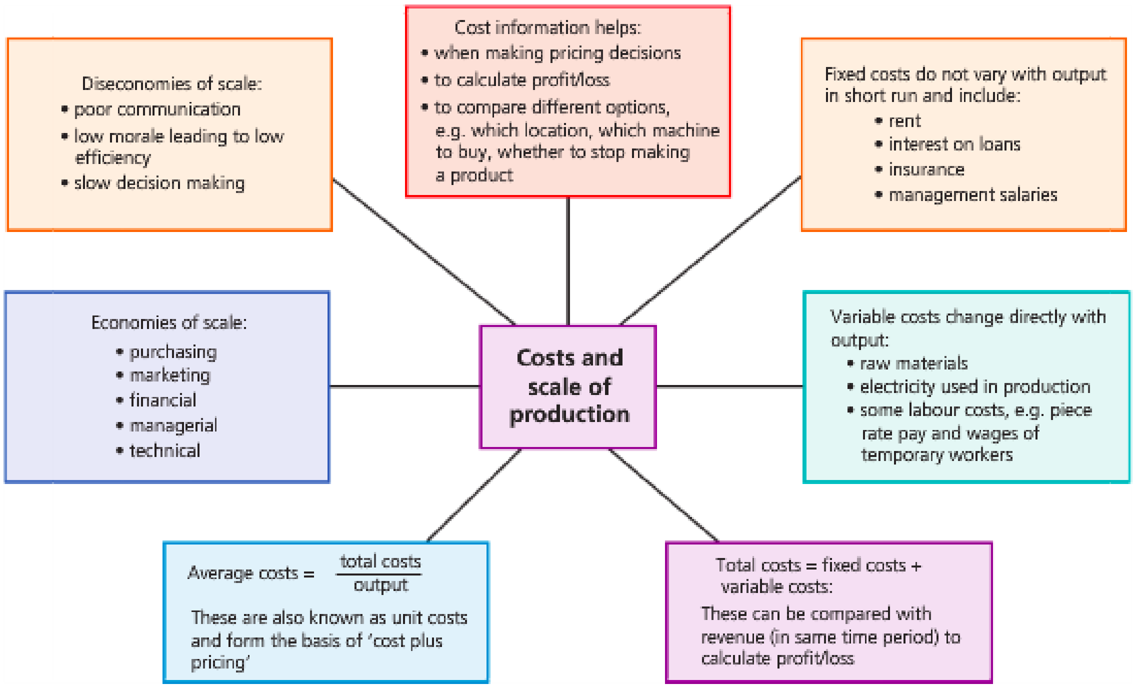
	Advantages	disadvantages
Business	Reduces the cost and time to design new products	Can be very expensive
	Increase productivity	Technology rapidly changes so business has bring changes to remain competitive
	Reduce cost of production	Training of workers so increase in costs
	Improves quality and reduces waste	
customers	Better quality products	Products may become outdated
	Lower prices	Expensive to repair fault
	More varieties and products having more features	
workers	Boring tasks are done by machines	redundancy
	Work become easier with aid of technology	Technology could make work less interesting
	Business that uses technology is likely to be more successful so provides job security	Less opportunities for promotion

Modern Technology used in Production

	Common business application	advantages
CAM	nearly all design and architectural firms now use these programs for making and displaying designs – cars, house plans, furniture, garden designs are just a few examples	saves on expensive designer salaries as work is now much quicker
	designs can be shown in 3D and turned around to show effect from all angles	more flexibility of design as each customer's special requirements can be easily added
CIM	these programs are used to operate robotic equipment that replaces many labour-intensive production systems	labour costs are reduced as machines replace many workers
	used in operations management in manufacturing businesses	accuracy is improved – less scope for human error
Internet	⇒ the Internet is the World Wide Web of communication links between computers ⇒ marketing department – for promoting to a large market and taking orders online ⇒ operations management – business to business (B2B) communication via the Internet is used to search the market for the cheapest suppliers ⇒ human resources uses these programs for communicating within the organization ⇒ Intranets allow all staff to be internally connected via computers	⇒ cost savings from cheap internal and external communications ⇒ access to a much larger potential market than could be gained through non-IT methods ⇒ webpages project a worldwide image of the business ⇒ online ordering is cheaper than paper-based systems ⇒ B2B communications can obtain supplies at lower costs ⇒ use of social media and mobile marketing allows access to consumer groups not reached by traditional promotional methods ⇒ internal communication is quicker than traditional methods

