

> Answers

Unit 1: Introduction to business management

Chapter 1 What is a business?

Business in context

- Creation of employment; increased output will help to raise GDP; businesses pay taxes to the government; some output might be sold abroad helping to earn foreign currency for the country; new rivals for existing businesses which might encourage them to become more efficient.
- New businesses need to sell products to earn income to survive, and this means producing goods and services that consumers want. A gap in the market means there is potential demand for a product which is not yet being met by existing businesses. If there are sufficient consumers who want a new product to fill the gap in the market, then the business should be successful.
- Lack of business experience; lack of capital as start-ups have not yet earned any profit; need to become 'known' because if consumers are unaware of the business or its products sales will be low; existing businesses in the same market will be competitors, and they are likely to have more finance so it is important that the new business is able to offer a slightly different good or service in order to attract sufficient consumers.

Case study 1.1

- 1 'Entrepreneurs' are individuals who set up a business venture; they take on the personal financial risk. They try to organise the factors of production in an innovative way, aiming for the success of their business venture.
- 2 Secondary (manufacturing ice cream) and tertiary (selling ice cream).
- 3 Two of the following: capital (e.g., machines in the production unit), labour (six employees), land (raw materials such as milk and sugar), entrepreneurship.
- 4 Operations: to ensure adequate resources to produce quality ice cream.
Marketing: to cover the exact consumer needs for ice cream.
Finance: to ensure that enough financial resources are available to buy the capital, raw materials, etc.
HR: to recruit and to train the six employees.

Case study 1.2

- 1 The 'secondary sector' is the economic sector that relates to the processing of the products of the primary sector into final goods and services.
- 2 The economy first shifted from depending on the primary sector (mainly the production of rice) to the secondary sector (mainly auxiliary manufacturing industries) and then from the secondary to the tertiary sector (banking, insurance, healthcare etc.).
- 3 Possible advantages: economic growth, improved living standards, job creation.

Possible disadvantages: dependence on foreign firms, such firms do not always transfer know-how to local employees and are not always socially responsible.

Case study 1.3

- 1 A 'start-up business' is one that has been recently set up and is currently in the first stages of its operations.
- 2 Differences in consumer demand, level of competition, the willingness of investors and banks to provide financial support, etc.
- 3 Advisers might have experience in the market, they can give entrepreneurs guidance on how to organise resources, they might help them to set realistic objectives and to solve problems such as finding sources of finance etc.

Case study 1.4

- 1 The quaternary sector is a sub-sector of the tertiary sector. It is also referred to as the 'knowledge-based sector' because it includes services that require specialised know-how such as artificial intelligence, web design, specialised business consulting, etc.
- 2 Failure takes place when a for-profit business cannot make enough profit to survive in the long term. Established competitors in the market typically react against start-ups in an effort to protect their own market share. In this case, competitors have signed contracts with big customers, so it will be difficult for Chu Hua's business to sell its products to the market. Moreover, it is difficult for Chu Hua to find sources of finance for her business. Without financial resources, the business cannot invest in innovation, so it will not be able to compete effectively in the AI market.
- 3 Answers should include two out of the three basic roles: Chu Hua must organise the factors of production to set up the business, she must be innovative in order to stand out from the competition, and she must take the personal financial risk of the start-up.
- 4 Advantages:
 - It will increase the probability of attracting investors and banks. Chu Hua could use the plan to attract financial resources by demonstrating the innovative projects and the forecast future profits of the business professionally.
 - It will ensure employees are aligned towards given goals and specific AI projects, as these will be described in the plan.
 - It will help Chu Hua to organise resources to achieve the goals and to spot possible resource gaps.

Limitations:

- The AI market is changing fast, so the plan will have to be updated regularly to remain relevant.
- It is time-consuming to create the plan and it will require close collaboration between Chu Hua, her finance director and the rest of the employees dealing with all business functions.

Activity 1.1

1	Role	Function
	Setting prices of new products	Marketing
	Recruiting a new operations manager	HR
	Allocating resources to purchase capital equipment	Finance
	Deciding on the appropriate inventory levels of raw materials	Operations
	Finding out if consumers prefer one product design to another	Marketing
	Determining the level and number of employees the business needs for future operations	HR

- 2 Marketing must collaborate with finance because the selling price affects the revenues and the profits of the business.
- 3 Learners' own answers.

