Business Studies 181016

Business Structure

The public sector is made up of organisations that **are owned and run by the government**, they provide public goods. Examples of public sector: -

- Education
  - Transport
    - Railway
      - Network Rail
      - NOT TOCs
    - Bus
      - Cardiff Bus (rare expectation)
- Health
- NHS
- Police
- Fire service
- Libraries
- BBC
- Welsh water
- Army
- Navy
- Air force

Public goods

Definition

A merit good or service is usually owned by the government as a lot of people benefit from the publics usage. Such as employers benefited from an educated workforce.

Properties

Non-excludability -> This means that users can't be prevented from enjoying the benefit of the provision of public goods. Such as street lighting.

Non-rivalry -> This means that one person gaining from consummation of product or service does not prevent others from also enjoying the good or service. Such as obtaining justice from the courts.

Private sector

It's owned by private individuals or by institutions

Objectives

- To make a profit
- To increase shareholder value.
- Survival
- Gaining market share
- Improving ethics

Types of business enterprise

Sole traders

Characteristics

- One owner
- Unlimited liability – That means they are legally responsible for filling the debts.
- No distinction between you the person and the business

Advantages

- You are your own boss
- Offers a personalised business
- No public disclosure of accounts.

Disadvantages

- Limited capital
  Depends upon the wealth of the owner and their ability to convince the bank.
- Liable for all debts
- All decision rest with one person
- Limited range of skills – you have to be a jack of all trades.

Partnerships

Characteristics

- More than one owner
- The roles are laid in a partnership agreement or the Deed of Partnership

Disadvantae

Companies

The two types are Public Limited Companies (PLC) Private Limited Companies (LTD)

Private limited companies

Advantages of private limited

- Limited liability; - only lose what you have invested
- Shares can only be sold if all the shareholders agree- control is not lost to outsiders
- Capital can be raised through increasing shareholders;
- Other businesses and lenders are more likely to invest and trade
- The business continues even when its owners' dies
- Possible tax advantages

Disadvantages of private limited

Legal procedure in setting up, increases costs

Profits have to be shared with shareholders

Shares cannot be sold to the public which may restrict the investment of additional capital

Financial information is in the public domain.

Advantages of public limited company

Limited liability

The company continues if people die

Capital can be raised though selling to the public

It’s easier to raise funds from banks and leaders cause they’re more willing to lend to PLCs

More likely to have economies of scale

Increased market presence

Disadvantages

Increased cost in setting up

Anyone can buy shares

Increased legal requirements

The company accounts are in the public domain

Divorce of ownership and control

Increased size can result in efficiency, increased costs and distance from their customers.

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Other types of enterprises

Charites

Non-profit making intuitions that have a specific purpose. EG. Red Cross/Red Crescent; Shelter Cymru, Water Aid, Oxfam. Charites' main job is for fundraise.

Co-operatives

Co-operatives are organisations which are owned by its members. Such as the store, "Co-Op". Unlike other business, all members have only one vote. But they are profit making intuitions but some of its profit but some of this profit is used to finance community products. Members get a return called a dividend.

Social enterprises

Social enterprises trade to help solve social problems, improve the communities that they operate in, and help to improve the environment.
Many social enterprises aim to make profits from selling goods and services in the open market; but then, instead of paying dividends, they reinvest these profits, towards achieving their social objectives.

The chief Jamie Oliver has had great success with his '15' chain of restaurants, providing training in a range of cooling and catering skills for the homeless and unskilled young people. Profits from the first restaurants go towards opening new restaurants and spreading the benefits to a larger number.

The government is looking at social enterprise model as a way of providing services such as child protection. Other social enterprises offer housing, drink and holiday sector, as well as many other sectors, and the number of social entrepreneurs is rapidly growing.

Many young people, fresh out of university, are looking for a type of satisfaction from work that cannot come from employment in a large business, and the social enterprise structure offer them this motivation opportunity.

Factors affecting the choice of organisation

Age

Many new businesses start off a sole-trader, as they get more settled and want a better work life balance, they become a partnership to share the load of work and financial responsibility. Alternatively, they may want to set up a limited company with its own distinct legal entity.

The need for finance
Due to the need for more finance, they will need to “go public”, and raise money via the London stock Exchange.

Size
Large businesses tend to be PLCs where as small businesses tend to be Sole Traders.

Limited liability
Owners can protect their own personal financial position if the business is a limited company.

Degree of control
Owners may want to retain control, so you don’t become a PLC.

WJEC AS Business Studies (21/09/16)

A business plan is a written document that is essentially a guide for any new business. The creation of a business plan forces entrepreneurs to take a close look at their business idea. It gives you a clear indication of what it really takes to be successful.

Business plan

What Are the Functions of a Business Plan?

A guide for SMEs

A business plan serves as a type of road map for your business by showing a business where it is. It lays out the SMEs aims and objectives. It also shows how the SMEs will achieve their aims and objectives. Without a clear business plan, a SME may be forced to methods of trail and errors to achieve success. It will be more difficult for the SME to determine whether or not it is achieving their targets.

Details of the Business

The business plan explains what your business is about.

It describes the SMEs products or services in detail. What the ultimate goals of the business are. For example, your play may state what the SMEs goals for profit are for each of their first three years of operations. The plan should also indicate why the entrepreneur believes there is a need for their business and who the main competitors will be.