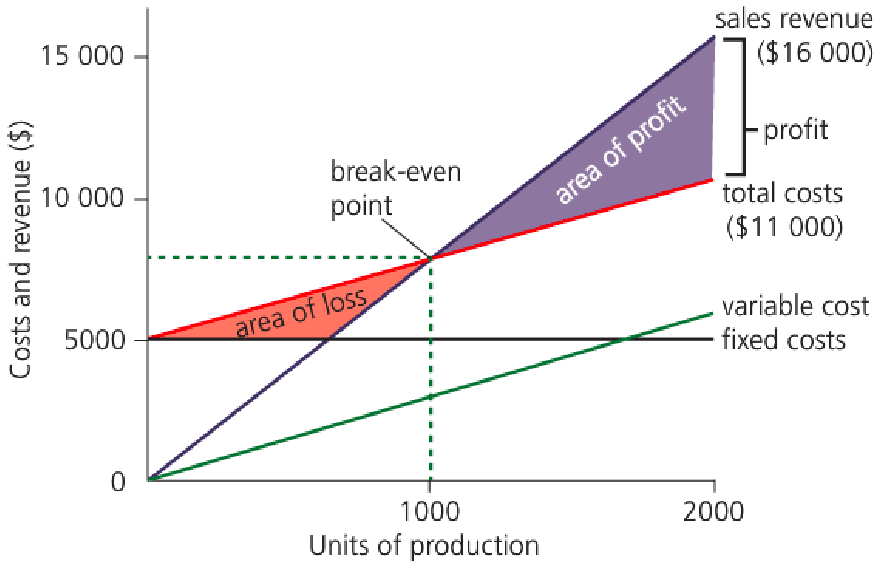
Chapter 18
Cost, Scale of Production and breakeven analysis

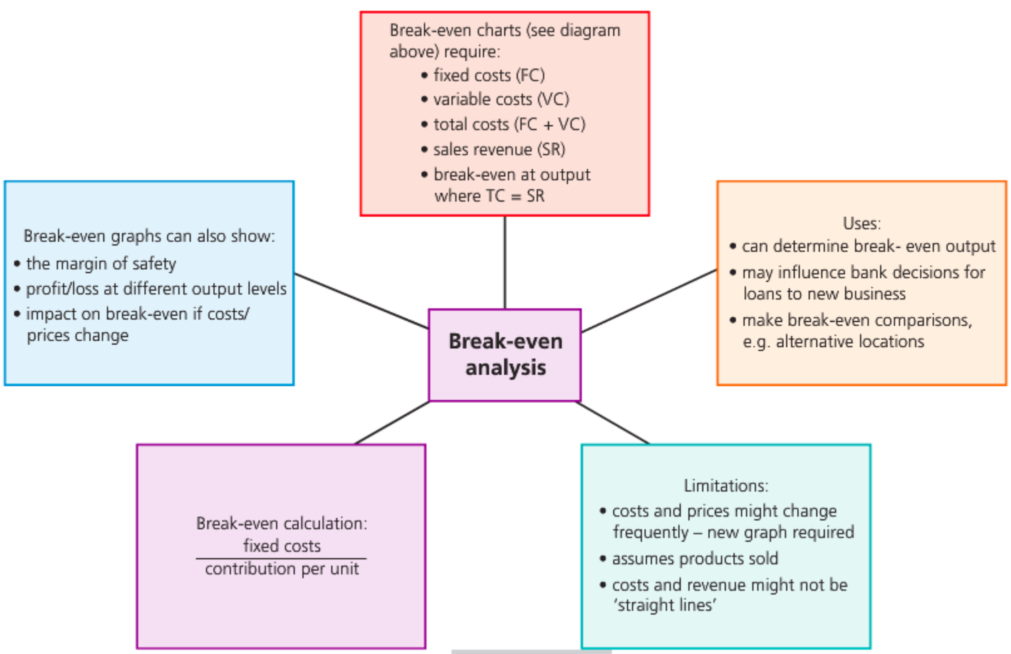
Costs and scale of production



Break-even analysis

This is an example of a break-even graph.





Scale of operation

Revised

The scale is the size of production. An increase in scale is not only an increase in output but a change to a different scale involving an increase in capital.

Factors that influence the scale of production

- Position in the product life cycle — as sales rise, new investment might be needed to provide output to sell.
- Finance available.
- Business objectives — if these do not include expansion there will be no change in scale.
- The market — increasing scale involves increasing output that must be sold.
- The possibility of reducing unit costs.

Economies of Scale

As firms grow in size, they acquire certain advantages that are known as economies of scale. In other words economies of scale are the benefits enjoyed by a firm because of large scale production. These can be classified into five categories:

Purchasing economies

When business buys in large quantities, they are able to get discounts and special prices because of buying in bulk. This reduces the unit cost of raw materials and a firm gets an advantage over other smaller firms.

Marketing economies

The cost of advertising and distribution rises at a lower rate than rises in output and sales. In proportion to sales, large firms can advertise more cheaply and more effectively than their smaller rivals.

Financial economies

A larger company tends to present a more secure investment; they find it easier to raise finance. Banks and other lending institutions treat large firms more favorably and these firms are in a position to negotiate loans with preferential interest rates. Further, large companies can issue shares and raise additional capital.