Activity 1.2

1	Business	Primary	Secondary	Tertiary	Quaternary	Description of main activities
	Coca-Cola		✓			Production of beverages
	HSBC			✓		Investment banking, financial services
	RTZ Corporation plc	✓				Mining
	Booking.com			✓		Online travel agency
	Rolls Royce Holdings plc		✓		✓	Aircraft engines, power systems, defence services, artificial technology systems and many more
	Tencent				✓	Online video games, cloud computing, specialised technology to support finance and banking systems, etc.

- 2 The company which is likely to be the most difficult to categorise is Rolls Royce Holdings, which develops and manufactures both goods and advanced services, from aircraft engines and power systems to defence services and artificial technology systems supporting naval autonomy.
- 3 Learners' own answers.

Activity 1.3

- 1 Initially set up by Jeffrey Katzenberg and Meg Whitman, the video streaming service application managed to draw a total of \$1.75 billion in cash from Alibaba, the Hollywood studios and other investors. But just six months after the application was available to the public, the business announced it was shutting down.
- 2 Some main reasons behind this failure are:
 - Technical issues, such as consumers not being able to watch content on TV sets or share on social media to respond to what people want in their lives.
 - The content did not satisfy users.
 - High price for the service.
 - Insufficient promotion.
 - Leadership issues.
 - Competition from established competitors such as TikTok, Netflix, YouTube, etc.
 - The pandemic, which affected consumer behaviour and their need to watch videos on their phones.
- 3 Pro-position arguments:
 - The price is very important, especially for some consumer groups, e.g., young users.
 - TikTok and YouTube have managed to become popular because they offer free content. Not charging users is key to success in this market.

- Competitors who offer free content also allow sharing through social media. Quibi did not, and this is one more reason why the business did not manage to succeed fast enough to ensure success in this challenging market. By allowing free sharing, the business could have convinced consumers to pay for some services at a later stage.

Opposition arguments:

- There are other services, such as Netflix, which charge for services and are very successful.
- It was not only the price. The business had made many more wrong decisions, such as not promoting the service effectively.
- The business did not use the available financial resources correctly, leading to disaster.
- Not understanding consumers and not having smooth and effective leadership in place are reasons why start-ups fail, even if they offer free services.
- The pandemic hit the start-up in a way that could not be foreseen.

Exam-style questions

- 1 The 'tertiary sector' is the one providing services to the economy, such as education, health care, etc.
- 2 Typical elements of a business plan that could be stated are the executive summary, a description of the business opportunity; details of the entrepreneur; the marketing and sales strategy; the management team and personnel; operations, premises to be used; financial forecasts.
- 3 Labour (e.g., experts to help with CV writing), land (e.g., energy to be used in the office), capital (e.g., computers and other equipment), Entrepreneurship.
- 4 The tertiary sector often involves a much smaller capital expenditure compared to the secondary sector. In developed economies, there is a growing demand for new types of services, such as CV writing.
- 5 If the CV writing business needs sources of finance, e.g., a loan to buy computers, the bank is likely to request a business plan to judge the viability of the business idea.
The financial forecasts in the plan will serve as benchmarks for the entrepreneur to measure the success of the business activity.
The planning process helps the entrepreneur to identify resource gaps early.
- 6 Identifying the exact type of service consumers want; where to locate the business (e.g., offering CV writing services through an office or online), etc.
- 7 The problem of understanding consumer wants, as consumer attitudes and spending patterns change in a recession. The ability to find sources of finance.
- 8 The gym instructor needs to provide their labour as well as capital in the form of gym equipment (land and entrepreneurship could also be mentioned).
- 9 Entrepreneurs could research the market in detail to identify the exact business opportunities of the external environment, especially during an economic recession. They could prepare a business plan, possibly with the help of experienced managers, to set realistic objectives and to ensure the availability of resources.
- 10 Possible opportunities:
 - Even when the economy is in a recession, there are still business opportunities, such as CV writing for unemployed people.
 - People can lose their jobs in a recession, so they may consider opportunities to do something of their own to solve their employment problem.
 - The cost of borrowing money might be lower in a recession.
 - Some other business costs might be lower, such as the wage cost.