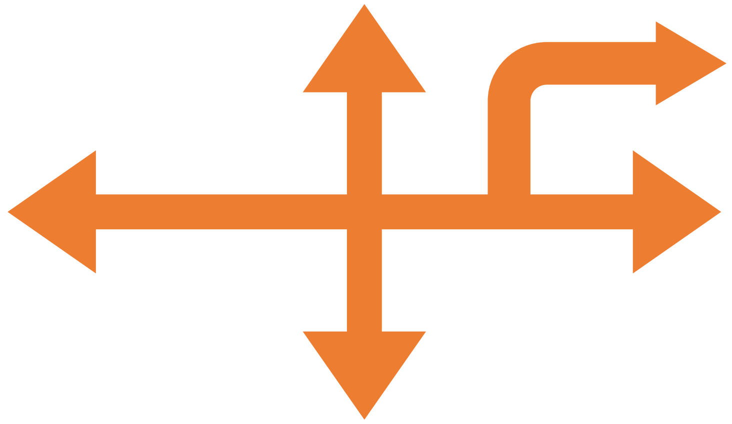
A marketing plan
A business plan should describe how the SME intends to market its products or services as well as identify their target market. For example, if you're selling a product that appeals to young people between the ages of 25 to 34, the plan should include the marketing strategy that the SME intends to use to reach them, such as developing advertising for media outlets that appeal to that particular group.

Details of starting costs
If the business requires any start-up capital or costs, the business plan should list all the required items and the anticipated costs for each. If the SME is seeking financing, they'll need to determine how much money they'll need to borrow and; how they calculated the final figure; possible costs can include the hiring of employees and the marketing expenses.

Finance
A business plan is essential if an entrepreneur intends to seek finance to start their business. A financial institution such as a bank will want to see their plan to determine the viability of the business idea. If they're seeking investors as a means of raising capital, they'll determine their level of investment risk.

Definition of Market

1. A place where business is carried out.
2. A place where buyers and sellers meet to buy and sells gods or services.



<u>McDonalds local and global strategies</u>

Local markets have become more popular due to the customers wanting to buy locally produced goods and services over those products farther away from e.g. from a foreign country. It's very often abbreviated to "buy locally" and is often discussed at the same time as companies 'Carbon Footprint'.

<u>The benefits of local markets</u>

<u>The local economy</u>
Local markets make economic sense:
1. They keep local money in the local economy
2. Customers can be sure that their products are of a higher quality.
3. The organisations producing the products will have a lower carbon footprint.
4. The products on offer will be better suited to the local customers.
5. The services offered will be more likely to be what the local buyers want.
6. Buying from a local market builds up the local community.
7. Local markets create more local nobs and employ more local people.

Are We Better Off If We Buy Locally?

Exports in the UK are growing.
The treason is that due to our economic crisis, the pound is weak compared to other currencies. E.g.

the dollar. This means that the demands for UK goods and services has grown because our products seem cheaper to foreign customers.

The benefits of the global market

The potential for selling your product to more people. This will have the effect of developing your business and making it more powerful, “Not putting all of your eggs in one basket”, if you sell your product in more than one country then, even if your products stops selling in one country, you have other markets to rely on. It may be more profitable to sell in other countries – ‘the profit margin- may be higher. There may be less competition for your product in a foreign market.

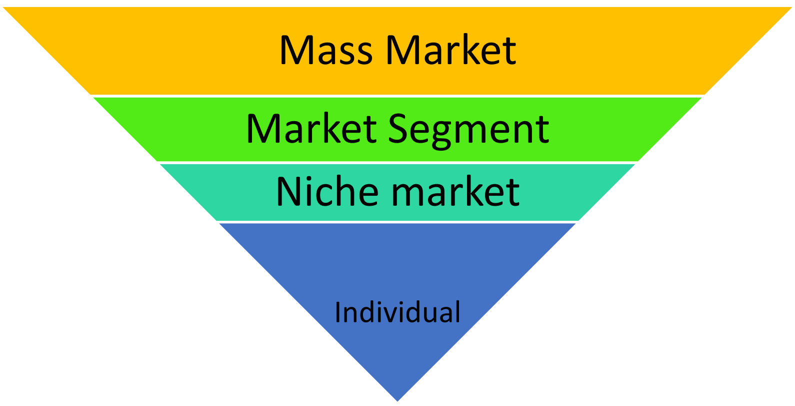
Disadvantages of the global market

Not taking time to research the markets properly can lead to a great deal of expense and low profits.
“Are you clear why you want to trade abroad?”
“Are you aware of its risks?”
“What are the reasons you want to sell or buy from overseas?”
You must be clear of what is involved in selling your products abroad?
It’s easy to just consider the advantages and ignore the disadvantages.
Your company must understand the local laws.

Communication issues
These might be because your company is in one country is in one country and the other part of your company is in another or because your management doesn’t understand the local language because you are dealing with customers in a different country, you may not have the time to discuss different things like programs and design changes with them.
Your company profits may vary due to the others country’s economy fluxuating. International trade has to be approached sensibly and with a clear thought process so as to maximise the benefits and minimise the risks.

Mass and niche markets.

In most markets there is one large (mass) section and several smaller (niche) segment. A product that is sold to a mass market has an appeal to (almost) the whole market. Sales will be higher but prices will be lower. A product that is sold to a niche market has appeal to a small number of customers. Sales will be lower but prices will be higher.



Examples of mass markets

- Coca-Cola
- McDonald
- GAP
- Dunkin' Donuts
- BBC
- Pepsi
- Walmart

Examples of niche markets

- Dovetail Games

Advantages of mass marketing

1. Economies of scale – The more products you produce, it's cheaper it is make **EACH** unit.
2. Bigger potential profits – More people to sell your products to.
3. Less risk of failure

Disadvantages of mass marketing

1. More competition
2. Less appeal to individual consumers
3. Because you are producing more products, the cost of producing them is higher.

Business Studies 111016

Teacher's name and emails for contact

Teacher name: Mark Wilson

Email for above: mwilson@cavc.ac.uk

Rules:

1. While he talks, you listen.
2. Homework is expected on time, usually a week notice is given.
3. Folders are expected.

'Learning our class task'

Favourite colour	Black	Grey
Favourite past time	Gaming	football
Favourite food.	Ice cream	pizza burgers

Market research

Market research is any organised effort to gather information about target markets or customers. It is a very important component of a business strategy.

Target market: - A particular group of consumers at which a product or service is aimed. Which is found in the business plan.

Business strategy: - A business strategy is the means by which it sets out to achieve its desired ends. Which is found in the business plan.