Managerial economies

A large company benefits from the services of specialist functional managers. These firms can employ a number of highly specialized members on its management team, such as accountants, marketing managers which results in better decision being taken and reduction in overall unit costs.

Technical economies

In large scale plants there are advantages in terms of the availability and use of specialist, indivisible equipment which are not available to small firms. Large manufacturing firms often use flow production methods and apply the principle of the division of labour. This use of flow production and the latest equipment will reduce the average costs of the large manufacturing businesses.

Diseconomies of scale

These are the factors that lead to an increase in average costs as a business grows beyond a certain size.

- **Poor communication**
  It is more difficult to communicate in larger firms since there are so many people a message has to pass through. The managers might lose contact to customers and make wrong decisions.
- **Low morale**
  People work in large businesses with thousands of workers, so they do not get much attention. They feel they are not needed this decreases morale and in turn efficiency.
- **Slower decision making**
  More people have to agree with a decision and communication difficulties also make decision making slower as well.

Chapter 19
Achieving Quality Production

Quality is important to businesses but can be quite hard to define. A good definition of quality is:
"Quality is about meeting the needs and expectations of customers"
Customers want quality that is appropriate to the price that they are prepared to pay and the level of competition in the market.
Key aspects of quality for the customer include:

- Good design – looks and style
- Good functionality – it does the job well
- Reliable – acceptable level of breakdowns or failure
- Consistency
- Durable – lasts as long as it should
- Good after sales service
- Value for money

The Benefits of Quality
The costs of quality must be weighed against the benefits of providing a quality solution. Whereas many of the costs of quality show up in the project, many of the benefits of quality show up over the entire life cycle of the solution. The benefits of quality include:

- **Increased client satisfaction.** Fewer defects mean that the client will be more satisfied. Higher service quality will also make the client experience much more pleasant. If you are in a "for-profit" business, this will result in goodwill and may translate into additional sales, or higher margins on future products.
- **Higher productivity.** Fixing errors and reworking previously-completed deliverables are a drain on productivity. In fact, they contribute to negative productivity. If the deliverables are produced with higher quality and less rework, the overall project productivity will go up.
- **Lower costs / shorter duration.** Although there is an initial higher cost to a quality process, this is more than made up with less rework toward the end of the project. This will save time and cost on the project.
- **Higher project team morale.** Team morale suffers if there are many errors uncovered during the project. People feel bad when errors are uncovered and it can be frustrating to have to correct errors repeatedly. Team morale will rise (or at least hold steady) if deliverables are created with fewer errors the first time.
- **Fewer errors / defects.** Higher quality shows up over the life of the solution with fewer defects and errors. If you are producing a product for sale in the marketplace, higher quality means fewer returns, less warranty work, fewer repairs, etc. If you are creating a long-term solution, this means less support and maintenance problems over the life cycle.
- **More profit margin** by selling products at higher price
- **Lengthen product life cycles** so it will stay in the most profitable maturity stage much longer.
- **Encourage wholesalers and retailers to stock the** product because they know customer will want to buy it.

Approaches of Maintaining Quality

Quality Control

Quality control is based on inspection or checking, usually of the completed product or of the service as it is being provided to a consumer. For example:

- an iPod player being tested at the end of the production line for battery-charging capability
- a telephone-banking adviser having a call to a customer listened to and recorded.

Problems in quality control

- work is repetitive and boring so lead to demotivation of inspectors
- resources are wasted completing a product that should have been rejected much earlier in the production process.
- The use of quality inspectors takes any responsibility for quality away from the workers so workers may not try to ensure quality is maintained.

Quality assurance

The processes that ensure production quality meets the requirements of customers
This is an approach that aims to achieve quality by organising every process to get the product 'right first time' and prevent mistakes ever happening. This is also known as a 'zero defect' approach.
In quality assurance, there is more emphasis on 'self-checking', rather than checking by inspectors.

Advantages of quality assurance include:

- Costs are reduced because there is less wastage and re-working of faulty products as the product is checked at every stage
- It can help improve worker motivation as workers have more ownership and recognition for their work (see Herzberg)
- It can help break down 'us and them' barriers between workers and managers as it eliminates the feeling of being checked up on
- With all staff responsible for quality, this can help the firm gain marketing advantages arising from its consistent level of quality

Total Quality Management ("TQM")

This is a specific approach to quality assurance that aims to develop a quality culture throughout the firm. In TQM, organisations consist of 'quality chains' in which each person or team treats the receiver of their work as if they were an external customer and adopts a target of 'right first time' or zero defects.

Chapter 20
Location Decisions

When location is decided

- When business is first setup
- When present location is unsatisfactory
- When business environment is constantly changing
- When owner objectives changes

Factors affecting location of manufacturing business

Production methods and location decisions

- Small scale-job production-transport and location of suppliers are less important.
- Large scale-flow production-transport and location of suppliers are more important.

Market

- Need to be near when finished good become heavier
- Need to be near when finished goods become perishable.