Possible challenges:

- The risk of failure in a recession is higher because consumers lose income and consumption falls.

- Start-up businesses have more problems in a recession than they do in periods of economic growth, such as the inability to understand the changing consumer patterns and to attract sources of finance.

Chapter 2 Types of business entities

Business in context

- The IPO is one stage in the conversion of the company to a publicly held one as it offers shares for sale to the public. This will give it access to finance to pay for business expansion as shares in the business will be sold to external investors. The sales of shares will not lead to any interest payments – unlike long-term loans which is the other type of finance that this business could have used.
- Advantages: They will increase their own wealth by selling shares in their business; it means the business should be able to afford to employ more specialist managers which might reduce the management burden and responsibilities of the owners; if the original owners want to raise finance for their personal use they could easily sell more of the shares they own via the stock exchange.

Disadvantages: Depending on what proportion of total shares are sold, the original owners may lose some control over the operation and decision-making of the business; if the IPO is not successful there will be bad publicity suggesting that the prospects for the company are not good; the value of the owners' capital still tied up in the remaining shares of the company could fluctuate with stock market share prices; there will be much more publicity about what the business is doing, the role of the managers/owners and what level of profits/losses it is making.

Case study 2.1

- 1 A 'privately held company' is a type of business in the private sector owned by shareholders who can trade their shares on a private basis and not via the stock market.
- 2 Martha can keep all of the profit of her successful business; she does not have to make strategic decisions (e.g., on the growth of the business) with other owners, etc.
- 3 Martha is responsible for all of the business functions/decisions and not only the marketing function in which she specialises; she has no one to share the capital expenditure related to growth, so if she fails she risks her own money.
- 4 Possible advantages: Sharing of decisions and responsibilities; more sources of finance available to support the business's growth strategy; access to Alan's experience in business planning etc.
Possible disadvantages: The business will remain unincorporated and Martha will still have unlimited liability, which is very risky as the business grows and exposes the owner to many risks. Solving disagreements with Alan could prove difficult (unlike a private limited company, there are no 'voting rights'). Martha may not like sharing the decisions and the profits of a business that she created on her own.

Case study 2.2

- 1 A publicly held company is a business in the private sector, owned by shareholders who buy and sell their shares via the stock market.
- 2 The initial shareholders/founders were given the option to freely trade their shares on the stock market and managed to do so for a high financial return even under difficult market conditions (because of the promising Airbnb business model which attracted investors). Big sums of money raised through the stock market allow the directors of Airbnb to invest in innovation for future growth.
- 3 The share price of Airbnb may fall on the stock market, especially when there are difficult market conditions. Ownership is now diluted among a very big number of owners.

Case study 2.3

- 1 An agricultural cooperative is a cooperative among farmers. As an organisation, the cooperative is owned and managed jointly by its members who share decisions, responsibilities and profits democratically.
- 2 Small-scale producers who do not have adequate resources can pursue their economic goals more efficiently by taking advantage of the cooperative's pool of inputs.
Members agree jointly on prices, so they do not compete with each other. The cooperative offers distribution solutions to the members as well as promotion for the product, at a scale that would not be achievable by the individual growers.
Through their membership of the cooperative, pistachio growers can receive support if they have problems with their operations, e.g., harvesting of the nuts.
- 3 Lack of marketing skills of the farmers; difficulty creating an effective marketing strategy for mutual benefit, especially in the early days of the cooperative; the members are not free to decide on their own pricing, distribution and other marketing decisions.

Activity 2.1

- 1 c More than \$4000
- 2 GM and Ford, both offer around 0 returns on 29 June 2020.
- 3 Learners are expected to discuss what big plcs should do to attract shareholders. In this case, the ability of Tesla to innovate and to keep its promises to stakeholders, along with the successful communication approach of the businesses could be identified as basic factors.
- 4 Tesla's soaring share price means it can proceed to new share offerings to raise capital.
- 5 Consider both positive and negative factors, such as the ability of the business to offer even bigger returns to shareholders through more innovative products, but also the risk of the share price falling for internal or external reasons.