What is the value[1] of market research?

i. Market research assists in providing accurate and latest trends[2] relating to demand, consumer's behaviour[3], sales, growth opportunities[4], etc.

ii. It helps in better understanding of the market, thus helps in product design[5], features[6] and demand forecasts[7]

iii. It assists in studying and understanding the competitors, thus identifying unique selling[8] propositions for a business.

iv. Market research reaps many such benefits which are industry and business specific[9] and have ROI's.

Primary market research

Primary research is **NEW research**, carried out to answer specific issues and questions. It can involve questionnaires, surveys or interviews with individuals or small groups. This can also include experiments such as test marketing and focus groups.

The advantages of primary research?

1. Up to date
2. Relevant as it is specific
3. It is focused

Kommentar [LD-51]: Importance

Kommentar [LD-52]: Such as American style coffee shops

Kommentar [LD-53]: Little and often is an example

Kommentar [LD-54]: Is there room for further expansion? Growing? Decline? ETC

Kommentar [LD-55]: Packeting

Kommentar [LD-56]: What does it do?

Kommentar [LD-57]: Is Demand going to grow?

Kommentar [LD-58]: A competitive edge

Kommentar [LD-59]: So sales and profits will increase

Kommentar [LD-510]: ROI= Return On Investment

According to IT

1. Accurate
2. Correctly targeted
3. Understandable
4. Complete
5. Relevant
6. Up to date

The disadvantages of primary research

1. Can be expensive
2. Can be very time consuming

What is secondary Market research?

Secondary research (also known as desk research) involves the summary, collation and/or synthesis of **EXISTING research** rather than primary research, in which data are collected from, for example, research subjects or experimentation.

Kommentar [LD-511]: Merge mast research results in order to build conclusions

The advantages of secondary research?

1. Information is already collected thus saves time
2. A lot of the information is free to access such as directories and government statics.
3. Used as a basis for collecting primary research

The disadvantages of secondary research?

1. Often not up to date. In many cases government statistics is often out of date by several years, such as a census
2. Not be very relevant
3. Some data is very expensive to obtain such as theses held by MINTEL.

Evaluate the use of Market research to business and its stake holders

For the business

- Helps the fir make informed decisions
- Helps to maximise sales and profits
- However, it can result in slower decision making
- Make the business cautious in making decisions

Kommentar [LD-512]: Based upon research

Kommentar [LD-513]: How much consumers are prepared to pay?

Kommentar [LD-514]: Disadvantages

Kommentar [LD-515]: Risk adverse

For shareholders

- Helps the share price to rise

For workers

- Improve job security
- Improve pay
- Improve conditions

For customers

- To meet the needs of customers.

Kommentar [LD-516]: Expectation and satisfaction

Quantitative research research aims to gather information based on facts that can be tested.

- ➔ By asking closed questions that allow the collection of data, quantitative research finding will lead to objective conclusions and hypotheses that can be tested. They are statistically valid. Findings must be in a mathematical form, or they can be interpreted using figures.
- ➔ For example, what is the average income of our customers? What is their weekly spending on food? How often do they go on holiday? The requirements of this type of market research is very specific and set terms
- ➔ With the use of quantitative research, subjective judgements (based on opinion) can be eliminated; findings should be clear and unambiguous. But the questions asked are often closed in nature, not leading to fuller responses. This means that quantitative research fails to encourage continuous investigations.
- ➔ Quantitative research sets a pattern of research with little potential for following up or developing findings. After carrying out quantitative research, research leaders could be left asking questions like, "why is this pattern of spending shown?". As a result, quantitative research doesn't answer the why question.

Qualitative research seeks to gather opinion and views.

- ➔ For example- What do you enjoy about buying your coffee from Starbucks What makes your shopping experience difference from that at Sainsbury's? Do you find this packeting attractive and attention-grabbing?
- ➔ By asking this type of questions, qualitative research sets out to discover attitudes and motivations of consumers and customer groups. Focus groups are one of the major methods of gathering qualitative research information. Qualitative research helps gain a more realistic understanding of the world of consumer.
- ➔ People's true feelings can be gauged – because the method gives the researcher the ability to interact with the research subjects,

Distinguish between qualitative and quantitative data

Quantitate data?

- Factual
- Yes/no
- Objective
- Good at closed responses

Qualitative data

- Opinions   > Could be biased
- Subjective

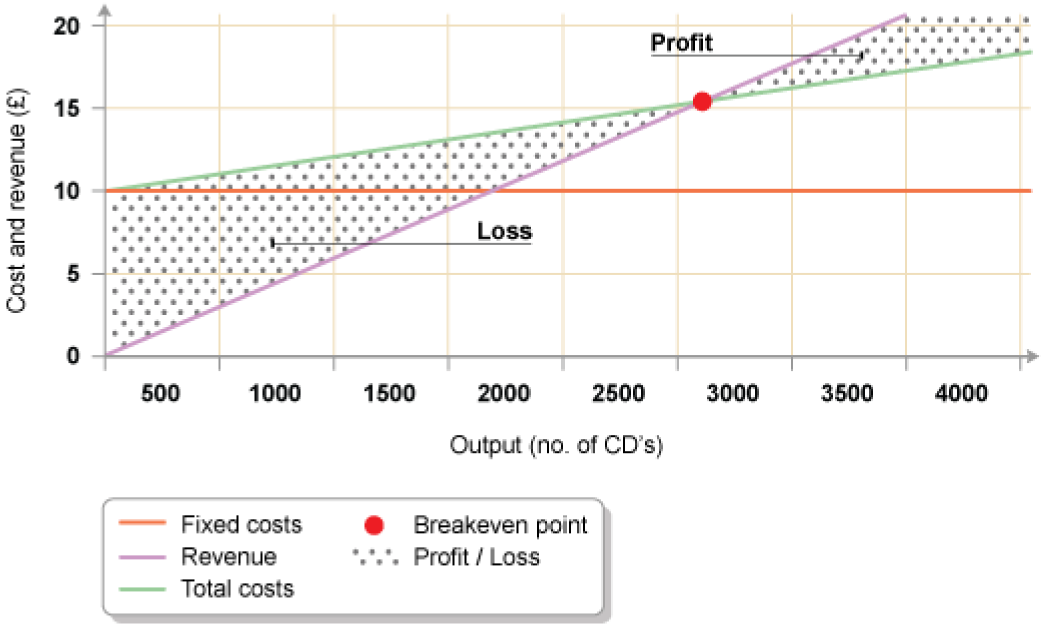
Breakeven analysis

Break-even analysis is a technique used my management. It is used on dividing up costs:

“variable” (costs that change when output changes)

“fixed” (costs are not directly related to production)

Total variable and fixed costs are compared to sales revenue to work out the sales of the company needs to make, to cover all costs but not make a profit.



