

Nat 5 Business Management Study Notes

1.1 Role of Business Organisations

Sectors of Economy

Private - profit making, owned and controlled by private individuals

Public - created by the government eg school, hospital, army

Third - Charities, voluntary groups

Sectors of Industry

Primary - using natural resources, farming, fishing, oil exploration

Secondary - Manufacturing including cars, computers, food.

Tertiary - providing a service, hair dresser, bank, schools

Types of Business Organisations

Sole Traders - created and managed by one person, keep all the profits, make all decisions, easy to set up and manage. But it is hard to raise finance, unlimited liability, pay income tax.

Partnerships - 2-20 partners running a business, easy to raise finance, responsibilities can be shared, unlimited liability, profits shared.

Ltd - limited liability, owned by shareholders, must be registered

plc - As above but anyone can buy and sell shares, can dominate their market.

Charities - raise funds to help with a good cause, no profit being made.

Social Enterprises - a company set up, not to make a profit but to help people or the environment

Public Corporations - the BBC or Royal Mail, not there for profit but to provide a service

Factors of Production

Land - natural resources used by the business, farm animals, oil, crops

Labour - humans who work in the business

Capital - man made resources like buildings/machines/factories

Enterprise - generating ideas and turning them into a business. Lead by the owner of the business.

Customer Satisfaction - If customers enjoy a good experience they will return and tell their family/friends, this increases profit levels.

Customer complaints - Takes time and costs money for returns. Customers are likely not to return and tell family/friends

After sales service - Products like cars, washing machines, computers have guarantees after the product is bought the customer has the right to free repairs/replacement.

Maximising Customer Service - companies can do the following - train staff, employ enough staff, offer help on websites & call centres

Objectives of Businesses

Survival - Important as the staff would lose their jobs and the customers wouldn't have the product

Growth - Organisations want to become as large as they can gaining more and more of the possible customers - market share. Costs may be hi

Profit Maximisation - Profit is the amount of money the business has left after all costs of production are taken off.

Provide a Service - Schools provide education, hospitals provide healthcare

Social Responsibility - Many organisations want to be seen to be ethical and not causing harm to the environment.

Unit 1.2 Business Influences

Internal Factors - Internal factors are those things that the business does have control over. The business can increase, or at least try to increase, each of these factors in order to improve its competitiveness in the market. (Finance, Human Resources and Technology)

Finance - Here we are looking at how much money the business has available to survive, grow and develop. The business must first of all make sure it has enough cash available to pay employees and suppliers and also make sure that it can be paid on time.

Labour/Human Resources - These are human resources, the people who work for the organisation. Need production staff to manufacture the goods or provide the service.

Technology - The availability of broadband/wifi/3G/4G has increased online shopping significantly, negative effect on high street shops.

External Factors - External factors are things outside the business that have a positive or negative impact on the business.

Political - These could include changes in the law, e.g minimum wage act or Taxation changes, how much the company has to pay the government.

Economic - inflation is the rate at which prices go up (currently 0%), unemployment goes up and down, when it is low it may be difficult to employ staff. Recession, people lose their jobs reducing demand for certain products.

Social - People communicate using Facebook and twitter far more now so companies have to advertise there now. Fashions change eg tattooists have never been busier.

Technological - Websites, apps, social media far more common now. The sales of PCs are falling as people are using phones/tablets far more often.

Environmental - Products like ice cream, bikinis and barbeques are influenced by the weather.

Competitive - Other companies who offer the same product/service can change their approach - more advertising, new products, cut their prices, improve their customer service which would have an effect on the business.

Stakeholders

Owners - They work hard to ensure the business makes a profit, they can draw profits out of the business.

Shareholders - They want to make sure the business makes a profit to receive a dividend

Managers - Ensure staff are completing task correctly and managing workload.

Employees - Want to ensure the business is successful so that they can keep their job. They could take industrial action if unhappy which affects profits.

Banks - They provide financial services to the business like loans and bank accounts. If the business fails they may not get their loan paid back.

Customers - Want good quality goods and services at a reasonable price, want any problems sorted quickly, can take their business elsewhere if unhappy.

Suppliers - If a supplier goes out of business or they put their prices up it has a negative impact on the business.

Government - They can change laws or taxes which has an impact on many businesses eg pubs and cafes had to change after the smoking ban encouraging more families.

