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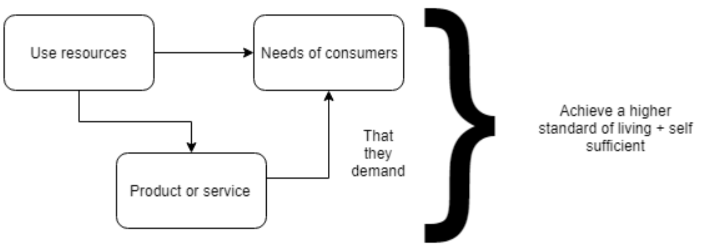
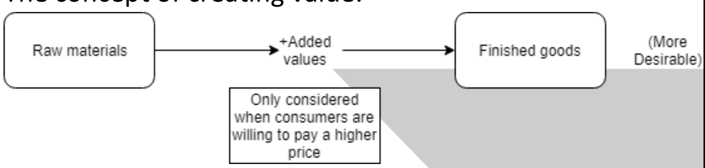
1. Business and its Environment

1.1 Enterprise

- The purpose of business activity:

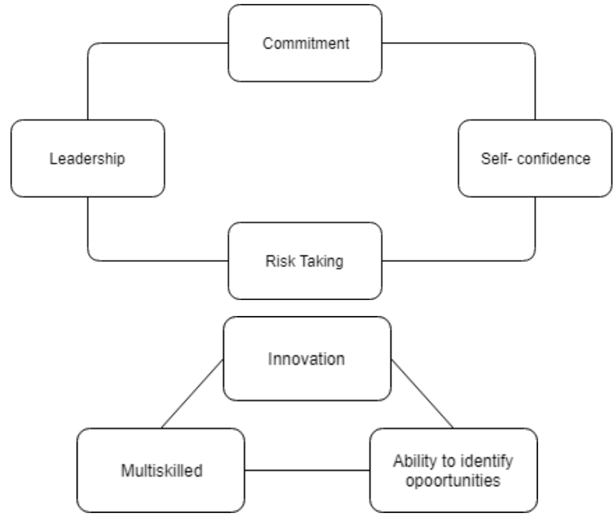


- The concept of creating value:

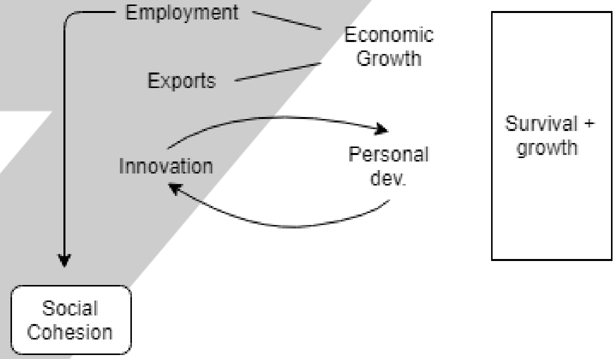


  - Added value= Selling price – cost of bought in materials.
- Nature of economic activity: The item of lesser value is left out when making a choice (due to scarcity)
- Opportunity cost: The benefit of the next most desired option given up
- The business environment is dynamic because (**LET B**)
  - Competitors (Other **B**usinesses)
  - **L**egal changes-outlaw products
  - Market has Less to spend (**E**conomic)
  - Obsolesce (**T**echnological)
- Needs of a business (Factors of production):
  - Land
  - Labour
  - Capital
  - Enterprise
  - Also need: Market + Government
- Why many businesses fail early on:
  - Lack of record keeping
  - Inadequate Cash Flow + Working Capital
  - Inexperience with/poor management skills
  - Changes in the business environment

- Qualities an entrepreneur is likely to need for success:



- The role of a business enterprise in the development of a business and the country:



- Social Enterprise: A business with mainly social objectives that reinvests most of its profits into benefitting society rather than maximizing returns
  - Use business principal to achieve social objectives
  - Have ethical ways to achieving them
  - Require to be profitable in order to run
- Triple Bottom Line: The 3 objectives of social enterprises: Economic, Social and Environmental
  - Economic: Reinvest profits and provide some returns to owners
  - Social: Provide jobs for local/disadvantaged communities
  - Environmental: Protect the environment and manage the business in an environmentally sustainable way.

1.2 Business Structure

- Primary sector:
  - Extract Natural Resources → Use/Process by other firms
- Secondary sector:
  - Manufacture and process products → from natural resources
- Tertiary sector/service:
  - Provide services to other businesses
- Public Sector: Organisations accountable to and controlled by local/central governments (the state)
- Private Sector: Comprises businesses owned and controlled by individuals or groups of individuals
- Legal Structures:
  - Sole Trader: One person provides the permanent finance and has full control over the business and profits. Unlimited Liability
  - Partnerships: 2-20 people, shared responsibility and capital
  - Pvt. Ltd: Small to medium sized, shareholders are a fixed group of people. Cannot sell share to the general public. Limited Liability
  - Pub. Ltd: Often large limited companies. Have the legal right to sell shares to the general public. Share prices quoted on the NSE.
  - Franchises: Use the name, logo and trading systems of existing successful businesses.
    - Allowed by the Franchisor (Original bus.) to the Franchisee
  - Co-operatives: Common in agriculture, retailing. All members contribute, get one vote each and equal profit share.
  - Joint Venture: 2 or more businesses work closely together on a particular project. Create a separate business division for this.
- Limited Companies:
  - Limited Liability: Owners assets cannot be take to pay off company debt.
  - Share: Certificate, confirming part ownership in a business. Entitles holder to dividends and other shareholder rights.
  - MOA (Memorandum of Association): Name, Address (Head office), maximum share capital and declared aim
  - AOA (Articles of Association): Internal workings and control; names of directors and procedures, etc.
- Establishing a limited company:
  - Pvt. Ltd: Certificate of incorporation from the ROC
  - Pub. Ltd: Accounting and trading systems scrutinized by the stock exchange
- Unique features of incorporated businesses:
  - Limited Liability: the only potential loss for owners is the face value of their shares
    - Shareholders are prepared to finance → growth and expansion
    - Greater risk for creditors
  - Legal personality: Owners can't be taken to court for company actions
  - Continuity: Death of an owner does not lead to dissolution.
- Note: NSE listing increases the marketability of shares.
- Advantages and Disadvantages of each type of legal structure:

Sole Trader	
Adv.	**Disadv.**
Easy set-up	Unlimited Liability
Complete Control	Intense comp. from bigger firms
100% profit share	Specialisation not possible for owner
Close relationship with staff	Capital is tough to raise
Based on the skills and interest of owners	Long working hrs
	Lack of continuity

Partnerships	
Adv.	**Disadv.**
Partners can specialize	Unlimited Liability
Share decision making	Shared profits
Shared losses	No continuity
More capital	Decision is binding
More privacy as compared to other legal forms	Loss of independence

See **Table 2** for Limited Companies

Franchises	
Adv.	**Disadv.**
Lower risk	Profit share to be given
Advice and planning	Expensive (License fee)
National advertising paid for	Local advertising to be paid for
Quality checked suppliers	Choice of suppliers restricted
No local competition from same brand	Strict guidelines

Joint Ventures	
Adv.	**Disadv.**
Cost/Risk Shared	Difficulties working together (diff. corporate cultures)
Integrate strengths	Blame game – mistakes
Exploitation of existing major markets with new products	Risk at the action of other org.