1. £5.00 sales
    a. £0
    b. £500,000
    c. £3,000,000
2. £8.00
    a. £0
    b. £800,000
    c. £6,400,000
3. £2.00
    a. £0
    b. £200,000
    c. £1,600,000
4. £2.50
    a. £0
    b. £250,000
    c. £2,000,000
5. Question 3 but with a total fixed cost of £200,000
    a. £-200,000
    b. £0
    c. £1,400,000

Example of fixed costs

- Rents and rates
- Depreciation
- Research and development
- Marketing costs
- Administration costs

Variable costs

These are costs which vary with the level of output. They represent such things as raw materials, direct labour, fuel and revenue-related costs such as commission etc.

There are two types: “Direct” and “Indirect” variable costs.

Direct variable costs can directly associate with the production of a product or service. Raw materials and the product wages are good examples.

Indirect variables costs can’t be directly linked to production but they do vary with output. These include depreciation (to be covered later) maintenance and certain labour costs.

Changes in working practices

Trade union membership has fallen from 11 million in 1977 to only 7 million today. So, between 1979 and 1997, the Conservative government reduced the power of the unions, making more difficult to go on strike (stop working).

Demarcation

What that you had to be a member of a recognised union to get a job. This was applicable to the printing industry and docks.

Flexible hour

So, flexible hours can help firms, meet output requirements at busy times of the day.
It can also help adjust to the demand of having a family. But it could mean that staff do not always have the hours they want.

Channels of Distribution

- A channel of distribution comprises a set of institutions which perform all the activities utilised to move a product and its title from production to consumption.
- The network of organisations necessary to distribute goods or services from the manufacturer to the consumer.
- All the organisations through which a product must pass between its point of production and consumption.

Direct channels

- A marketing channel where a producer and a consumer deal directly with each other without the use of intermediaries
- Shorter distribution channels
- Gives the producer greater control over the marketing of the product.
- But it means increased distribution costs.

Indirect channels

- A marketing channel where intermediaries such as wholesalers and retailers are used to sell a product.
- Longer distribution channels with lots of intermediaries
- Reduced distribution costs
- Reduces the producers control
- The wholesaler has more control on how the product is sold.

Long/Indirect		Short/Direct	
Manufacturer	Manufacturer	Manufacturer	Manufacturer
Agent	Wholesaler	Retailer	Consumer
Wholesaler	Retailer	Consumer	
Retailer	Consumer		
Consumers			

Intermediaries

DEFINITION: Intermediaries is the distributor that makes the product go to market.
EXAMPLE: Agents (Estate Agent); Wholesaler

Why use intermediaries?

- Geography – customers may live too far away to be reached directly or may be too dispersed. So, wholesalers are used to distribute the product.
- Consolidation of small order into large ones, to improve efficiency.
- Better use of resources elsewhere.
- Lack of retailing knowledge .

- Segmentation – different segments of the market being reached by different distribution channels.

Functions of a distribution channel

- To provide a link between production and consumption.
- To gather market information, about who buys what and why?
- Promotion – to communicate an offer.
- Contact – to find and communicate with prospective buyers.
- Matching – adjusting the offer to fit a buyer's needs.
- Negotiation – reaching an agreement over pricing and delivery.
- Physical distribution – transporting and storing.
- Financing – acquiring and using funds to cover the costs of distribution.
- Risk taking – assuming some of the commercial risk are not just taken on by the product but are spread around.

Roles of channel member in a traditional channel

Manufacturer	Wholesaler	Retailer
• Design • Make • Brand • Price • Promote • Sell	• Buy • Stock • Promote • Display • Sell • Deliverer • Finance	• Buy • Stock • Promote • Display • Sell • Deliverer • Finance

Agents

- Act as a sales arm for the manufacturer without buying the products.
- Never take the title to the goods (don't buy the goods)
- Act on behalf of the manufacturer in obtaining orders from the intermediaries
- Saves the manufacturer the cost of operating a large-scale force to carry perhaps only a small product range.
- Agents are especially important in overseas marketing, as it gives lots of advice and information such as an insurance agent.

Functions of the wholesaler

Reduces contact costs between producer and consumer

Negotiates with suppliers

Buys from producers and sells small quantities to retailers

Warehousing, storage, and product handing

Inventory control

Credit control and credit rating

Wholesaler takes some of the promotional and other marking responsibility

Pricing and collection of pricing information

Provides a channel of information.

Retailer

- Any organisation which offers goods directly to consumers
- Much stronger personal relationship with the consumer
- Holds a variety of products
- Offers consumer credit
- Promotes and merchandise products
- Builds retailers brand in the high street
- Sets the final price to the consumer

Consumer Protection

Why do consumers need protection?

- Globalisation of products
    - There is a need to ensure that standards are the same as home produced goods.
        - Which ensures consistency and reliability.
        - It means that we can purchase imported good without fear. (CE)
- The growth of the internet
    - This had led to identify fraud
    - The growth of spyware and adware
    - The growth of viruses
    - Spying on activities, some of this this is due to cookies being used by firms.
- Increasing complexity of many goods and services
    - Technological advances have increased the gap between the knowledge of consumers and the products about products.
        - Such as phones
    - Few consumers have the ability of properly assess the quality of the technology which goes into everyday items such as TVs, microwave ovens or computers.
        - Such as Which Magazine
        - Or Trip Advisor
- The environment within businesses operate is becoming increasingly competitive.
    - Thus, customer service is reduced as the firm needs to save money.
- The disposable income of many customers has increased greatly over the last four to five decades.
    - Thus, consumers are purchasing more complex goods and going on more holidays.
    - So, we need to be aware of allergies.