Unit 2.1 Marketing

Market Research - Primary - Information gathered specifically for the business itself, includes surveys, interviews, questionnaires, loyalty cards.

Field - goes outside the business to get information - advantages are up to date, not available to competition, exactly what you need. Disadvantages are expensive and time-consuming.

Secondary - information that already exists like the internet, newspapers, magazines, Desk research. Advantages - easy to gather and not expensive. Disadvantages - out of date, available to the competition as well, may not be accurate.

Market research can help the company find out more about customers and their likes/dislikes, the competition/other products.

Market Segments - The market is split up into different sections depending on a number of factors like age, gender, lifestyle, location, hobbies etc.

Questionnaire - Customers are asked a series of questions about their view of the product and their personal details

Interviews - More in-depth than a questionnaire with the customers providing detailed answers.

Telephone Survey - A questionnaire completed over the phone, cheaper than face to face but more difficult to get customers to answer.

Postal Survey - questionnaires sent to customers through the post, really difficult to get them to complete it.

Focus Groups - Customers spend a significant amount of time answers questions and giving their opinions on the product.

Consumer panels - Used for specialist products eg doctors testing medical equipment, where a normal sample would not be appropriate.

Hall Test - Consumers test products like food and provide detailed feedback

Observation - watching the behaviour of customers while using the product/service

Product Life Cycle



Launch / Introduction - Sales slow but growing, advertising cost is high

Growth - Consumers becoming more aware, sales are growing, advertising cost still high.

Maturity - Sales are at their peak, product is widely known, advertising costs now lower.

Decline - Sales falling rapidly, better alternatives now available, little advertising cost

Extension Strategies - When the product is in decline the company can either stop making it or try to extend it by redesigning it or increasing advertising.

Marketing Mix

Product, New Product Development Generate idea, analyse idea, produce a prototype, test it, alter, production. Branding - unique mark or logo on a product to make it appear different to customers, advantages - brand loyalty, instant recognition, increases market share, can increase price.

Disadvantages - a problem with one part of the brand can affect the reputation of the rest of the products.

Price, Pricing Strategies - long term strategies

1. low price - increased sales, best where there is little brand loyalty.
2. high/premium pricing - used where image is important, charge higher prices, little direct competition.

Short term strategies

1. Skimming - high price at the start then lowered.
2. Penetration - low price at the start to attract customers in a fierce market then increase the price.
3. Destroyer - setting a price so low it forces the competition out the market.
4. Promotional - Offering deals to encourage consumers to buy, e.g Buy one get one free

Place

Location decisions

Where a business sets up will depend on customers, transport links, competition, availability of land and staff.

Channels of Distribution - how to get the product to the customers - road, rail, air or sea.

Promotion

Advertising - TV, radio, internet, billboards, magazines etc.

Sales Promotions - competitions, free gifts, BOGOF, discount vouchers.

Public Relations - press releases, sponsorship, charitable donations. Barcelona used to have Unicef on their shirts for free.

Packaging - altering the colour and design to ensure it is attractive to customers.

Ethical Marketing - many organisations sell themselves as ethical and environmentally friendly to reduce carbon footprint and impress customers.

Advertising Standards Authority - they protect customers from misleading adverts, causing harm and offence, harmful products aimed at children.

Unit 2.2 Operations

Choosing suppliers

Delivery time - the time that it takes from placing an order to receiving the materials is called the lead time, raw materials should arrive on time and not stop production.

Price - the business must decide how much it is prepared to pay for the inputs from the supplier, low price does not always mean that the quality is low. do they offer good quality supplies at a reasonable price.

Quality - whatever decision is made about a supplier, it is essential that the supplier is able to supply the organisation with a level of quality that is suitable for its needs.

Quantity - the organisation should try to manage on as little stock as possible so that they don't have lots of products just lying around.

Reliability - is the product of a suitable quality and consistency, supplier needs to deliver when required and to a consistent standard.

Stock Control

Over Stocking - costs extra to buy the stock and store it, may run out of space, may get stolen or go out of date.

Under Stocking - run out and can't fulfil order leaving disappointed customers

Production Methods

Job - Job production means that one job at a time is done through to completion before another job is started. Product is built to a specific requirement. Each one is unique.

Batch - Batch production involves all stages of the production process being completed at the same time, the products that are produced may be similar but may use different ingredients. Large amount made each time.