Activity 2.2

Some of the main problems of this privatisation discussed in the press are the higher fares, punctuality issues and the neglected infrastructure, while a big concern is that rail subsidies increased in the era of privatisation.

Activity 2.3

1		For profit-private sector	For-profit social enterprise	Nonprofit	Public sector business
	Women's Legal and Human Rights Bureau			✓	
	Production of straws made from sugarcane		✓		
	Ophthalmic Hospital	✓			✓
	National Statistical Institute				✓
	Financial consulting	✓			

- 2 The ophthalmic hospital, because it offers a merit good that both the private and the public sectors are interested in providing.

Exam-style questions

- 1 A partnership is a type of unincorporated business in the private sector, owned by two or more individuals who share profits and responsibilities.
- 2 It provides a service, so it is the tertiary sector.
- 3 As graduates from the university, they probably had limited resources and could not set up an incorporated business.
As they were friends, they believed that sharing responsibilities would be an easy and pleasurable task for them.
- 4 Partnerships do not release financial statements so they have difficulties attracting sources of finance such as banks and investors. Moreover, the partners have unlimited liability against all stakeholders, such as unhappy customers, banks, etc.
- 5 Finding the exact type of business opportunity before deciding they would set up the experiential events organisation; finding enough sources of finance to cover the capital expenditure; finding a location to establish the business etc.
- 6 A limited company is a business that has a legal obligation to release financial statements for Maria to inspect. Moreover, the decision-making process is enabled by the fact that the three shareholders are able to vote based on their voting rights.
- 7 Incorporation is a costly process, and as XEvent has financial problems it will be difficult for it to pay for this. As a limited company, XEvent would have to prepare and release financial statements to the public.
- 8 A typical for-profit business has profits as one of its main aims, to satisfy shareholders. A social enterprise is not profit-centred but has important social goals which are considered more important. The values and attitudes of managers and owners are different, so if XEvent becomes a social enterprise, the business will have to prioritise its social goal to help children with special needs over the profit of the three shareholders. A similarity is that both types need all four factors of production to operate and are structured similarly.
- 9 A typical for-profit business has profits as one of its main aims, to satisfy shareholders, while an NGO is a non-profit business with purely social goals. A similarity is that both types need all four factors of production to operate and are structured similarly.
- 10 Possible advantages:
Social entrepreneurs are driven by a higher purpose, and this can be very motivating. In this case, the purpose is to help children with special needs.
Social enterprises usually have a good image because they are trying to make a better world.
Successful social enterprises return profit to their shareholders, along with serving society.
Possible disadvantages:
Less profit is left for shareholders because part of it is invested in society.
Social enterprises must compete with traditional profit-centred businesses which are often less particular about their impact on society.

Chapter 3 Business objectives

Business in context

- It gives a sense of direction and purpose to all stakeholders especially the employees (who must work towards achieving this vision) and investors who will want to monitor whether the business is attaining the vision and

investing the capital they provided profitably in order to achieve it. The vision is the starting point for the pyramid of objectives – so the vision will need to be used as a focus for the setting of corporate objectives.

- Business environmental objectives are increasingly expected by key stakeholders such as pressure groups, local communities and the government. These environmental objectives might need to be achieved in order to avoid the business breaking important laws, e.g., regarding pollution or disposal of waste. There is evidence that consumers respond positively towards businesses that put some priority on achieving environmental objectives, and increased demand as a result of this could help the business achieve its financial objectives too.
- The separate divisions might have been established at different times and operate in different markets. So it is unlikely that one overall set of objectives will be appropriate for each division. For example, ‘survival’ might be an objective for a recently established division whereas ‘grow market share’ might be more appropriate for an established division with several important competitors. By setting separate objectives it means that the performance of each division can be separately monitored and assessed against these objectives.