Effects of protection on business

- Increase in costs
    - Using better quality materials.
    - Safety mechanisms such as dish washers.
- Improved quality control
    - Results in less defects
    - Increases reliability
- Dealing with customer complaints
    - To turn them into opportunities
- Changes in business practice.
    - So, we put safety first.

Examples

- Faulty Tumble Driers
- Horse meat scandal
- Perrier Water

What does this mean?

This means that for every £1 of sales revenue, £0.67 is left after all variable costs have been deducted. The money left contributes towards covering the other expenses of the business.

The business would want the gross profit marge to be as high as possible. If it is, it will leave more profit for covering the remaining expenses and, if the business is a 'company', for covering dividend payment to shareholders.

The Net Profit margin

This measures the net profit of the business as a proportion of the sales revenue. It is calculated using the following formula…

$$\frac{Gross\ profit - fixed\ assets\ [Net\ profit]}{Total\ revenue\ [Sales]} \times 100$$

Brands

What is a brand?

A brand can be defined in several ways – examples of different definitions are given below:

"A brand is the name given to a product to help differentiate it from other similar products."

"A brand is a name, term, sign, symbol or design which identifies a seller's product and differentiates them from the competitions products."

A brand is a product which can help identified easily by consumers and, in the eyes of the consumer, has value, properties or an image that separates it from the competition."

Why use branding?

Advantages

- To create increased consumer loyalty – this is important when competition is intense.
- To separate the product from the rest of the herd – especially in the markets where there is otherwise little differentiation and products are marked by their similarity rather than their differences.
- To increase price inelasticity of demand, - this gives greater control over pricing strategies. Thus, they can increase prices and revenue would increase.
- To increase the value of the business – brand values are often higher than other asset values of a business.
- To ease customer choice – brand identity makes recognition of products easier, making purchases more likely.

Disadvantages

- High cost of advertising – brands must constantly be keep in the consumers' eye.
- Loss of brand value for one product can affect a whole range of similarly branded products.
- Brands invite competition – often copycats manufactures.
- High cost of research and development in ensuring that the brand continues to develop and lead the market.

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The features of a new product market:

1. New product development
   This happens when someone develops an idea into a product for sale. New products only succeed when the people developing it have a good understanding of: -
   a. A customer wants and needs
   b. The competitive environment
   c. The nature of the market.

Customers' requirements: -

- Cost, time and quality are the main factors that drive the customers need.
- To make sure there are satisfied and increase their market share and increase their market share companies develop strategies by regularly developing new products.
- There are many things that can go wrong and there are big challenges that companies must face.
- The use of effective communication and the elimination of barriers to communication are the main concerns for the management

The steps involved in new product development

1. The idea
   Using research about the market place, companies tend to develop lots of ideas for new products. The better the research, the better the idea. Ideas can come from anywhere. However, a good starting point is that understanding the customers wants and needs.
2. Idea screening
   The second step is to get rid of any ideas which are impractical or unprofitable.
   The company needs to ask several important questions e.g.: -
   a. Will the customer in the target market benefit from using the product?
   b. Is the market segment/target market going to grow in the fugue and if so, by how much?
   c. How will competitors react to the launch of your product?
3. Developing and testing new ideas
   The company has to develop the idea and test whether or not they can product it efficiently. After developing a prototype, they have to test it with the target customers and to test how strong it is. This is normally done 'to destruction'.
4. Market development
   Next the company must look at the likely price the market will pay and estimate the sales that it will achieve. The company also has to estimate whether (or not) the product will reach its breakeven point.
   Breaking even? Total costs = Total revenue (no profit, no loss)
5. Other thoughts
   These are just a few examples of what the company has to think about before they launch a new product. They also have to think about its price, how (and where) to launch it, the design of the product, etc.

The service industry

The service sector is the industry made up of companies that primarily earn revenue though proviving intangeible products and services. Examples are:- Public transport, retailing, eduction, etc.

The benfits and disadvantages of operating in the service sector.

The service industry has centain advantages over other types of jobs:

1. Flexible hours
2. Steady work
3. The opportunities to be an entrepreneur
4. Added skills development
5. No stocks
6. You're the export

The disadvantages include: -

1. In times of recession people tends to stop using services
2. It's difficult to put an actual value on the business.

Why is the service sector important?

The decline in the British manufacturing industry has caused a growth in the service sector. The UK is now (basically) a service economy. People have more leisure time causing a greater demand for services. People who have more money to spend (generally) and tend to spend more of their extra income on services. As more women has entered the workforce, two things have occurred: -

1) There is a greater need for things like child care
2) The heavy industry (e.g. coal mining) has disappeared and been replaced by services.

Start-up locations

Factors that should influence location

- Costs
  - Factors of production
    - Land
      - Purpose
        - Housing
        - Employment
        - Agriculture
      - Price
        - About £2,000,000 per hectare of land.
    - Labour
      - Cost
        - Minimum wage/Living wage
        - National insurance
        - Pension
    - Capital
      - Cost of borrowing money
    - The return on investment
      - Your return on investment of borrowing money is 5%
  - Transport costs
    - Fuel
      - Diesel
      - Petrol
    - Cost of insurance and tests
      - Insurance
    - Maintenance
      - MOT
      - Servicing
  - Overheads (Fixed costs)
    - These are costs that are charged to the organisations irrespective of production, includes rent, rates, electricity, gas, transport, broadband, water, stationary, product liability, and insurance.
  - Variable
    - Includes Labour, materials, stock. These costs vary with output.
  - Technology
    - Broadband connections
    - Wi-Fi and Bluetooth
  - Infrastructure
    - Freight Terminal
    - Airport
    - Port
- The Market
  - Footfall
    - The number of people passing a shop.