Raw materials/components

- Need to be near to transport perishable goods.
- Need to be near to cut transportation expenses.
- Need to be near when there are different type of components are used.

External economies of scale

- How good nearby businesses are.
    - For maintenance of equipment.
    - For training workers, etc…

Availability of labour

- Areas where relevant skilled labour live.
- Areas where there is unemployment(high unskilled labour)
- Areas where wage rate is low.

Government influence

Positive influence

- Get state funded grant
- Get tax relief/tax holiday(unemployment/underdeveloped areas)

Negative influence

- Restriction in certain areas due to negative externality

Transport and communication

- Near to road, rail, inland waterways, port, airport etc.
- Near to port if export business…. Near to motorway if quick delivery is important.

Power and Water Supply

- Need a reliable source of power to operate effectively.

- Need a reliable source of water.(sea/river)(pharmaceutical business)

Personal preferences of the owners

- May locate in areas that:
    - They come from.
    - They like.
    - Pleasant weather, etc…

Climate

- E.g. to reduce heating costs in a warmer climate.
- Some climates are required to produce certain items.

Factors affecting the location of a service sector business

Customers

- Whether customers require
    - Direct contact.
        - Is it convenient for customers to go the business?
        - Will the service arrive at customers' houses in time?
- No direct contact needed.
    - Mail
    - Internet

Personal preference of owners

- Near their homes.

Technology

- Technology allows businesses to locate in cheaper sites.
    - Telephone.
    - Internet.
    - Transport.
- No need to be near customers.(Website Designers)

Availability of labour

- Need to locate to sites where skilled labourers live.
- Labourers may relocate to be near the business.

Climate

- Important for tourism.

Near to other businesses

- Businesses that supply or repair machinery to others need to be near them to respond quickly.
- Post office/banks need to be in busy areas for the convenience of customers. That is, being near malls, shops, etc.

Rent/taxes

- If the business does not need direct contact with the customer, then it could locate in cheaper areas

Factors affecting the location of a retailing business

Shoppers

- Do shoppers go there?(popular)

- What kind of shoppers go there?(expensive or economical items)

Nearby shops

- Competitors.(increases choices for shoppers)
- Mass market.

Customer parking available/nearby

- Convenience for the customer.

Availability of suitable vacant premises

- Goods sites (e.g. in shopping centers) are in short supply.

Rent/taxes

- The more popular the site, the more expensive.

Access for delivery vehicles

- For delivering goods.

Security

- If the area is insecure
    - Goods will be stolen.
    - Insurance company will be reluctant to insure the shop.

Legislation

- Laws restricting the trade of goods in certain areas.

Locating in different countries

Most businesses are set in different countries due to

- Rapid growth of newly industrializing countries.
- Increasing international trade.
- Improved global communication.
- Improved transport.

Factors for relocating in different countries

New market overseas

Cheaper or new source of material

Labour cost and wages cost

Rent

Trade and tariff barrier

Availability of government grant and other incentives

Chapter 26
Government Economic Objectives and policies

Governments have following objectives

- Low inflation.
- Low unemployment.
- Economic growth.
- Balance of payments.

Low inflation

Inflation is a persistent increase in the general level of prices. Rising prices mean that the value of money in a country falls. The reason governments have an objective of low inflation is that a high level means uncertainty because it:

- erodes the value of savings and makes borrowing more attractive
- makes planning and fixing contracts difficult
- might lead to hoarding

Possible impacts of high inflation on businesses

Possible impacts of high inflation on businesses are:

- increased borrowing for investment as asset values will rise with no effort
- increased costs of materials, fuel and labour
- it is easier to increase prices and pass on price rises of materials and labour
- consumer spending lowers as prices rise
- price becomes a more important marketing mix element
- increased pressure from employees for higher wages
- increased difficulty in tracking and setting prices
- a country's products become less competitive and less attractive to foreign investors

Low unemployment

People who want to work should be able to find work. The reason governments have an objective of low unemployment is because high unemployment is a cost to a country as it causes:

- a waste of human resources that lowers overall production and economic growth
- social problems like drug taking and personality problems
- a cost to the whole country in benefits, lost taxation and increased crime levels

Possible impact of high unemployment on businesses

High unemployment means there are relatively more workers seeking the available jobs. In turn this causes:

- a low consumer income, which means sales are lower and competition is greater, leading to low output, low profits and pressure to cut costs and lower prices
- redundancies and rationalisation
- a consumer switch to lower-priced, lower-quality products
- employees fearing the loss of their jobs, which means they will work harder and complain less
- easy recruitment of already skilled employees
- low wages as scarcity of jobs means workers will work for less
- investment falls