Co-operatives	
Adv.	**Disadv.**
Shared responsibility	Equal Profit share
Voting	No clear hierarchy
EOS for bulk purchases	

1.3 Size of business

- Measures used:
  - No. of employees
  - Revenue
  - Capital employed
  - Market capitalization
  - Market share
  - Business specific measures:
    - Hotels- rooms
    - Retailers – floor space
- Note: Profit is not an acceptable measure for size as it is unique to each businesses' circumstances. It is a measure for performance.

Small Businesses	
Adv.	**Disadv.**
Control	Limited sources of finance
Adaptability	Diversification difficult
Personalised services	Greater impact of external change
Good mgmt. worker relation → motivation	No EOS opportunities
	Have to follow market leaders at times

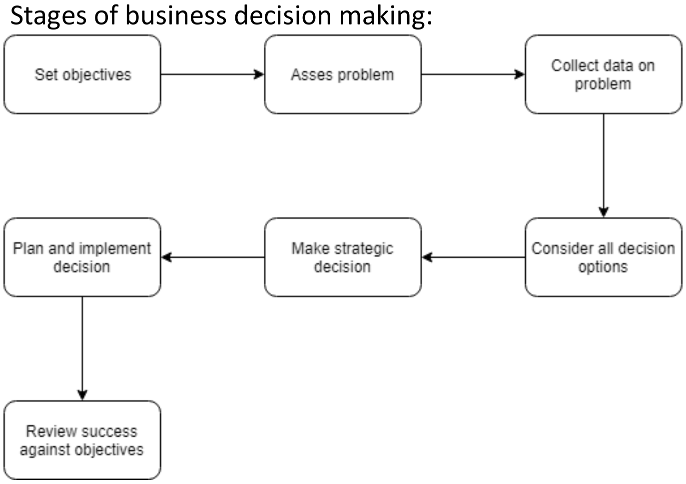
Family Businesses	
Strengths	**Weaknesses**
Committed	Continuity is a problem
Reliability and Pride	Informal attitude
Knowledge continuity	Traditional practices
	Family conflict affects business performance

- The importance of small businesses and their role in the economy
  - Job creation
  - Increased choice in the market
  - Compete with larger firms → price reductions
  - Grow into larger businesses
  - Lower administrative and management costs
  - Provide specialist goods to industries (part of the industry structure)
- Why a business may grow:
  - Increased profits: profits increase with scale
  - Increase market share: Higher market profile and greater bargaining power. Get good positions with suppliers and retailers
  - EOS
  - Increased power and status for owners and directors
  - Reduced risk of takeover
- Internal (Organic growth): Expansion of a business by means of opening new branches, shops or factories.

1.4 Business Objectives

- Business objectives help direct, control and review the success of business objectives at corporate, departmental and individual levels
  - Are the basis for strategies
- Benefits of corporate aims:
  - Starting point for management
  - Create a sense of purpose and direction
  - Allow success assessment
  - Form framework for strategies
- Corporate aims can be phrased as mission statements.
- Mission statement: A statement of a business' core aims, phrased in a way to motivate employees and stimulate interest from outside groups.
- Corporate objectives: Goals or targets that provide specific detail for operational decisions (expressed in quantitative terms)
- CSR (a corporate objective: The concept that a business should consider the interests of society in its activities and decisions beyond their legal obligation by taking responsibility for the impact of their activities on customers, employers, communities and the environment.
- Relationship between mission statement, objectives, strategies and tactics:

- Stages of business decision making:



- Reasons for changes in corporate objectives:
  - Satisfying prior objectives and moving on
  - Changes in corporate and economic environment
  - Short-term objectives adapted to long-term objectives
- MBO (Management by objectives): Coordinating and motivating staff in an organization by splitting the overall aim of the business into specific targets for each department, manager and employee.
  - Objectives are translated into budgets and targets for individual employees
- Advantages of communicating and involving employees in the setting of individual targets:
  - Achieving more: greater understanding
  - Employees see the overall plan- understand how their goals fit into the business
  - Creating shared employee responsibility
  - Managers stay in touch- progress in monitored
- The influence of ethics on business activity:

For:	Against:
Avoid court-cases and fines	Increases costs
Good PR and increased sales volume	Reduction in pester power
Attract ethical customers	No price fixing → reduction in prices and profits
Gov. contract likely	Fair wages increases costs and reduces competitiveness
Attract well qualified staff	

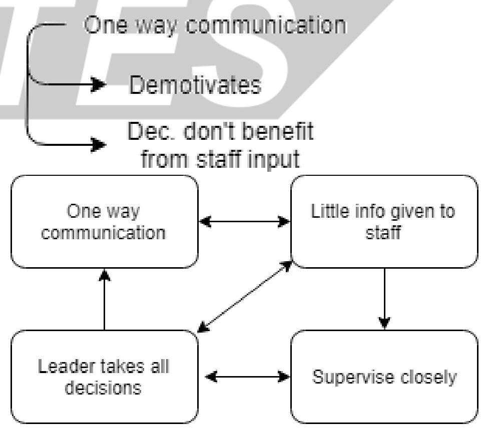
1.5 Stakeholders in a business:

- Stakeholders: People or groups of people that are affected by, and therefore have an interest in the activities of a business.
- Stakeholder concept: The view that businesses and their managers have responsibilities to a wide range of groups- not just their shareholders
- Refer to **TABLE 3** for the roles, rights and responsibilities of stakeholders