            - Very high by St David's 2.
        -
    - Demand
        - Areas of high demand
        - Mermaid Quay for food shops
- Government intervention
    - Pull
        - Help firms locate in an idea, assisted areas such as Enterprise Zones such as Callaghan Square.
    - Push
        - Refuse planning permission especially in areas of low employment such as the Vale of Glamorgan or Mammoths.
- The market
    - Close to the market if retail, such as shops, as shoppers congregate and buy things.
    - Near labour force – call centres. Such as Cardiff Gate or Cleppa Park near Newport.
- Qualitative factors
    - Does it appeal to managers?
        - Is it an area attractive, such as the provision of gold courses?
    - Other firms experience?
        - What are the firm review of the location?
    - Attachment to an area?
        - May be historical or family?
- Resources
    - Quality of labour
        - Availability of skilled labour
    - Local Universities
        - Recruit graduates to be professionals and mangers.
    - Research Facilities
        - To develop new products.
- Evaluation
    - Who are we supplying? Also, applicable to services if abroad might consider off-sharing.
    - Do we sell products to a niche or mass market? A niche product might be using online/web-based. Mass markets need their centre of the population.
    - Weight of raw materials. If heavy, we need to produce near the port.

Finance of Business

(AKA Sources of finance)

How do we finance a business?

- Depends on the type?
    - Such as a sole trader, partnership, company
- Depends on the owner
    - Some owners want to retain control would take a bank loan, rather than sell stocks.
- Depends on the risk
    - High risk us difficult to arrange finance.

- Depends on the assets worth
    - You own a property which cost £5 million to buy, your mortgage is £3 million. Banks will lend you £1.5 million.
- Knowledge of the customer
    - Good quality business plan

Sources of finance

(Especially for sole-traders)

- Friends
    - Lend or give you money on favourable terms
- Family
    - The advantages to offer no interest and you may get money with no strings attached
    - The disadvantages are that they might interfere and want special treatment.

09/11/16

External Sources of finance

External, meaning comes from outside the business.

1. Bank loan – Bank loans is a source of finance that must be paid back with interest over a pre-arranged time scale.
    a. Pros
        - An advantage of bank loans is that the invest rates are low (0.25% per month) where as they are extremely high from loan lending companies.
        - Another advantage is that the business is guaranteed the money for a certain length of time meaning they can pay invoices.
    b. Cons
        - A disadvantage is the relative lack of flexibility – if an over-estimated amount is borrowed the business is paying interest on money they didn't need.
        - The lack of security is a disadvantage as the bank becomes the creditor which means if the business collapses – the banks has the first call on what is left.

2. Overdraft – Overdrafts is a facility (usually) provided by a bank that allows you to go into debit up to a set amount for a period. You normally must pay interest and pay it back.
    a. Pros
        - Timely payments
        - Easy to pay on time
        - Less paperwork
        - Flexibility
        - Helps maintain a good payment history
    b. Cons
        - Usually a charge if you want to extend your overdraft.
        - You could be charged if you go over your overdraft limit.

- You can only get an overdraft from the bank that you hold your business current account with.

3. Trade Credit - Trade credit is a facility that allows a business to purchase goods on credit up to a certain time, normally up to 90 days and up to a financial limit.
   a. Pros
      - Raises capital
      - Business can develop a good reputation if you create a good credit score by paying others back on time
      - New businesses get the ability to buy stock with no money, so they can start a business up and pay it back once they have made profit.
      - Buy stock without having to pay upfront
      - Easy and available straight away.
   b. Cons
      - May not sell the amount of you buy – so may not be able to pay the trade stock back.
      - High interest if not paid back in the pre-agreed time.

4. Factoring – Factoring is you sell your invoices to a third party, at a discount of the value of the of the debt.
   Example: If you sell an invoice worth £500, but it be sold to a debt factor for £400.
   a. Pros
      - Money up from – no need to employ staff to collect the money
      - Improve cash flows – One of the main factors which prevents some businesses from growing which is a continual cash flow problem. Factorising can make the cash flow easier and alternate the struggles. This saving money not paying interest.
   b. Cons
      - Loss of profit – A percentage of the factored funds will be levied on the second transfer made by the prodified.
      - Credit ratio downgrading – factoring reduces the credit worthiness of a cooperation access to credit will be reduced.
5. Sell and leaseback – This is where we sell an asset to a third party and then lend it back.
   a. Advantages
      - We get an instant amount of cash coming into the business, this could prevent it going liquidated.
      - We could receive money that could be further reinvested by the business, this could help the business financially.
   b. Disadvantages
      - It could mean that in the future that we have less security, so our ability to borrow money is less.
      - The value of the business is less, as we have less assets, this will make it less attractive to investors.
6. Share capital – Is to issue more shares by the business
   a. Advantages
      - It enables the business to grow, quickly without paying interest

    - There is no obligation to pay back the shares or to pay dividend.
  b. Disadvantages
    - It could result in a loss of control; this means that the relinquishing power and control to outsiders who may not be sympathetic to the needs of the business.
    - The new shareholders may want to develop an exit strategy; this results in demands for a higher share price, this causes the business to cut costs and increase prices beyond that it would like to do. It thinks short term rather than growing the business for the longer term.
7. Venture Capital – Are professional investors who can invest large amounts of capital, usually for new businesses and who takes an active role.
  a. Advantage
    - It results in a firm, gaining knowledge and expertise of an experienced professional.
    - It enable a business to grow faster, thanks to an instant injection of cash.
  b. Disadvantages
    - It could result in lots of interference and the business loses its original purpose and mission.
    - It would have to give up a degree of control to someone who might ultimately be hostile
8. Leasing and hire purchase – Are methods of gaining the use of capital equipment, whilst paying a monthly free.
  a. Advantages
    - It enables a firm to purchase a product over a longer period as in the case of hire purchase. This helps the firms cash flow.
    - Many leasing agreement, come with a maintenance contact, thus enabling people to use a complex piece of equipment without worrying about who is going to repair it, if it's going wrong. This is useful for businesses that use coffee machines.
  b. Disadvantages
    - It can be an expensive form of finance. This results in a significant cash outlay over a period, which is worth more than the cost of the asset.
    - Is that asset, depreciates over a period and is worth considerably less at the end of the leasing, hire purchase period. So, there is a tendency to take out another leasing agreement.