Case study 3.1

- 1 A mission statement is a short piece of text that describes the core business aim and its purpose of being, in a way that attracts and engages stakeholders.
- 2 Many stakeholders could be mentioned, but mainly employers and consumers, as the mission statement reflects the unique experience and culture which ‘nurtures the human spirit’.
- 3 The mission statement expresses the ‘who we are’, the overall purpose for being, while the vision statement reflects the future plans, which for Starbucks is about continued growth to create value for stakeholders.
- 4 Possible advantages:
 - It reflects the unique culture and philosophy of a megabrand such as Starbucks.
 - It addresses the most important stakeholders for Starbucks, its employees and customers, and tries to engage them.
 - It helps employees to focus on what is most important: making sure individual consumer wants are met.
 - It is abstract enough that it can reflect change in the future strategy, e.g., growth in different industries.

Possible disadvantages:

- Could be characterised as too vague and general; it might help existing stakeholders to connect to the brand better, but it does not communicate specific information about the business activity to stakeholders that are not familiar with it.
- It does not describe the business activity; it does not have the typical elements of a mission statement. It does not communicate the products of Starbucks to consumers that are not familiar with the business.

Case study 3.2

- 1 ‘Business ethics’ are moral guidelines determining the decision process in a given business environment.
- 2 Given that many foreign firms operate in Dubai, DLD set specific rules to help them understand what is ethical and what is not in the specific Emirate, so that each real-estate business creates or appropriately adjusts its own ethical code. Moreover, by clarifying what is ethical and what is not, DLD tries to enhance the trust of investors in the Emirate, aiming for the long-term economic prosperity of the real-estate industry and the national economy.
- 3 By following DLD’s ethical code, real-estate businesses can improve their image as ethical businesses, without spending time and resources to create an official ethical code of their own. But businesses following the ethical rules will have to forego profitable business opportunities which could arise for non-ethical competitors.
- 4 Being ‘lawful’ is about following the laws of a given country. Being ethical is about going one step further and doing what is right based on the moral guidelines of a given environment. For example, social responsibility is not a law in Dubai, but firms are expected to be socially responsible based on the ethics prevailing in the Emirate.

Case study 3.3

- 1 SMART is an acronym that stands for 'Specific, Measurable, Achievable, Realistic & Relevant and Time-specific'. These are certain criteria that business objectives should have to increase the probability of the organisation successfully reaching them.
- 2 Strategies are long-term objectives, referring to the overall aim, they are difficult to reverse. Such objectives are the goal to launch new detergent products, to enter new markets, etc. Tactical decisions are short–medium term, easily reversible, usually designed to support long-term strategies. The temporary promotional pricing decision can be identified as a tactic.
- 3 One advantage is that smart objectives are easier to follow and to direct. For example, by having SMART objectives regarding sales, DD managers can track the performance of the sales department and take corrective measures when sales are below the target. One disadvantage is that it is difficult to phrase objectives in a way that would always be 100% SMART. For example, when setting a goal for quality it is very difficult to be specific on what exactly 'quality detergents' is all about.
- 4 The first goal is relatively SMART, but we do not know if the business has enough resources to support the sales growth, so we cannot tell if it is realistic. The second goal is not specific enough. The same goes for the third goal, which is also not time bound. The fourth goal is probably not achievable, because businesses are not likely to achieve the best possible quality while trying to cut costs to the minimum. There are also question marks about the extent to which the last goal is achievable because market conditions change continuously. Firms cannot sustain a steady growth rate in profits every year.

Case study 3.4

- 1 Corporate social responsibility (CSR) refers to actions and policies undertaken by business organisations wanting to be good corporate citizens, showing practical consideration about the needs of various stakeholder groups.
- 2 Strengths: recognised and awarded for its CSR; loyal consumers; environmentally friendly technology in place; profitable business.
Opportunities: big demand for organic cosmetics; growing supplements market; stakeholders nowadays reward socially responsible businesses.
- 3 Difference: NGOs do not aim for profit. For-profit businesses need to return profit to shareholders, even if they have more objectives (such as Beauty plc which aims for CSR).
Similarity: both types need sources of income to pay their employees and to pursue their goals. The NGO to which Beauty plc donates part of its profits needs this source of income to take care of abused animals. Beauty plc needs to sell cosmetics to pay its costs and to return profit to its shareholders.
- 4 Option 1: New products in existing markets: product development
Possible advantages:
 - Beauty plc is very experienced in the cosmetics market.
 - Loyal consumers are expected to show interest in the product.
 - Required technology is already in place.
 Possible disadvantages:
 - The market is already saturated.
 - Market research is needed to identify the exact wants of consumers in relation to cosmetic products.
 Option 2: New products in new markets: diversification in food supplements.
Possible advantages:
 - Big growth potential.
 - Not very competitive as a market.
 - The firm would diversify the risk of failure/escape from its over-dependence on cosmetics.