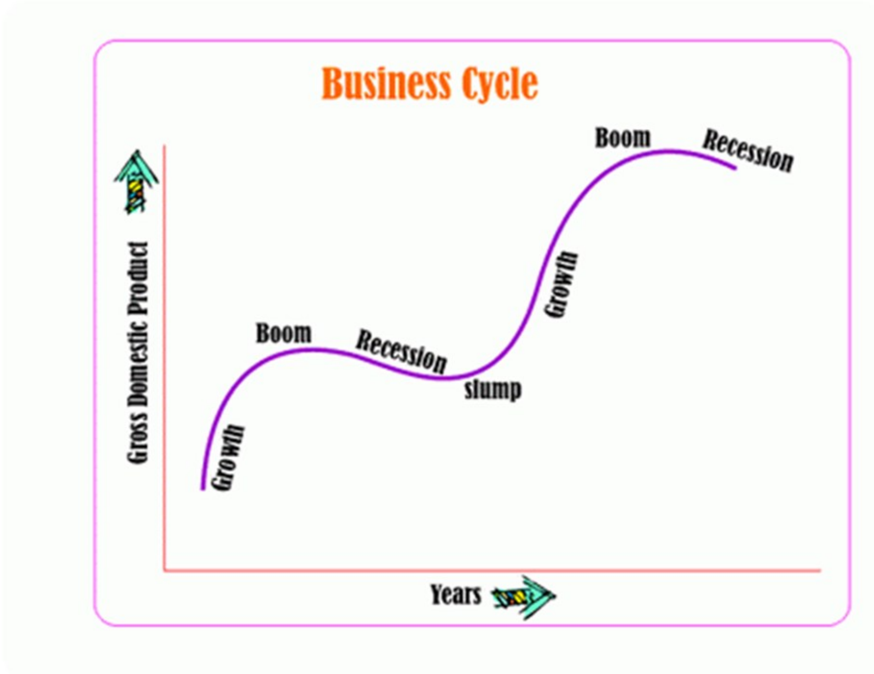
Economic growth

A country is said to grow when its GDP (Gross Domestic Product) is increasing. This is the total value of goods produced in one year. The standards of living tend to increase with economic growth. Problems arise when a country's GDP fall:

- The country's output is falling, fewer workers are needed and unemployment occurs.
- Standards of living will fall.
- Businesses will not expand because they have less money to invest.

Economic growth is not achieved every year. There are years where the GDP falls and the trade cycle explains the pattern of rises and falls in national GDP.

The trade cycle(Business Cycle) has 4 main stages



1. Growth
   This is when GDP is rising, unemployment is falling, and the country has higher standards of living. Businesses tend to do well in this period.
2. Boom
   It is caused by overspending. Prices rise rapidly and there is a shortage of skilled workers. Business costs will be rising and they are uncertain about the future.
3. Recession:
   As overspending caused the boom, people now spend too little. GDP will fall and businesses will lose demand and profits. Workers may lose their jobs.
4. Slump:
   A serious and long-drawn-out recession. Unemployment will peak and prices will fall. Many firms will go out of business.

After all of this happens the economy recovers and begins to grow again. Governments want to avoid a boom so that it will not lead to a recession and a slump.

Type of producer	Period of economic growth	Period of recession
Producers of luxury goods and services – e.g. cars	■ increase the range of goods and services ■ raise prices to increase profit margins ■ promote exclusivity and style ■ increase output	■ may not reduce prices for fear of damaging long-term image ■ credit terms to improve affordability ■ offer promotions ■ widen product range with lower-priced models
Producers of normal goods and services – e.g. tinned food	■ add extra value to product – better ingredients/improved packaging ■ brand image may attract exclusive tag ■ do nothing – sales not much affected anyway	■ lower prices ■ promotions ■ do nothing – sales not much affected anyway
Producers of inferior goods and services – e.g. very cheap clothing	■ attempt to move product upmarket ■ add extra value to the product – e.g. higher quality ■ extend the product range to include more exclusive or better-designed products	■ promote good value and low prices ■ free consumer tests ■ increase range of distribution outlets

Table 9.1 How business strategy could adapt to either economic growth or recession

Growth

Growth is an increase in economic activity, usually measured by a rise in gross domestic product (GDP). Economic growth means there is more wealth, and on the whole consumers will be able to buy more and governments can provide more facilities such as education, health services and infrastructure. Growth can be achieved by more use of resources, higher investment, a more skilled workforce, higher exports, or higher consumer spending.

Possible impact of economic growth on businesses

- sales and profits increase as consumers' incomes rise
- sales of luxury items rise relatively more than basic products
- new product launches are likely to increase
- investment and more new technology is more likely
- employment increases, unemployment falls
- tax revenues increase
- it may be more difficult to recruit suitable skilled labour

Balance of payments

Exports earn foreign currency, while imports are paid for by foreign currency (or vice versa).

The difference between the value of exports and imports of a country is called balance of payments. Governments try to achieve a balance in imports and exports to avoid a trade deficit, when exports are higher than imports. Of course, the government will lose money and their reservoir of foreign currency will fall. This results in

- If the country wants to import more, they will have to borrow foreign currency to buy goods.