Business Studies 121016

Interpret and evaluate quantitative market research

Good for?

- Facts
- Yes/No
- Quick responses
- To be objective
- Analysing the results

Bad for?

- Asking the why question
- Explaining the motivation behind purchasing decisions?

Interpret and evaluate qualitative market research

Good

- For opinion
- Finding the motivation, why people prefer a product
- Asking further questions
- A small research survey
- Fairly cheep

Bad

- Not capable of replication
- Not finding out revenue projections.

Explain the issues involved in selecting the most appropriate method of market research

Why do we intend to find out?

- Why do people buy as opposed to what people buy?

Financial Resources

- A big random sample asks 1000 people, represents the population
- Easy thing to do

Time Frame

- How long?
- Short time frame
- Methodology

Statistical Significance

- Capable of replication, 99% or 95% of confidence limit.

Evaluate the different of methods

- Interviews
- Observations
- Experiments/Test Marketing

- Panels
- Focus Groups

Interviews

Good

- For finding out in detail people's views and to why they purchase goods and services.
- Seek calcification and further questions

Bad

- May not be representative
- Costly
- "False"

Observation

Good

- Good at understanding people's behaviour, if you understand their motivation.
- Helps in improving product displays and using the right promotional methods.
- Naturally occurring

Bad

- May not understand people's reasons.
- Is it ethical to "spy" on people?
- Is it only a snapshot of people's behaviour?

Questionnaires

Good

- Lots of responses
- Good at quantitative research
- Draw results and conclusions
- Not good at asking the why question.

Bad

- Low response rate for postal
- Not good at asking the why question

Test marketing

Asking people to experience products under controlled conditions

Good

- Independent response, based upon scientific responses
- Ask questions to confirm results from the lab.

Bad

- False experience

Panels

Meet together on a regular basis to discuss products

Pros

- Identify trends over a period of time
- Gets quality responses

Cons

- May become too sophisticated and not typical of the population.
- Can become expensive to have a regular panel.

Focus groups

Good

- For finding out current views
- Good for qualitative data

Bad

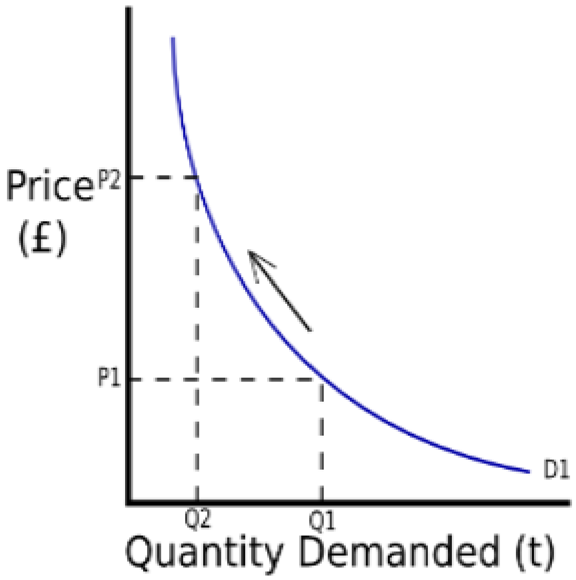
- The group may be swayed by one person who is not responsible for the group
- Can't find trends.

Demand

Demand is the amount of a product that consumers are willing and able to buy at any price.

Demand curve

Demand curve shows the quantity of a good or service that will be demanded at any price. It normally slopes downward from left to right. This is because consumers will normally demand more goods at a lower price than at a higher price.



A moment along a demand curve is due to a change in price from P2 to P1. Which lead to a reduction in demand as seen from Q1 to Q2.

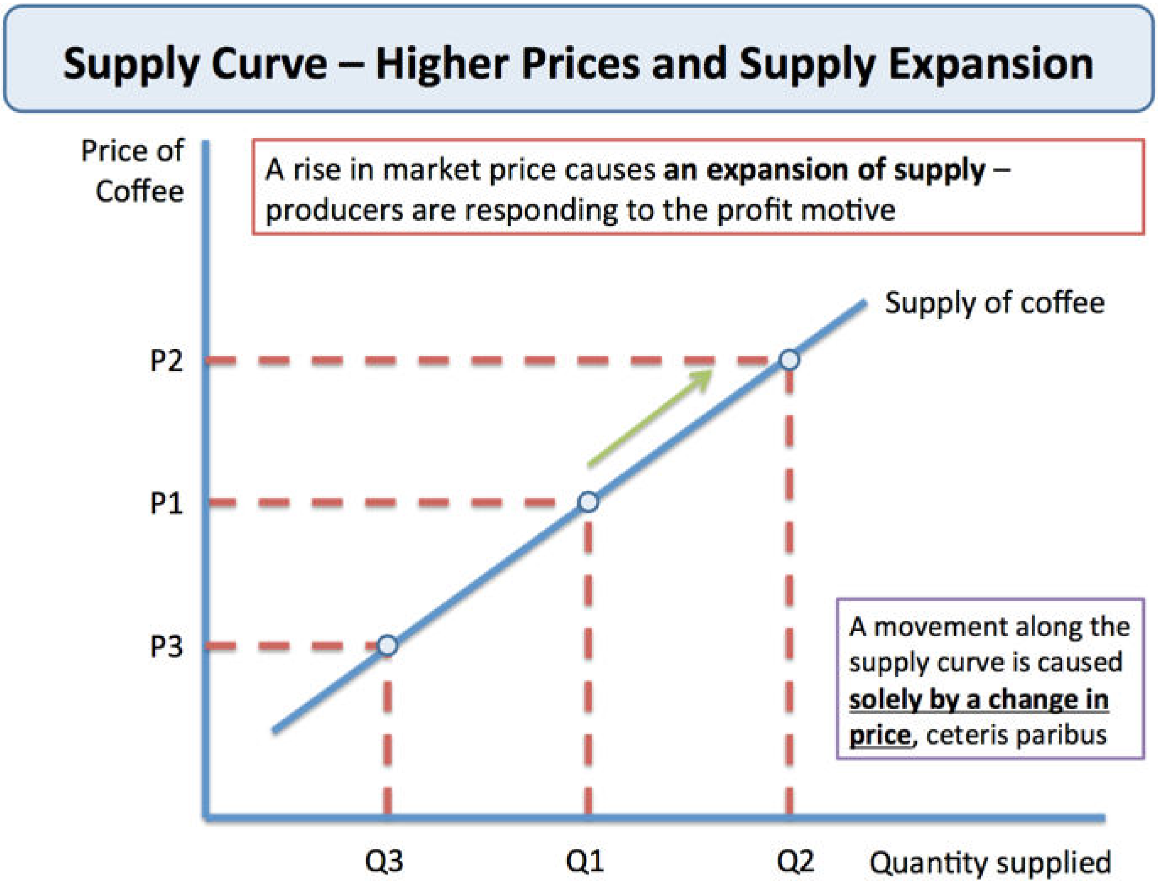
Shift in the demand curve.