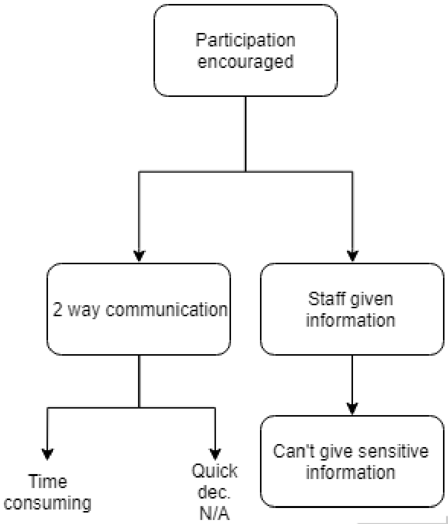
2. People in an Organisation

2.1 Management and Leadership

- Management: Setting objectives, organizing resources and motivating staff so an organisation's aims are met.
- Functions of management:
  - Setting objectives and planning: Establishing of overall strategic objective translated into tactical objectives. Planning needed to put the objectives into effect also made.
  - Organising resources to meet the objectives: Recruitment, giving authority and accept accountability. Clear division of tasks for each section/dept. to work towards common objectives
  - Directing and motivating staff: Guiding, leading and overseeing employees to ensure organizational goals are met. Staff development included.
  - Coordinating activities: Ensure consistency and coordination between different parts of the firm. Establish common sense of purpose and ensure resources are used correctly.
  - Controlling and measuring performance against targets: Appraising performance against targets, take appropriate action and provide feedback.
- Management roles: Mintzberg divides the roles of managers into interpersonal, informational and decisional roles.
- Interpersonal: Dealing with and motivating staff in all levels of an organization
  - Figurehead: Symbolic leader, social/legal nature of role.
  - Leader: Motivates subordinates, selection/training of managers and staff.
  - Liason: Communicates between managers and leaders of different divisions and other businesses.
- Informational: Acting as a source, receiver and transmitter of information
  - Monitor: Data collection
  - Disseminator: Convey data from internal and external people to the relevant people
  - Spokesperson: Communicating information about the current position and achievement to external entities
- Decisional: Taking decisions and allocating resources to meet the organisation's objectives.
  - Entrepreneur: Identify new opportunities → expansion
  - Disturbance handler: respond to changing/threatening situations
  - Resource allocator: Control spending/financial/human/physical resources.
- Leadership :The art of motivating a group of people to achieve a common objective
- 4 leadership positions:
  - Directors: Head of major functional department, elected senior members, objective meeting, communication
  - Manager: Manage people, resources, decision making. Direct, motivate and discipline.
  - Supervisor: Management appointed, responsible for goal achievement, work in a cooperative manner.
  - Worker representative: Worker elected, discuss concerns.
- Qualities of a good leader:
  - Desire to succeed and natural self confidence
  - Creative and think beyond the obvious- encourage others to do so too.
  - Multitalented- understand issues in various aspects of the business.
  - Incisive: Identify the heart of an issue.
- Leadership styles: Autocratic, Democratic and Lassiez Faire
  - Autocratic leadership: Centralised decision making (Efficiency → add value)



- Democratic: Active worker participation for decision making encouraged. Bring out the best → add value



- Lasseiz-Faire: Decisions made by workforce → hands off approach. Bring out the best → maximise added value

Authority/Decision making is delegated	Lack of structure
Broad criteria of limits	Lack of feedback

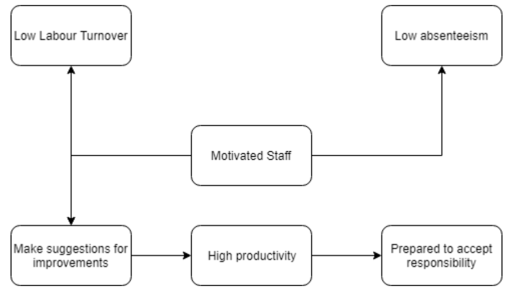
- McGregor's theory X and theory Y

Theory X	Theory Y
Dislike Work	Derive enjoyment from work
Avoid responsibility	Accept responsibility
Not creative	Creative

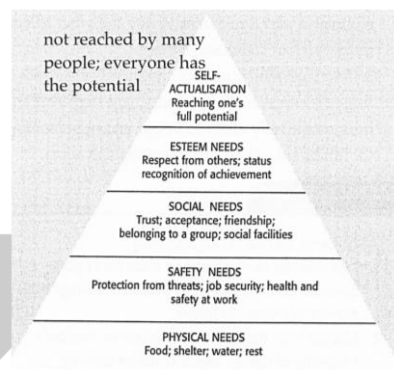
- Emotional Intelligence (EI): the ability of managers to understand their own emotions and the emotions of people they work with to achieve better business performance
- Goleman's 4 main EI competencies:
  - Self-awareness: Knowing **what we feel is important** and using that to guide decision making. Having a **realistic view** of our own abilities and having self-confidence in our abilities.
  - Self-management: Being able to recover quickly from **stress**, being **trustworthy** and **conscientious**, showing **initiative** and **self-control**.
  - Social awareness: Sensing what **others are feeling**, being able to take their views into account and being able to **get along** with a wide range of people.
  - Social skills: Handling emotions in relationships well and accurately understanding different social situation; using social skills to persuade, negotiate and lead.

2.2 Motivation

- Motivation: The internal and external factors that stimulate people to take action that lead to achieve a goal.
- A motivated workforce is loyal and productive → competitive advantage.

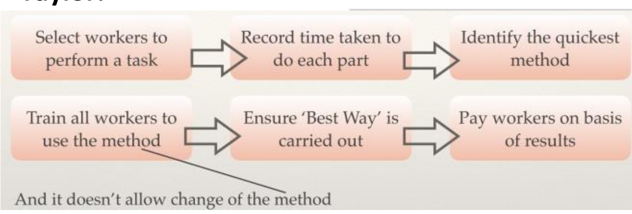


- Human Need: Elements required for life.
- Motivation theories assume individuals are motivated by the desire to fulfil their inner needs
- How human needs may or may not be satisfied at work
  - two-way communication
  - good working conditions
  - esteem needs after finishing work
  - Herzberg factors
- **Maslow:**
  - Needs start at a basic level.
  - After one need is satisfied- move on to the next.
  - Satisfied need will not motivate action
  - Reversion is possible - Satisfaction can be withdrawn and level of need moved down



ADVANTAGES	DISADVANTAGES
• Useful summary of human needs. Applications in product design and positioning • Helps marketers focus advertisements on specific needs of the target market • Help decide rewards at each level and recognise potential. • Visual addressment of motivation	• Generalised • Practically difficult to identify which need is met. • Money can satisfy various levels • Self-actualisation is never permanently achieved

- **Taylor:**



ADVANTAGES	DISADVANTAGES
• Enhanced Teamwork: cooperation between managers and workers • Increases speed of production • Higher productivity	• Industry specific • Lack of feedback can demotivate • Monotonous

- Mayo
  - Changes in working conditions and financial rewards have **little or no effect** on productivity
  - When management consult with workers and **take an interest** in their work, then motivation is improved
  - **Working in teams** and developing a team spirit can improve productivity
  - When some **control over** their own working lives **is given to workers**, such as deciding when to take breaks, there is a positive motivational effect
  - **Groups can establish their own targets** or norms and these can be greatly influenced by the informal leaders of the group.

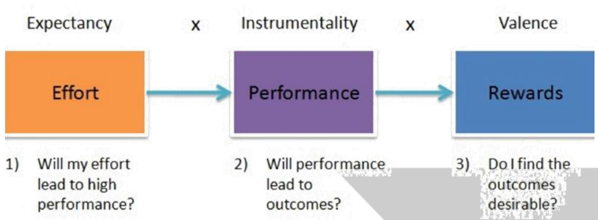
ADVANTAGES	DISADVANTAGES
• Sustainable productivity enhancement • Teamwork- modern bus sit. • Helps set up long-term plans	• Requires feedback • Participants could view work counters • Absence of evidence for the original study.

- **Herzberg:**
  - Hygiene factors: Have a potential to cause dissatisfaction.
  - Motivators: Can lead to positive job satisfaction.

Motivators	Hygiene Factors
Achievement	Company policy and administration
Recognition for ach.	Supervision
Work	Salary
Responsibility	Relationship with others
Advancement	Working conditions

  - Conclusions:
    - Pay and working conditions cannot motivate, only move.
    - Motivators can be adopted through job enrichment.
    - Hygiene factors get taken for granted and hence don't cause motivation in the long term.
- Job Enrichment: Aims to use the full capabilities of workers by giving them the opportunity to do more challenging and fulfilling work.
- Can be achieved by:
  - Complete units of work
  - Feedback of performance
  - Range of tasks
- **McClelland:**
  - n-ach: constant need for feedback and achievement (result driven)
  - n-pow: authority motivated. Desire to control others, be influential, effective and make an impact.
  - N-afill: need for affiliation and friendly relations. Good team members. Tend to be liked and popular.