Possible disadvantages:

- The firm would need new technology/new resources to enter this market.
- Managers are inexperienced in this industry; the risk of failure is much higher than option 1.

Activity 3.1

Both businesses try to communicate their purpose of existence to their stakeholders. But Netflix provides much more detail on its exact services, aiming to attract consumers. Its mission statement is written in a way that addresses users directly. TED's mission is very short and sharp, expressing the aim of the non-profit in just two words. It is phrased to inspire rather than to communicate details about the organisation and it is addressed to any stakeholder interested in how new ideas can be spread in the world.

The fact that TED is a non-profit can partially explain its decision to phrase a mission statement that will help spread its higher purpose, rather than try to communicate its exact services to the world.

Activity 3.2

- 1 The first objective is not specific enough (which exact geographical location?)
The second one is SMART, given that the market is growing, and the firm has resources to support growth.
The third objective does not seem achievable in the time horizon specified and is not specific enough (which exact flavours?)
- 2 First objective: name the locations, e.g.: To expand by opening retail stores in the following locations A, B, C, D and E by 2025.
Third objective: name the flavours, e.g.: To add flavours X and Y to the product portfolio by the end of the month.

Activity 3.3

- a Tactical, to increase sales on a given day of the week and to support the restaurant's goal in terms of weekly revenues.
- b Operational, it has to do with arranging the smooth operations of the business on a day-to-day basis.
- c Strategic, as it aims to appeal to new consumer segments in the long term and as it changes the identity of the restaurant.
- d Strategic, as it changes the identity of the restaurant.

Exam-style questions

- 1 'Diversification' is the growth strategy that involves the selling of new products in new markets.
- 2 A 'social audit' is an assessment of the business's procedures regarding social responsibility and impact on society, in the form of a formal review typically conducted by independent auditors.
- 3 The 'shareholder value' is the value delivered to shareholders in the form of dividends and share price appreciation.
- 4 Through the mission statement, STS communicates its commitment to CSR to all stakeholders who are worried about the environmental impact of its procedures. It also aligns its employees to its core aim to be the market leader.
- 5 The mission statement states the 'reason for being', the core aim (market leadership by operating in a socially responsible manner), while the vision statement reveals the future plans (for continuous growth).
- 6 An advantage can be the improvement of the business image to stakeholders, e.g., the local community who are worried about the waste collection impact on the environment. A limitation is that since the business is not really committed to its CSR goals, it received poor publicity.

- 7 The social audit will help STS to identify the exact social responsibility dimensions that must be improved to help it align with its mission. But it will reveal the irresponsible practices it follows to cut costs and will force the business to change procedures.
- 8 Strengths: increasing revenues and profits over time, cost-saving technology. Weaknesses: inconsistency in terms of social responsibility, not true to its mission.
- 9 Opportunities: the growing waste market in the country, which creates opportunities for market penetration and market development (in new geographical areas). Threats: the social backlash against irresponsible waste disposal practices, which may lead to actions against the business by the local community; the competition in the waste market.
- 10 The strategies of market penetration, market development and diversification should be identified and explained based on the matrix tool.

Possible advantages:

- Market penetration is low risk because the market is growing and STS is already experienced in it.
- Market development will increase profits and the business will not have to depend on certain locations in which competition is becoming more intense.
- Diversification can potentially increase sales and profits significantly; the garbage bag market is related to the waste market and since the product will be environmentally friendly it will strengthen the image of the business as being socially responsible. The business will stop over-relying on one market only (the waste collection and disposal market).

Possible disadvantages:

- Too many risks at once as a result of following three different strategies.
- The business should focus more on improving its procedures to become socially responsible before allocating responsibilities to other strategic objectives such as aggressive growth.
- Diversification in the garbage bag market is very risky as it means involvement in a completely different sector under unknown market conditions.