Flow - flow production is common in factories which have a production line, the product flows through various stages with parts being added at each stage until the end of the production line.

Ethical and environmental

Wastage - companies think carefully about dealing with waste and try to recycle as much as possible to ensure they have a good reputation. Lower wastage costs.

Packaging - The government has issued guidelines to reduce packaging, keep the weight down, possible to be recycled.

Quality

Quality Control - checking the products are acceptable at the end of the production process, can lead to wastage with a lot of products being thrown away. Have to ensure it meets customer standards.

Quality Assurance - The product is checked at every stage of production not just the end thus cutting wastage, to prevent errors, get it right first time.

Benchmarking - Checking the product against the best in the industry to see if it matches the standards.

Quality audits - checking everyone's work to ensure the standards are met.

Quality Circles - groups of staff and management meet regularly to focus on ideas to improve quality and set standards.

3.1 Human Resources

Recruitment

Stages in recruitment - Advertise, application forms, curriculum vitae, long list and short list, interview, testing, selection and references.

Internal v external recruitment - internal means that the job will only be open to people who already work for the organisation, external means the organisation is seeking to employ someone new from outwith the business.

Selection

Stages in selection - once the interview process is complete, the successful candidate must be chosen for the job. At this point in time, it is the duty of the HR department to inform the successful candidate and offer them the job.

Selection methods - the HR department will assess all applications against the criteria for the job, taking into account the essential and desirable criteria. Sometimes, where there are a lot of applications for a vacancy a long list will be drawn up.

Training

Induction - this is specific training for new employees which helps the new employee settle in and learn about the organisation depending on the job/business this may be a few hours, a Day or several weeks, it also may include tours and introductions to different departments.

On the job - this is training provided on site in the work place which takes place in work time and also may involve external training and existing staff can train others.

Off the job - this is training provided off site and away from the workplace, the employees may attend a training centre and college.

Motivation

non-financial methods - flexi time, working from home, company car

Legislation

Health & Safety at Work Act - in 1974 a piece of legislation that aims to raise the standard of health and safety for all people at work and also protect the public.

Equality Act - covers a wide range of types of discrimination and brings lots of other pieces of legislation under one umbrella. age, race, disability, gender, religion, pregnancy, sexual orientation, marriage, sex/gender.

National Minimum Wage Act - this is an act which means for each age group there is a certain wage they must be paid per hour but there is no maximum.

Data Protection Act - this is an act which protects *PERSONAL* information held by businesses. Businesses must obtain personal information lawfully, keep it up-to-date, be relevant and not excessive for the purpose and not be given out without permission.

3.2 Finance

Sources of finance

Bank Loan - Fixed or variable money payments from the bank which have to be paid back with added interest

Hire Purchase - Pay a deposit and then pay monthly for the asset until it's fully paid

Mortgage - Large amount of money to get a house but have to pay it back

Grant - Money from the government which you don't have to pay back but can only spend it on what you required it for.

Break-even

Fixed cost - a bill or payment price that cannot be changed, eg rent.

Variable cost - a bill or payment where the price can change eg cost of supplies

Break even charts - show the break-even point where you don't make a profit or a loss, this is when a business has paid off all its debts

the margin of safety is a line that shows a business a price that they can go over and still make a profit

Cash Budget - a sheet that shows what the business is spending and how much they have left to spend

Interpretation of Cash Budgets

The reasons for using cash budgets are monitor and control, gain information, set targets and delegate authority.

Cash Flow Problems

If a business has a large one off expense they could run out of money

By using a cash budget managers could plan for this and ensure they have enough money at that point.

Income Statements

These show how much profit has been made at the end of the year. Profit is the amount of money a business has left after all the expenses have been paid.

Sales - the amount of money a business takes in from selling its product or service

Cost of Goods Sold - the amount a business spends on the raw material to make its product. Eg McDonalds will spend money on buns, burgers, salad, chicken etc.

Gross Profit - The amount of money made after the cost of making the product is taken off.

Net Profit - The amount left after all the expenses are taken off.

Technology in Finance

Spreadsheets - Benefits are that it allows the business to use formulae for calculations and you can create graphs and charts

EPOS - Electronic Point of Sale, customers can use self-scanners now in supermarkets.

Online Banking - Customers can access their bank accounts through the internet.