- **Vroom:**
  - Individuals chose to behave in ways they believe will lead to outcomes that they value.
  - Employees can be motivated if they believe that:
    - There is a positive link between effort and performance
    - Favourable performance will result in desirable rewards
    - The reward satisfies an important need
    - Desire of need is enough to make the effort worthwhile.



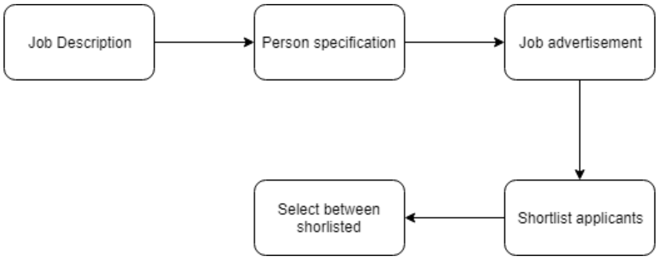
- Payment methods:
  - Time-based: Payment to a worker for each period of time worked.
  - Salary: Annual income that is usually paid on a monthly basis.
  - Piece-rate: A payment to a worker for each unit produced.
  - Commission: A payment to a salesperson for each sale made.
  - Bonuses: A payment made in addition to the contracted wage or salary.
  - Profit Sharing: A bonus for staff based on the profits of the business- usually paid as a proportion of basic salary
  - Performance related pay: A bonus scheme to reward staff for above-average work performance.
- Non-financial motivators:
  - Training: See 2.3
  - Induction: See 2.3
  - Opportunities for promotion: moving an employee to a level higher in the organisational structure, usually with more responsibilities
  - Development: See 2.3
  - Job re-design: restructuring of a job, usually with employee involvement and agreement to make work more interesting, satisfying and challenging
  - Team working: production is organised so that groups of workers undertake complete units of work.
  - Fringe benefits/perks: Benefits given, separate from pay, by an employer to some or all employees.

2.3 Human Resource Management

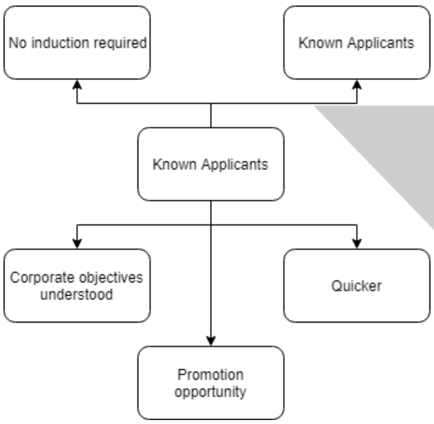
- The role of HRM in an organisation:
  - Recruitment: Identifying the need → defining job → attracting candidates.
  - Selection: Interview, test and screen → select suitable candidate.
  - Training: Work-related education → increase workforce skills + efficiency
  - Induction: Introductory training program to familiarise new recruits with the systems used in the business and the layout of the business site.
  - Advice and guidance: Support Employees with family, financial problems → higher morale
  - Workforce planning: Analysing + Forecasting the number of workers and the skills levels required to achieve business objectives.
- Labour turnover: Rate at which employees are leaving an organisation.

$$\frac{Number\ of\ employees\ leaving\ in\ 1\ year}{Average\ number\ of\ people\ employed} \times 100\%$$

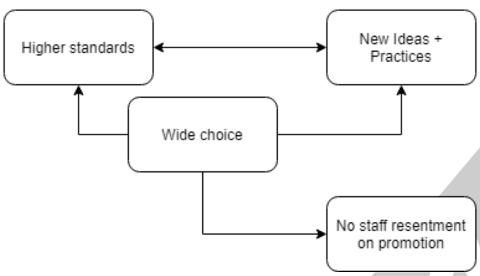
- Recruitment and Selection Process:



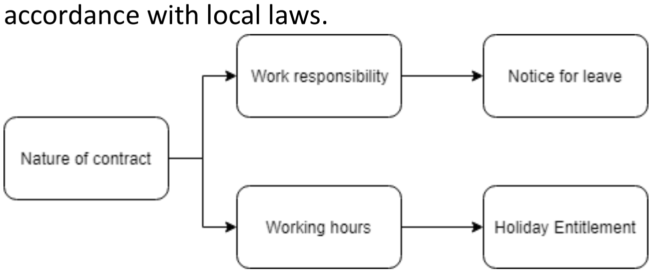
  - Job description: Detailed list of all key pints about a job to be filled- stating all key tasks and responsibilities
  - Person specification: Detailed list of the qualities, skills and qualifications a successful applicant will need.
- Internal Recruitment:



- External Recruitment:

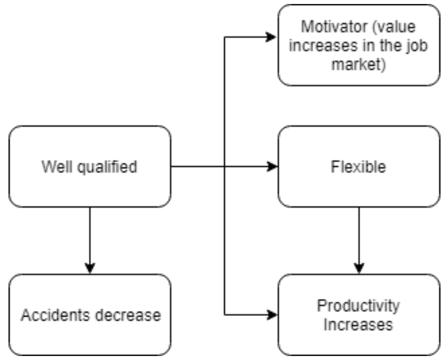


- Contract of employment: Legal document highlighting the terms and conditions of employment. Is in accordance with local laws.

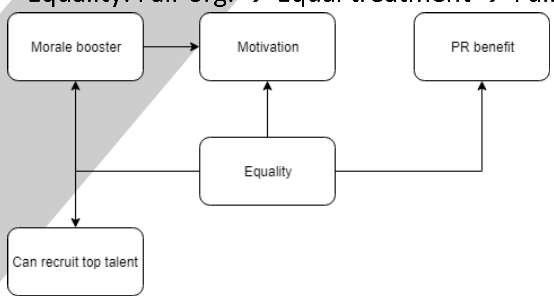


- Training:
  - On-the-job: HR managers/dept. training officers. Can be experimental, existing staff → Cheap and controlled.
- Off-the-job training: New idea, technical knowledge → specialist, expensive but indispensable.