- The country's currency will now worth less compared to others and can buy less goods. This is called exchange rate depreciation.

Stable exchange rates

The exchange rate of a country's currency is its price in terms of other currencies. A stable exchange rate means that this price is remaining the same over time so that the price of exports and imports will not keep changing. This makes planning easier. Exchange rates are only one factor in decisions on exporting and importing.

Possible impact of unstable exchange rates on businesses

Stable exchange rates make planning easier and more certain for importers and exporters.

- Rising exchange rates mean that exporting businesses become less competitive. Prices of exports rise in the importing country and the volume of exports falls. The extent of the fall will depend on the price elasticity of demand.
- Rising exchange rates mean that importing businesses become more competitive. Prices of imports fall and the volume of imported goods increases. The extent of the increase will depend on the price elasticity of demand.
- Falling exchange rates mean the reverse of the above.

Government economic policies

Governments want to influence the national economy so that it would achieve their aforementioned objectives. They have a lot of power over business activity and can pass laws to try to achieve their goals. The main ways in which governments can influence business activity are called economic policies. They are:

1. Fiscal Policy: taxes and public spending.
2. Monetary policy: controlling the amount of money in the economy through interest rates.
3. Supply side policies: aimed at increasing efficiency.

Fiscal policy

Government spending could benefit some firms such as:

- Construction firms (road building)
- Defense industries (Iraq war)
- Bus manufacturers (public transport)

Governments raise money from taxes.

There are Direct taxes on income and Indirect taxes on spending.

There are four common taxes:

Direct tax

- Income tax
- Profits tax

Indirect tax

- VAT (Value Added Tax)
- Import tariffs

<table>
<tr><th>Direct Tax</th><th>Indirect Tax</th></tr>
<tr><td>Income tax
Income tax is based on a percentage of your income. Income tax is usually progressive, meaning that the percentage of tax you have to pay rises with your income. Effects on business and individuals if there was a rise of income tax:
People will have less disposable income.
Sales fall because people have less money to spend.
Managers will cut costs for more profit. Workers might be made redundant.
Businesses producing luxury goods will lose the most, while others producing everyday needs will get less affected.</td><td>Sales Tax (Value Added Tax)
These taxes are a percentage on the price of goods, making them more expensive. Governments want to avoid putting them on essential goods such as foods. A rise it it would mean:
The effect would be almost the same as that of an increase in income tax. People would buy less but they would still spend money on essential goods.
Again, real incomes fall. Costs will rise when workers demand higher wages.</td></tr>
<tr><td>Profits tax or corporation tax
This is a percentage of the profit a business makes. A rise in it would mean:
Managers will have less retained profit, making it harder for the business to expand.
Owners will get less return on capital employed. Potential owners will be reluctant to start their own business if the profit margin is too low.</td><td>Import tariffs and quotas
Governments put tariffs on imports to make local goods look more competitive and also to reduce imports. When governments put import tariffs on imports:
Sales of local goods become cheaper than imports, leading to increased sales.
Businesses who import raw materials will suffer higher costs.
Other countries will retaliate by putting tariffs on the country's exports, making it less competitive.
Quotas maybe used to limit the amount of imports coming in.</td></tr>
</table>

Monetary Policy -interest rates

Governments usually have to power to change interest rates through the central bank. Interest rates affect people who borrow from the bank. When interest rates rise

- Businesses who owe to bank will have to pay more, resulting in less retained profit.
- People are more reluctant to start new businesses or expand.
- Consumers who took out loans such as mortgages will now have less disposable income. They will spend less on other goods.
- Demand will fall for businesses who produces luxury or expensive goods such as cars because people are less willing to borrow.
- Higher interest rates will encourage other countries to deposit money into local banks and earn higher profits. They will change their money into the local currency, increasing its demand and causing exchange rate appreciation.

Supply side policies

These policies aim to make the country's economy more efficient so that they can produce more goods and compete in the international economy. In doing so their GDP will rise. Here are some policies:

- Privatisation
  Its aim is to use profit as an incentive to increase efficiency.
- Improve training and education
  This obviously increases efficiency. This is crucial to countries with a big computer software industry.
- Increase competition
  Competition causes companies to be more efficient to survive. It puts control over monopoly.