Chapter 4 Stakeholders

Business in context

- The government might be more concerned with economic objectives rather than heritage/conservation objectives. This might be because of low incomes/high unemployment that might occur in the region where the airport is to be built. Conservation pressure groups might not be very powerful in Peru so the government does not fear much adverse public reaction from the construction of the new airport.
- It is likely that many large infrastructure projects will cause some conflict as the aims and objectives of stakeholder groups tend to be so different. So, the building of an airport will be supported by airline companies and employees who work for them and tourist-based businesses too. Environmental and heritage groups will be opposed to the new airport as it could have a negative long-term effect on air quality and therefore the health of local residents. In addition, too many tourists might damage the physical site of Machu Pichu and if this becomes serious it might even discourage tourists visiting the site and the region in future. Can these conflicts be resolved, or at any rate, reduced? Learners could be encouraged to discuss how, in this case the scope for conflict between opposing groups could be reduced.

Case study 4.1

- 1 a The 'code of ethics' is a document that details the ethical principles of an organisation, which stakeholders should follow so that business is conducted with integrity.
- b 'Profit maximisation' is one of the most common corporate objectives; it means that the business aims for the maximum possible sales revenue at the lowest possible production cost.

- 2 The shareholders of the business are interested in the maximum possible profits, which depend on the production of big quantities of palm oil at a low cost. The government is interested in the job positions created and the conditions of employment of workers, the contribution of the business to the national output, the extent to which palm oil production is sustainable, the taxes collected by the business. The community is interested in the effect of the KL Kepong on local welfare and the activities undertaken by the firm in respect of social responsibility. It is also interested in the employment opportunities created by the business in the area. Pressure groups such as environmental NGOs would be interested in the business's code of ethics and the extent to which it is acting in an environmentally responsible way.
- 3 Possible advantages to stakeholders:
 - Government: more jobs, higher GDP, more export revenue, more tax collection.
 - Consumers: more palm oil could mean lower prices.
 - Local community: more jobs.
 - Shareholders of palm oil businesses: more revenues from palm oil sales could lead to higher profits.
 Possible disadvantages to stakeholders:
 - Conflicts with the local community and pressure groups. Local people have been driven off their land; deforestation is destroying the quality of life. Palm oil businesses may be tempted to break the code of ethics causing more environmental damage, and this will anger pressure groups.

Case study 4.2

- 1 Internal stakeholders have a direct relationship with the business, they are found within the organisation. VestMe's shareholders are internal stakeholders of the business and are interested primarily in profits. External stakeholders have an indirect relationship with the business but have interests in it. The suppliers of processed cotton cloth are external stakeholders of VestMe and are interested in the number of orders at reasonable prices.
- 2 Shareholders' interests are protected when the business cuts costs, so that profit per unit sold is the maximum possible. But suppliers want the exact opposite: to sell their products at the maximum possible price to protect their own profit.
- 3 Such a conflict could harm the image of the business, draw negative media attention, harm the productivity of employees who feel mistreated by the business. A strike would disrupt the operations of the factory so sales and eventually shareholder profits would drop. The business would appear as 'unethical' to the public, and this could harm relationships with other stakeholders as well, e.g., its customers.

Case study 4.3

- 1 'Stakeholders' are groups of people having any kind of interest in the activities or decisions of a business.
- 2 The decision serves the interests of special pressure groups such as Greenpeace, wanting to safeguard the environment by trying to make oil companies produce less fossil fuel. It could also impact the profits of shareholders, who will receive less revenue from the sales of fossil fuels (but potentially more from the sales of renewables, so the exact effect on the profit is not clear yet).
- 3 It is possible that the objectives were not 'SMART' enough, for example the business may not have had enough resources to spend on innovation for renewable energy. Moreover, shareholders were still depending on revenues from fossil fuels, conflicting with the goals of pressure groups that wanted BP to 'go beyond petroleum'.
- 4 Possible advantages:
 - Improving relationships with special stakeholders such as Greenpeace.
 - Creating an image of an ethical business, attracting consumers.
 - Pushing the business towards exploring innovative business opportunities, eventually helping it to escape from its over-dependence on fossil fuels.
 - Avoiding environmental disasters with devastating impacts on all stakeholders.