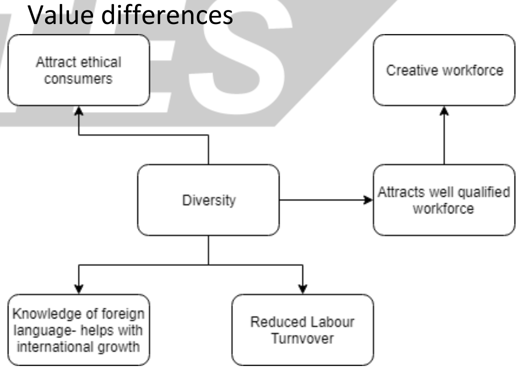
- Training:
  - Advantages:



  - Disadvantages:
    - Expensive
    - Can be poached
- Redundancy: An employee becomes unemployed through no fault of their own because a job is no longer required.
- Dismissal: Being dismissed or sacked due to breach of discipline, or incompetence
  - Withdrawal of financial support
- Equality: Fair org. → Equal treatment → Full potential



- Mixed workforce → Positive value on differences → Value differences



- Work-life balance: When an employee can give the right amount of time and effort to work and personal life outside work.
  - Reduces Stress and Increases Productivity

  Achieved by: Flexible working, Teleworking, Job-sharing and sabbatical periods

3. Marketing

3.1 What is marketing?

- Marketing objectives are based on the corporate objectives of a business. Depending on the nature of the corporate objectives, an appropriate marketing strategy is adopted.
- Factors affecting demand for a product:
  - Income
  - Taste
  - Competitors
  - Promotion
  - Population
- Factors affecting supply of a product:
  - Technological:
    - Cost of sales
  - Gov:
    - Taxes
    - Subsidiaries
  - Natural + Other
- As the price increases, the demand of a product decreases
- As the price increases, the supply of a product increases
- As the supply increases, the price decreases
- Types of markets
  - Consumer/Producer markets:
  - National markets: Sell to the full nation
  - International markets: Sell outside the country based out of.
- Orientation

Market Orientation	Product Orientation
Low Risk	R&D→ unique product
Longer Life Cycle	Quality is valued over market fashion
Constant Feedback	

- When measuring business size in terms of market share and growth, should value or volume be used?
- Market Share: Sales of a firm/Total sales in the market For a given time period
- High Market Share:
  - Higher Sales
  - Lower Discounts
  - Retailers keen to stock
- Must-have product- marketing advantage

Niche Marketing	Mass marketing
Lower Competition	Lower costs of production
Survival for small firms	Fewer risks
Large firms can exploit	

- Market segmentation: Identifying different segments in a market and targeting different goods and services to the segments

Advantages	Disadvantages
Define target market → Differentiated marketing tactics → profitability	Higher R&D, promotion and stock holding costs
Identify gaps → exploit	Depends on accuracy of market research
	Excessive specialization (DEOS)

- Basis for segmentation:
  - Geographic: Based on culture and linguistic and geographic changes
  - Demographic changes: Income Level and Social Class
  - Psychographic: Lifestyles, values and attitudes

3.2 Market Research

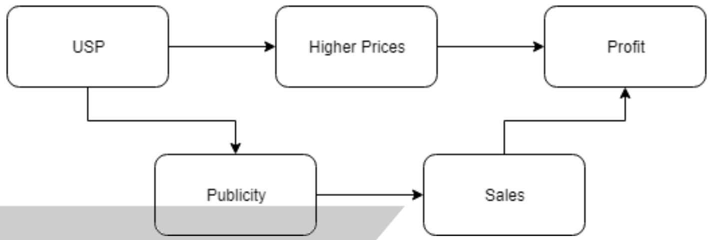
- The purpose of market research:
  - Determine characteristics → Build a consumer profile → understand wants and needs
- Consumer profile
- Evaluating market research (CCCTBA):
  - Cost
  - Relevance
  - Accuracy
  - Confidentiality
  - Comparability
  - Timing
  - Bias

- Methods of Research:
  - Primary Research: The collection of first hand data directly related to a firm's needs. E.g. focus groups, questionnaires.
    - Qualitative Research: Research into the in-depth motivations behind consumer buying behavior or opinions.
    - Quantitative Data: Research that leads to numerical data that can be statistically analysed.
  - Secondary Research: Collection of data from second hand resources. Include printed, paid for and web-based sources of information.
- Sample: The group of people taking part in market research that are supposed to represent the entire market.
- Methods of sampling:
  - Random: Each member of the target population has an equal chance of being selected.
  - Stratified: Sample is selected from each stratum and random sampling is used to select members.
  - Quota: An appropriate number of members from each stratum is selected after the target population has been stratified. (Interviewer selects)
- Limitations of sampling:
  - Expensive
  - May not represent target population
  - Accuracy based on market research
- Cost-effectiveness of market research:
  - Well Designed and focused → pays for itself
  - Accuracy is critical
  - Will only translate to revenue if right segmentation done.

3.3 Marketing Mix

- Marketing Mix:
  - Product → Customer Solution
  - Price → Cost to customer
  - Promotion → Communication
  - Place → Convenience
- Customer relations can be improved by:
  - Targeted marketing
  - Customer Service
  - Agreeing to one-off requests
  - Providing information to customers
  - Social media marketing

- Product: The end result of a production process.
  - Products can be goods or services
  - Have tangible and intangible attributes and compared
    - Tangible attributes: those which can be measured.
    - Intangible attributes: those which are subjective, cannot be compared and measured easily.
- Product development: The development and sales or new products or new developments of existing products in existing markets.
  - Benefits:



  - Helps build brand identity
- USP: A factor that differentiates a product from its competitors. "What you have that competitors don't"
- Product life cycle: the pattern of sales recorded by a product from introduction to withdrawal in a market
  - Refer to **TABLE 1** for the influence on marketing activities of the product life cycle stage.
- Product-portfolio anaylsis: Analysing the range of existing products of a business to help allocate resources effectively between them.
  - Helps understand when to launch a new product or update an existing one → competitive advantage
- Extension strategies: Marketing plans to extend the maturity stage of a product before a brand new one is needed. E.g. repackaging, selling in new markets, marketing for new uses.
- Pricing strategies:
  - Competitive: Same or lower prices than that of competitors.
  - Penetration: Low price, high promotion, mass marketing.
  - Skimming: Low PED, strong USP, maximising profits
  - Price discrimination: different prices to different consumer groups at the same time.
  - Cost-based: setting a price after calculating unit cost and adding a fixed profit margin.

- PED (Price Elasticity of Demand): measures the responsiveness of demand following a change in price.

$$\frac{\%\ change\ in\ demand}{\%\ change\ in\ price}$$

  - Usability:
    - Production of more accurate sales forecasts
    - Assists with pricing decisions (varying prices on different routes)
  - Evaluation:
    - Assumes nothing else changes
    - Quickly becomes outdated
    - Relies on market research accuracy to work out correctly
  - Values:
    - 0: Perfectly inelastic demand (unrealistic)
    - 0-1: Inelastic (percentage change in demand < percentage change in price)
    - 1: Unit elasticity (percentage change in demand equal and opposite to percentage change in price) (Sales revenue maximized???)
    - 1 - ∞: Elastic demand (percentage change In demand > percentage change in price)
    - ∞: Perfectly elastic (unrealistic)
- Promotion:
  - Above-the line: Paying for communication directly with the consumer
    - Informative advertising: give information to potential customer. Used for new products or substantial changes
    - Persuasive advertising: Try to create a distinct brand image, help with product differentiation
  - Below-the-line: Not directly paid for, based on short term incentives to purchase
- Below-the-line promotion:
  - Sales promotion: Incentives such as special offers/deals directed at consumers/retailers to achieve short term sales increases and repeat purchases
    - Loyalty schemes, money-off coupons, POS display, BOGOF, games and competitions (cereal packets, etc.)
  - Personal Selling: A member of the sales staff communicates with one consumer with the aim of selling a product and establishing a long term relationship between the consumer and the product
    - Requires well trained, professional staff, for high-margin items.
  - Direct Mail, Trade fairs and exhibitions, sponsorships, etc.
- Public- relations: The deliberate use of free publicity provided by newspapers, TV and other media to communicate with and achieve an understanding by the public.
- The role of packaging in promotion:
  - Protects
  - Provides information
  - Supports image → product recognition