Government Economic Policy and possible impacts

Government policy	Possible business decisions	Problem with this decisions
⇧ income tax	• ⇩ prices of existing products • Production of cheaper products	• ⇩ gross profit margin • Brand image (product) might be damaged
⇧ tariff on imports	• Focus more on domestic market • Buying of local raw material	• Exports might be still profitable • Foreign raw material may be of high quality
⇧ interest rates	• Reduction in investment • Development of cheaper products • Disposing off assets for cash to reduce existing loan	• Loss of market share • Brand image (product) might be damaged • Assets might be needed for future expansion

Type of policy	Measures to slow down economic growth and reduce inflation	Likely impact on businesses
Fiscal policy Decisions about government spending, taxes and borrowing.	Raise direct tax rates.	As consumers' disposable incomes fall, the demand for products will fall. The precise impact will depend on income elasticities (see below). If corporation tax rates are increased, then businesses' retained earnings will decline. This will reduce funds available for business investment.
	Raise indirect tax rates.	The retail prices of the goods affected will increase. The impact on demand will depend on price elasticities.
	Reduce government spending. The combined effect of these measures will reduce government borrowing.	Businesses providing goods and services directly to the government will risk experiencing a reduction in demand. Defence suppliers and construction companies could be hit, for example.
Monetary policy Decisions about interest rates and the supply of money.	The most likely policy measure will be an increase in interest rates.	The impact of higher rates will be: ■ Highly geared businesses will experience increases in interest payments that may endanger their cash flows. ■ Businesses will be less likely to borrow to finance further investment as the costs of loans may exceed the expected returns. ■ Consumers will be affected in two ways: ❑ They will be less likely to buy goods on credit as the interest charges will be higher. This will hit demand for expensive consumer goods, such as cars and household durable goods. ❑ The demand for houses will fall as mortgages are the biggest loan most consumers take out. The interest on existing consumer debts, such as mortgages, will take a higher proportion of incomes. This reduces consumers' discretionary incomes and will impact on consumer demand. The precise effect will depend on income elasticities. ■ Higher domestic interest rates may encourage overseas capital to flow into the country. This will be likely to lead to an appreciation of the currency exchange rate. This will have implications for the competitiveness of businesses.

Table 9.6 A summary of fiscal and monetary policy in response to an economic boom

Chapter 27
Environmental and Ethical Issues

Social Responsibility

Social responsibility is when a business decision benefits stakeholders other than shareholders.

Business activity aims to satisfy consumers, demand for goods and services but it often has an impact on the environment.

Here are some examples of how business activity impacts on the environment.

- CO_2 emissions.
- Pollutions.
- Waste disposal.
- Burning of fossil fuels.

Business should not take of environment because	Business have a social responsibility towards the environment because
Protecting the environment is too expensive and reduce profits.	Global warming and pollution affect us all
Firms might have to increase prices.	Using up scarce resources leaves less for future generations and raise prices.
Firms become uncompetitive as other countries might not environment friendly.	
Consumer will buy less due to higher prices.	Consumers are becoming more socially aware. More now prefer firms that are environmentally friendly which could become an marketing advantage
Its government job to clean the environment.	Pressure group might take action and harm the firm's reputation
Business activity is not doing permanent damage to environment.	Most scientists and environmentalists believe that business activity can damage the environment permanently.

Externalities

Social cost is the total cost to society. It includes both private costs plus any external costs.

Social costs = private costs + external costs.

Example of social cost of building airport

The social cost involved in building and running an airport can be split up into:

Private costs of airport

- Cost of constructing airport.
- Cost of paying workers to run airport

External costs of airport

- Noise and air pollution to those living nearby.
- Risk of accident to those living nearby.
- Loss of landscape.

Social benefit is the total benefit to society from producing or consuming a good / service.
Social benefit includes all the private benefits plus any external benefits of production / consumption.

Social benefits = private benefits + external benefits

Examples of social benefit

Cycling to work. If we cycle to work, the private benefits include

- Lower cost of cycling rather than driving
- Health benefits of cycling
- Ability to avoid congestion, and quicker journey to worker.

But, the social benefit of cycling may also include external benefits, such as

- Lower congestion for other road users
- Lower pollution levels from a decision to cycle rather than drive
- Better health may lead to lower health care costs.

Sustainable Development

Sustainable development is development which does not put at risk the living standards of future generations.

What can business do

- Use renewable energy (Solar Panels)
- Recycle Waste (China)
- Use fewer resources (lean production)
- Develop new environmentally friendly products and production methods (bio fuels).
- Use environmentally friendly packaging (biodegradable).
- Encourage work at home (Tele Commuting).

Pressure Group

A pressure group is made up of people who want to change business (or government) decisions and they take action such as organizing consumer boycotts.

These are their powers:

- Consumer boycotts
- Protests
- Blocking waste pipes.

These are times when they are likely to take action

- They have popular public support and have a lot of media coverage.

- The group is well organised and financed.
- Consumer boycotts results in much reduced sales for them.

These are times when they are less likely to take action

- What a company is doing is unpopular but not illegal. (e.g. testing drugs on rats)
- The cost of making the company cleaning is more than losses that could be made by losing image and sales.
- The firm supplies other firms and not customers, public support will be less effective.

Laws passed by government

Governments make these business activities illegal:

- Locating in environmentally sensitive areas.
- Dumping waste products into waterways.
- Making products that cannot be easily recycled.

Manufacturers often complain that these laws raise prices. Therefore, some governments usually do not make these laws strict with the hope of increasing output and in turn employment.