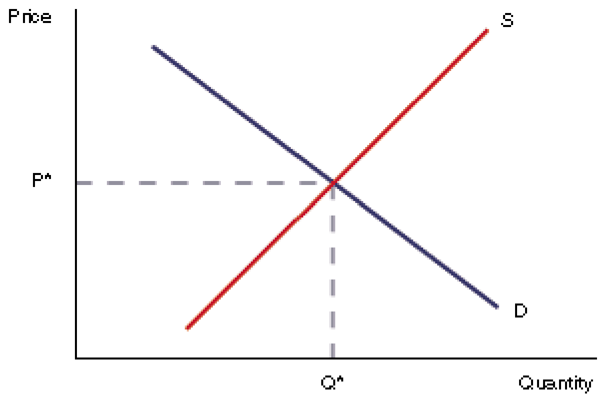
A shift in demand curve from Q1 to Q2 results in more demand at P1 to P2, so a change in demand other than the price will lead to a shift in the demand curve.

Supply

Supply is where products create products at a given price.

The supply curve, products will supply more at higher prices than a lower price. This is so they can maximise profits.




Price
S
P*
D
Q*
Quantity

Elasticity

Elasticity measures the responsiveness of the dependent variable to an independent variable. "We buy more ice-cream in warm weather." The weather is an independent variable, the quantity bought is the dependent variable. Ice cream being the elasticity.

Price Elasticity of demand

It measures the responsibleness of price to a change in demand.

responsibliveness is how sensitive demand is to a change in price.

Different types of elasticity of demand

a) Price elastically
   This is when the change in demand is greater than the change in price, so for example the price of an Apple has gone up by 20%, the demand for Apples for Apples has gone down by more than 20%. This happens when goods are undifferentiated (the same). There is no brand and no labelling.
b) Price inelastic
   This is when the price change causes a smaller change in demand. So, for example, if we change the price of bread, by 20%, the demand for bread would fall by less than 20%. This is because cause goods like bread have few substitutes. Other products, such as trainers have consumers who are loyal to a brand, so price is not an important consideration when purchasing a product.
c) The effect on revenue
   Revenue is price times quantity sold.
   a. For elastic goods

↑ Price ↓ Quantity Sold = ↓ Total Revenue

↓ Price ↑ Quantity sold = ↑ Total revenue

So, for elastic goods, we would want to reduce prices to beef up revenue.

   b. Inelastic goods

Price ↑ Quantity Sold ↓ = Total Revenue ↑

Price $\downarrow$ Quantity Sold $\uparrow$ $=$ Total Revenue $\downarrow$

So, for inelastic goods, we would want to increase prices to boost revenue

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Example

Percentage change

$$\frac{New\ Figure - Old\ figure}{Old\ figure} \times 100$$

So, the price of apples has increased from 30p each to 33p. The demand for apples has decreased from 20 apples to 10 apples, work out the old and new revenue and the percentage changed with the quantity demand.

Old revenue

30p times 20 apples which equals £6

New revenue

33p times 10 apples which equals £3.30

In summary

$$\frac{10\ apples - 20\ apples}{20p} \times 100 = -50\%$$

The change is elastic. IDFK, it’s apples and not money cause IDFK! Read textbook.

The price of bananas has increased from 20p to 30p each, the demand for bananas has decreased from 30 to 25 units. Calculate the old and new revenue. Calculate the percentage change in the price and demand for bananas.

Old revenue

20p times 30 units equals £6

New revenue

30p times 25 units equals £7.50

Price change

$$\frac{30 - 20}{20} \times 100 = 50\%\ increase$$

Stock change

$$\frac{25 - 30}{30} \times 100 = 16.\dot{6}\%\ decrease$$

The price of footballs has decreased from £17 to £15 a ball. Demand has increased from 20 units to 35 units. Calculate the old and new revenue and calculate the percentage change in the price and demand of the football.

Old revenue

£17 times 20 equals £340

New revenue

£15 times 35 equals £525

Percentage change in price

$$\frac{15-17}{17} \times 100 = 11.764705882352\,94\%\ decrease$$

Or 11.76% decrease.

Percentage change in price

$$\frac{20-35}{20} \times 100 = 75\%\ increase$$

So, businesses would want to make goods more price inelastic, this can be done by encourage consumer loyalty. Secondly by reducing competition in the market and finally by increasing the brand value.

Income elasticity of demand

Measures the change in demand due to a change income. There are three types of income elasticity.

1) Elastic
   This is when the change in demand is greater than the change in price.
2) Inelastic
   This is when the price change causes a smaller change in demand.
3) Negative
   When the increase in income causes a negative change in demand.