- Brand: an identifying name, symbol, image or trademark that differentiates a product from its competitors.
  - Creates an identifiable image and clear expectations
- Advantages of branding:
  - Increased brand recall
  - Product differentiation
  - Establishes a "family" of products
  - Consumer loyalty
  - Reduces PED
- Channels of distribution: the chain of intermediaries a product passes through from producer to final consumer.
- COD is chosen on the basis of:
  - Geographical dispersion
  - Size of the market
  - Level of service
  - Technical complexity
  - Unit value
- Types of COD:
  - Direct selling: Producer → consumer
  - One intermediary: Producer → agent/large wholesaler → consumer
  - Two intermediaries: Producer → Wholesaler → Retailer
- Internet Marketing: Advertising and marketing activities that use internet, email and mobile communication to encourage direct sales via e-commerce.
- E-commerce: The buying and selling of goods and services by businesses and consumers via an electronic medium

- Internet and Marketing:
  - Online Advertising: Worldwide audience and cheaper
  - E-commerce: Cheaper, but no direct contact with consumer, relies on postal service, may have high returns.
  - Distribution: Digital products distributed digitally
  - Dynamic Pricing: Varying prices at different times
  - Viral marketing: using social media and text messages to increase consumer awareness and brand recall.

General Concerns	General Benefits
Slow internet speeds	Cheaper
Payment Security	Reach larger audience
	Accurate and automated record keeping (automatic market research)

- Integrated marketing mix: Marketing decisions complement each other and convey a consistent message about a product

4. Operations and Project Management

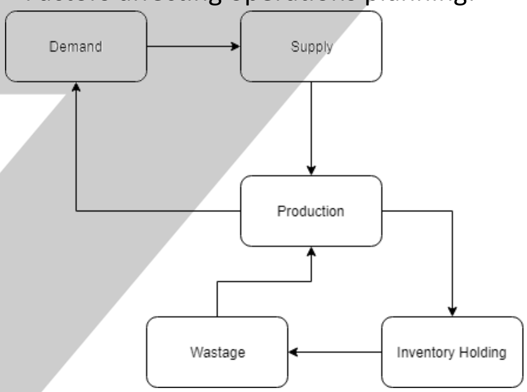
4.1 The nature of operations

- Inputs → transformation → output
- Added value: Difference between the cost of bought in materials and the selling price of finished goods.
- Added Value depends on:
  - Design
  - Efficiency
  - Ability to convince customer to pay higher price
  - Flexibility + Innovation
- Production: Absolute measure of quantity of output
- Productivity: How efficiently inputs are converted to outputs (Measures efficiency)
- Increasing productivity:
  - Worker Training
  - Motivation
  - Better Machinery
  - Efficient Management
- Resources:
  - Land, Labour, Capital
  - Intellectual capital- Human, relational and structural capital
- Efficiency: Output/Input
- Effectiveness: Meeting objectives by productively using inputs to meet customer needs.

Capital Intensive	Labour Intensive
Low staff	Hand-made marketing advantage
High maintenance	Low fixed costs
Risk of obsolesce	

4.2 Operations Planning

- Factors affecting the production approach:
  - Nature of product + Image
  - Prices
  - Size and finance available
  - Availability of other resources
  - Size of the market
  - Marker demand and trends
- Operations Planning: Input resources to make products that meet customer needs
- Factors affecting operations planning:



- Demand and Supply Levels
- Inventory Holding Costs
- Wastage
- Production: Stable and appropriate staff- ready to produce right product mix
- Factors affecting the availability of Resources:
  - Location
  - Production Method
  - Automation
  - Technology:
- CAD (Computer Aided Design): Using computer programmes to generate 2D and 3D graphical representations of physical objects
- CAM (Computer Aided Manufacturing): Using computer programmes to control machines and related tools to manufacture components or completed products

CAD	
Advantages	**Disadvantages**
Lower product development costs	Complicated
Shorter time to market	Requires employee training
Easy visualisation	Requires computers with high processing power
Easy to reuse designs	

CAM	
Advantages	**Disadvantages**
Precise	Hardware, programmes and employee training required.
Faster Production → increased productivity	Hardware failure
Combined with CAD- Customisation→ Competitiveness	Quality assurance required

- Operational Flexibility: Ability to vary the level of production and the range of products following changes in demand.
- Achieved by:
  - Increasing production capacity and stock holding ability
  - Flexible and adaptable workforce
  - Flexible flow-line equipment
- Process Innovation: New and improved production method/service delivery method
  - Results in lower costs of production to achieve a competitiveness
  - Patent Royalties form innovation
  - Transforms efficiency

- **Job Production:** One-off production with a special design. One product has to be completed before the next.

Specialised (mktng advantage)	Highly skilled labour
Motivates workers- rewarding	High Costs

- **Batch Production:** Limited number of identical items produced in stages. Each group undergoes one production stage before moving to the next. Stages are distinct

Division of Labour	WIP Stocks to be held
EOS	

- **Flow Production:** Producing items in a continually moving process. Each item moves through the assembly line independently

Large quantities in a low time	Standardised- less alteration
Consistent Quality	Demotivating, boring work
Low labour costs	Capital Intensive

- **Mass Customisation:** Flexible computer aided production used to produce goods according to customer requirements at mass-production cost levels

Used with differentiated marketing to provide higher added value.

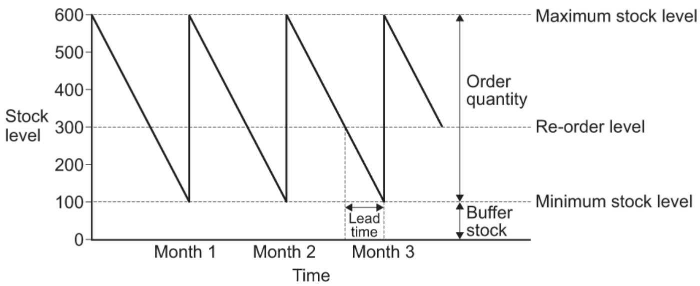
- Factors affected when changing production methods:
  - Costs
  - Capacity
  - Effect on HR
  - Marketing implications
- Optimal location: Where qualitative and quantitative factors are balanced
  - Low fixed costs vs. labour availability
  - Government grants vs. marketing to low income groups