Financing penalties, including pollution permits

Pollution permits are licenses given to a business to pollute up to a certain level. If "dirty" businesses pollute over the permitted level, they either have to buy permits from "cleaner firms" or pay heavy fines. This encourages firms to be cleaner and sell their permits to dirtier companies for more money.

Other penalties include additional taxes.

Ethical influences on business objectives and decisions

The growing acceptance of corporate social responsibility has led to businesses adopting an '**ethical code**' to influence the way in which decisions are taken.

Most decisions have an ethical or moral dimension. For example:

- Should a toy company advertise its products to young children so that they pester their parents into buying them?
- Is it acceptable to take bribes to place an order with another company?
- Should a bank invest in a company that manufactures weapons or tests new chemicals on animals?
- Is it acceptable to feed genetically modified food to cattle?
- Do we accept lower profits in the short term by purchasing less polluting production equipment?
- Should chief executives receive substantial pay rises and bonuses when other workers in the business are being made redundant?
- Is it acceptable to close a factory to save costs and increase profits even though many jobs will be lost and workers may find it hard to get other jobs?
- If legal controls and inspections are weak in a country, is it acceptable to pay very low wages for long hours of work – as this policy will reduce the firm's costs?
- If a business can get away with it, should it employ child labour to reduce costs compared to employing adults? Or should it keep producing potentially dangerous goods as long as no one finds us out?

Evaluating ethical decisions

Adopting and keeping to a strict ethical code in decision-making can be expensive in the short term:

- Using ethical and Fairtrade suppliers can add to business's costs.
- Not taking bribes to secure business contracts can mean failing to secure significant sales.
- Limiting the advertising of toys and other child-related products to just adults to reduce 'pester power' may result in lost sales.

- Accepting that it is wrong to fix prices with competitors might lead to lower prices and profits.
- Paying fair wages – even in very low-wage economies – raises wage costs and may reduce a firm's competitiveness against businesses that exploit workers.

However, perhaps in the long term there could be substantial benefits from acting ethically:

- Avoiding potentially expensive court cases can reduce costs of fines.
- While bad publicity from being 'caught' acting unethically can lead to lost consumer loyalty and long-term reductions in sales, ethical policies can lead to good publicity and increased sales.
- Ethical businesses attract ethical customers and as world pressure grows for corporate social responsibility, this group of consumers is increasing.
- Ethical businesses are more likely to be awarded government contracts.
- Well-qualified staff may be attracted to work for the companies with the most ethical and socially responsible policies.

Chapter 28
Business and the international economy

Globalisation

It is increase in worldwide trade and movement of people and capital between countries. Goods and services that once can only be found in one country has spread all around the world. There are several reasons for this:

- Free trade agreements encourage international trade.
- Improved travel links and communication.
- Countries that have been undeveloped before start to develop and export their own goods, leading to more international competition.

Opportunity	Impact on business
Start selling export to other countries	Increase in sales but expensive
Becoming multinational	Cheaper to produce but quality may not be same
Selling imported products	Profitable but products may need maintenance
Importing of raw material	Cheaper to purchase but may not be reliable and heavy transportation cost.

Threat	Impact on business
Increasing imports into home market	Sales of local business might fall but competition may bring efficiency.
Multinational investments	More competition but still local firms can become supplier to multinational.
Employee may leave due to lower pay	Businesses will have to make efforts to keep their best employees but motivational methods may be promoted more.

Multinational businesses

Multinationals are businesses that have factories, services, or operations in more than one country. It is important to note that, for a business to become multinationals, they must produce goods in more than one country.

Multinational

A multinational company (MNC) is a public limited company, usually a large one, that produces in more than one country.

Benefits to a business becoming a multinational

1. Easier access to raw material
2. Lower cost of labour.
3. Economies of scale
4. Access to bigger markets.
5. Lower production cost.
6. Spreading of risk
7. Premium pricing

Effect on host country

benefits	drawbacks
Increase in choice and quality of goods and services	Undue influence on the government
Improve the country reputation	Increased competition
Improve employment opportunities	Environment damage
Generate income in form of the tax	Exploitation of labour
Improves infrastructure	Repatriation of profit
Knowledge sharing	Exploitation of natural resources
Improves the balance of payment	Negative social impact (change in lifestyle)
	Less sense of social responsibility

Exchange rates

An exchange rate is the value of one currency compared to another.
How are exchange rates determined?
There are two type so currencies:

Floating rates

The exchange rate of the currency is allowed to change freely depending on market forces, i.e supply and demand of the currency.
When the exchange rate rises, it is called appreciation. When it falls, it is called depreciation

Fixed rates

The exchange rate of the currency is set by the country's central bank.

How are businesses affected by changing exchange rates?

Appreciation

- Import prices fall.
- Export prices rise.

Depreciation

- Import prices rise.
- Export prices fall.

These exchange rate movements can cause serious damage to businesses, making business endeavors that would have been profitable make losses because of changes in the currencies..