- Factors affecting location/relocation: are Geographic, Legal, Demographic, Political, Resources, Infrastructure, Marketing
- Qualitative Factors:
  - Safety (PR)
  - Room for expansion
  - Mmgt. preferences
  - Ethical considerations (PR)
  - Environmental concerns
  - Quality of local infrastructure
  - Market potential
  - Availability of EOS
- Quantitative factors:
  - Site/Capital Costs
  - Labour Costs
  - Transport Costs
  - Sales revenue potential
  - Government grants
- Techniques to choose a location:
  - Profit estimates v/s costs
  - Investment Appraisal
  - BE analysis
- Reasons for international location decisions.
  - **To reduce costs:** Low wage economies → Increased competitiveness
  - **To access global markets**
  - **To avoid protectionist trade barriers**
  - **Other reasons:** e.g. substantial government financial support.
- Issues and potential problems
  - **Language and other communication barriers-** lead to communication problems
  - **Cultural differences:** Differing consumers tastes require tweaking of products. Training also required.
  - **Level-of-service concerns:** Offshoring can lead to inferior customer service, due to jet-lag, time delays etc.
  - **Supply-chain concerns:** loss of control over quality and reliability of delivery with overseas manufacturing plants.
  - **Ethical considerations:** Negative PR implications cancel out increased competitiveness
- Factors influencing the size of a business:
  - Internal:
    - Owner's objectives
    - Capital available
  - External:
    - Market size
    - Competitors
    - Scale of operation
- Economies of scale: reduction in a firm's unit costs resulting from an increase in the scale of operation.
- Economies of Scale:
  - **Purchasing economies:** Suppliers offer substantial discounts for large orders.
  - **Technical economies:** Large firms use technology to reduce unit costs.
  - **Financial economies:** Bank and other lending institutions often show preference to larger businesses with a track record.
  - **Marketing economies:** Rising marketing costs can be spread over a higher level of sales for a big firm.
  - **Managerial economies:** Expanding firms should be able to afford to attract specialist functional managers.
- Diseconomies of Scale: Increase in the unit costs of a firm due to communication and coordination problems arising from an increase in the scale of operation.
- Caused by:
  - Communication problems: poor feedback→ decision making
  - Workforce alienation. Can be combatted with job enrichment
  - Poor coordination: difficulty managing operations in a large organisation.

4.3 Inventory Management

- Inventory: Materials and goods used for production and supply.
  - Raw material: used to meet increase in demand by increasing production
  - WIP: Interim stage between raw materials and finished goods.
  - Finished goods: products haven undergone the full production process
- Costs of storing inventory:
  - Opportunity cost (tied up capital)
  - Storage costs (associated overheads)
  - Wastage and Obsolesce
- Inventory-out costs (reverse of benefits):
  - Lost sales, possible penalties
  - Idle production resources
  - Special order costs
  - No benefit from ESO- small order quantity.

- Inventory Levels:
  - Buffer: Minimum inventory level- allow prod. To continue with delays
  - Re-order: Units ordered each time this level is reached
- Lead time: time between delivery and new stock order.
- Inventory Control Charts:



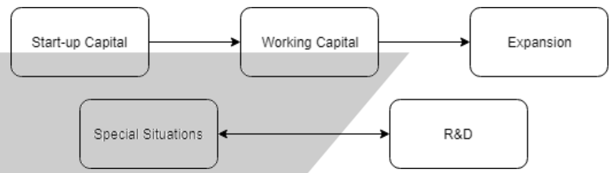
- Just-in-time inventory management: Avoids holding inventory by having goods to arrive just as they are required for production and have products completed to order.
- Requirements for JIT:
  - Relationships:
    - Supplier- Producer
    - Employee-Employer
  - Flexible:
    - Production workforce
    - Machinery
- Quality Assurance
- Automation
- Accurate Demand Forecasts

Just-in-time Inventory Management	
Advantages	**Disadvantages**
Reduced capital tied up	Failure → delays
Lower storage costs	Business reputation in external hands
Lower chance for Obsolesce	High order admin and Delivery costs and low discounts
Quicker response to market	
Motivation- multiskilled and adaptable workforce	

5. Finance and Accounting:

5.1 The need for business finance

- Businesses require finance for:
  - Start-up capital: the capital needed by a business to set-up a business
  - Working capital: capital needed to pay for raw material, day-to-day running costs and credit offered to customers. Current Assets – Current Liabilities
  - Expansion:
    - Purchasing Capital Assets
    - Takeovers
  - Special situations- decline in sales, etc.
  - R&D



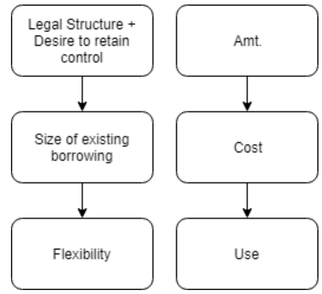
- Capital Expenditure: Purchase of assets that are expected to last for more than one year
- Revenue Expenditure: Spending on all costs and assets other than fixed assets- includes wages, salaries and material bought for stock
- Liquidity: The ability of a business to pay its short-term debts
- Liquidation: When a firm ceases trading and its assets are sold for cash to pay for suppliers and other creditors
- Business Plan: A detailed document, giving evidence about a new or existing business, and that aims to convince external lenders and investors to extend finance to the business.

5.2 Sources of Finance

- Internal sources of finance:
  - Retained Earnings: Profit left after deductions (including dividends), ploughed back into a company as a source of finance.
  - Sale of unwanted assets
  - Sales and leaseback of non-current assets
  - Working Capital

- External sources of finance:
  - Share capital: The total value of capital raised from shareholders by the issue of shares
  - New partners: Introducing new partners into a business
  - Venture Capital: Risk-capital invested in businesses by individuals or groups of individuals that see good profit potential but do not find it easy to gain finance from other sources.
    - High Risk- High Returns
    - Expect future profit shares
  - Overdrafts: When a bank agrees to a business borrowing upto an agreed limit as and when required.
  - Leasing: Obtaining the use of equipment or vehicles by paying a rental charge over a fixed period. Avoids need for long-term capital, ownership remains within leasing company.
  - Hire-Purchase: An asset is sold to a company which agrees to pay fixed repayments over an agreed time period- the asset belongs to the company.
  - Bank-loans: An amount borrowed from a bank that do not have to be paid for at least one year.
  - Mortgage: a legal agreement by which a financer, lends finance by taking title of the debtor's property.
  - Debentures: Bonds issued by companies to raise debt-finance, often with a fixed rate of interest.
  - Micro-finance: Providing financial services to low income or poor individuals that do not have access to financial services, such as loans and overdrafts provided by traditional banks.
    - Developing, low income countries
    - May encourage people to take on debts they can't pay back
  - Crowd-funding: The use of small amounts of capital from a large number of individuals to finance a new business venture
    - Lower Interests for new firms
    - Use of IT
    - Initial capital + interest -> peer-to-peer lending
    - Equity Stake
    - Idea exposed
  - Government Grants: Financial award given by a government to a business. Not expected to be repaid.

- Factors affecting the choice of finance:



5.3 Costs

- Need for accurate cost data:
  - Profit forecasting
  - Marketing dept.
  - Comparisons
    - Resource usage
    - Decision making
- Types of costs:
  - Fixed: Do not vary with output in the short term
  - Variable: Directly vary with output 7
  - Marginal: Extra-cost of producing one more unit
  - Direct: Clearly identified with a unit of production- accurately allocated to cost centre
  - Indirect: Cannot be identified with a unit of production- can't accurately allocate
- Margin of safety: Amount or units by which sales level exceeds break-even point.
- Uses of Break-even charts (help aid value creation):
  - Marketing decisions (price increases, etc.)
  - Operations Management (machines with lower costs, etc.)
  - Location decisions
- Advantages of break-even charts:
  - Easy to construct and Interpret → Can make comparisons → Obtain precise result.
- Limitations:
  - Not all costs are straight lines → Fixed costs change in the long term → Diff. to classify
  - Assumes all units produced are sold.

5.4 Accounting Fundamentals

- Income Statement:
  - Revenue: Total value of sales (in trading period)
  - Cost of sales: Direct costs of goods sold in a financial year
  - Gross profit: Sales Rev. – COS
  - Operating Profit: Gross profit - overheads
  - Retained earnings: Ploughed-back profits after deductions
- Statement of Financial Position:
  - Non-current Assets: Kept and used for 1+ year
  - Current Assets: Likely to be turned into cash before the next SOFP date
  - Current Liabilities: Debts paid within one year
  - Working capital: CA – CL
  - Net Assets= Capital
  - Non- current liabilities: Debts paid in more than one year
  - Reserves and Equities
- See TABLE 4 for ratio analysis
- Decreasing trend in profitability ratios- decreasing effectiveness for value-creation
- Methods to increase profitability and evaluation:
  - Reduce direct costs → perception of quality can reduce, quality can reduce, communication problems, machines will increase direct costs, loss in motivation
  - Increase price → Total profit falls (PED), damage in long-term image
  - Reduce overheads → damage image, sales fall more than fixed costs, reduced efficiency.
- Methods to increase liquidity and evaluation:
  - Sell of fixed assets and lease → True value not realised, leasing charges will reduce profits
  - Sell of inventories → Reduced GP margin, consumer doubt, inventory is needed for changing market trends
  - Increase loans → Increase costs, long-term liabilities
- Limitations of ratio analysis:
  - Incomplete Analysis
  - Ratios need to be compared with ratios of previous years and other companies
  - Ratios only highlight problem- not cause
  - Do not measure qualitative problems
  - Accuracy of data unknown
- Information stakeholder groups seek:
  - Business Managers: Performance, decisions, control and management, targets
  - Banks: Lending, increase in overdraft, continue overdraft
  - Creditors: Security and liquidity, Risk assessment, early repayment
  - Customers: Security, assurance of future supplies
  - Gov and tax: Calculate tax, expansion (jobs), closure, law maintenance
  - Investors: Value assessment, profitability, profit share, growth potential, compare with other businesses, selling or holding shares
  - Workforce: Secure (pay and jobs), growth, wage increase, compare wages
  - Local community: Profitability and expansion, losses and closure
- Limitations of published accounts:
  - Historical → May not reflect on the future
  - Historical → May be out of date
  - Does not reflect qualitative aspects
  - Window-dressing possible
  - Performance details may not be present

5.5 Forecasting and managing cash flow

- Cash vs. Profit:
  - Profit is long-term, for survival
  - Cash is short-term and long term- for growth and paying expenses
- Consequences of not having enough cash in hand- cannot pay suppliers and expenses even though it is operating profitably- becomes insolvent (when a business cannot meet its short-term debts) and can be forced to liquidate (Firm ceases trading, and assets are sold for cash to pay suppliers and other creditors)
- Uses of cash flow forecasts:
  - Preparing for areas of negative cash-flow.
  - Planning to reduce negative cash-flow
  - Required for investors and banks
- Limitations of cash flow forecasts:
  - Can contain mistakes
  - Unexpected cost increases → major inaccuracies
  - Can be based on wrong assumptions (market research, etc.)

- Causes of cash-flow problems:
  - Lack of planning
  - Poor credit control (Monitoring of debts to ensure credit periods are not exceeded)
  - Allowing long credit periods
  - Overtrading: expanding a business rapidly without obtaining all of the necessary finance so that cash-flow shortage develops
  - Unexpected events
- Improving cash-flow:
  - Increase cash-inflow
  - Reduce cash-outflow
- Improving cash flow by managing trade- receivables
  - Not extending credit/reducing credit period → customers expect credit, clash with marketing dept.
  - Debt factoring → cannot recover 100% of debt value
  - Require references for customers to get credit
- Other methods
  - Offer cash-discount for prompt payment
  - Overdrafts → High interests, can be withdrawn
  - Short-term loan → Interests, due date
- Reducing cash outflows:
  - Delay payments to suppliers → reduce discount, will reduce own creditworthiness
  - Delay spending on capital expenditure → efficiency falls, expansion- very difficult
  - Leasing instead of buying → No ownership, increased overheads
  - Cut indirect costs → may affect demand (cut promotion costs)
- Managing creditors:
  - Increasing range of goods bought on credit → only easy if good credit rating, give up cash discounts
  - Extend credit period → difficult for small businesses, burden small suppliers, may not get best quality goods or services

TABLE 1

Product Life Cycle Phase	Price	Promotion	Place	Product
Introduction	Higher than competitors	High levels of informative advertising	Restricted outlets (high class if skimming adopted)	Basic version
Growth	Penetration → rising prices	Establish brand identity to encourage repeat purchases	Growing number of outlets in strength of increasing consumer demand	Plan product improvements and developments to maintain appeal
Maturity	Prices kept at competitive levels to compete with entering competitors	Continued stress on brand image to highlight positive differences with competitors	Highest geographical range- development of new types of outlets	New models, colours, etc. as part of extension strategy
Decline	Lower prices → sell off stock	Limited advertising to inform of lower prices	Eliminate unprofitable outlets	Prepare to replace by withdrawal

TABLE 2

Adv.	Pvt. Ltd (Disadv.)	Pub Ltd (Disadv.)
Ltd. Liability	Legal procedures	Loss of control
Continuity	Can't sell to general public	Conflict of interest (Directors vs. shareholders)
Legal entity	Difficult to sell shares	Disclosure
Status	Accounts sent to companies house for inspection	Fluctuating share price
Adv. (Specific to Pvb. Ltd)		Business consultants and advisors (expensive)
Control		
Family and friends owners		
Employees can be given shares as payment		

TABLE 3

	Roles	**Rights**	**Responsibilities**
Customers	• Purchase goods and services • Provide revenue	• Receive goods and services that meet local laws • Offered replacements, repairs, etc- as legally obligated	• Honesty • Not stealing • Not make false claims
Suppliers	• Supply goods and services	• On-time payment • Fair treatment	• Supply goods in time and condition already decided
Employees	• Provide manual and other labour services	• Treated within minimum legal limits • Employment contract payment and treatment • Join a trade union	• Honesty • Meet employment contract • Cooperate with management for reasonable requests • Observe Ethical code of conduct.
Local Community	• Provide local services and infrastructure	• Consulted about major changes • Not have lives badly affected	• Cooperate • Meet reasonable requests
Gov.	• Laws- restrain business activity • Law and order- allow activity to take place • Achieve economic stability	• Businesses to meet requirements	• Treat businesses equally • Prevent unfair competition • Good trading links internationally- allow international trade
Lender	• Provide finance in different forms	• Repaid on agreed dates • Paid finance charges	• Provide agreed finance on agreed date and time

TABLE 4

Ratio	Formula	Uses
Acid-test	$\frac{Current\ Assets - Inventory}{Current\ Liabilities}$	• Asses the ability of a firm to pay its short-term debts • Concerned with working capital
Current ratio	$\frac{Current\ Assets}{Current\ Liabilites}$	
Gross Profit Margin	$\frac{Gross\ Profit}{Sales} \times 100\%$	• Asses successful management of converting sales revenue into respective profits • Performance
Net Profit Margin	$\frac{Net\ Profit}{Sales} \times 100\%$	