Possible limitations:

- Difficulties sticking to ethical promises.
- Huge investments are required to innovate in renewables, and there is a risk of failure.
- Problems managing the expectations of shareholders for profits against the expectations of other stakeholders such as pressure groups.

Activity 4.1

- 1 Environmental pressure groups may react against the negative footprint of a bigger factory. Shareholders will have to bear the risk of the investment, but long-term they may enjoy higher profits.

The government may investigate the merger to ensure no monopoly power would be generated from this integration, because monopolies act against the interests of consumers. The shareholders may enjoy long-term increased value, as the largest business may be in the position to compete more easily in the marketplace.

Managers will be burdened with having to support employees through a significant change. The government will be impacted by the unemployment that is gradually created in industries where labour is replaced with technologically advanced capital.

- 2 Employees are interested in securing job positions, better career opportunities, better financial rewards, and a good working environment. If the production unit is expanded, assuming the facilities are also upgraded, the business will need more labour and it will probably offer more well-paid job positions, while such a decision will typically not lead to any redundancies. So, the first decision is more likely to better satisfy employees compared to the other two.

Activity 4.2

- 1 Tonnes of dead fish washed up in Mar Menor, asphyxiated due to lack of oxygen. According to scientists, this was caused by agricultural fertilisers used by farmers in the area.
- 2 Farmers want to use fertilisers freely to increase the quantity of their crops, without restrictions on how to safely handle and dispose of the fertilisers. The NGO puts pressure on farmers to protect the environment and to reduce the constant discharge of dangerous chemicals into the lagoon.
- 3 The government needs to find solutions to regulate the farming process to ensure the problem is resolved. However, this is a difficult task because the regulations would force changes in the way things are done in agriculture and would increase the cost of production.

Activity 4.3

Arguments in favour of ‘customers first’: Customer’s satisfaction determines the level of sales. If customers are not happy, the business will fail. Employees will lose their jobs and shareholders will have no profits.

Arguments in favour of ‘employees first’: Motivated and loyal employees are productive and creative. They are likely to create innovative goods and excellent services to satisfy customers and bring profits for shareholders.

Arguments in favour of ‘shareholders first’: If the shareholders are not happy, they stop investing in the businesses so there will be no jobs for employees or products for consumers.

There is no right or wrong answer to such questions and the prioritisation of stakeholders varies from one business to another, depending on the internal and external factors shaping the business’s strategic objectives.

Exam-style questions

- 1 A ‘stakeholder conflict’ takes place when two stakeholder groups have opposing interests.
- 2 The internal groups that can be identified are Tencent’s shareholders, interested in dividends and share price appreciation; and employees/managers interested in the job positions created by the business around the globe,

and the level of their wages etc. Any external group can be identified with reference to the case study, such as the NGO on children's rights, the government, the various customers buying the B2B services of Tencent, the users of the online games, etc.

- 3 The NGO and/or the government are interested in restricting the content and regulating the market of the online games to protect the young users, while the shareholders are interested in the exact opposite, i.e., more content without restrictions to increase their profits from the online video games market.
- 4 The conflict of interest harms the image of the business to stakeholders, it may lead to heavy fines, and it forces the business to change its strategy. Eventually, the interests of shareholders may also be harmed if sales and profits start falling.
- 5 The strategy can be identified either as product development or as diversification, depending on how narrowly the 'online games' market is defined. Advantages: more profit by creating new products/entering a new growing market, acting responsibly as per the mission, smoothing the conflict with stakeholders. Disadvantage: the risk of failure with the new product/market which is very different from the entertainment online games market.
- 6 Social responsibility can help the business to solve serious conflicts and avoid future lawsuits. However, to become truly responsible, the firm must change its current products (e.g., with the verification processes) and future strategy (e.g., growth in markets that add value to the society).
- 7 Pressure groups are groups of special interests, such as the BCLARC NGO on children rights. Such groups put pressure on businesses to change the way they operate to serve their goals – in this case, to help reduce the problem of addiction and to make the content of online games safer for the youth.
- 8 Advantage: clarity and simplicity on what is communicated to stakeholders. Disadvantage: not enough detail on the future direction of the business.
- 9 The tertiary sector includes all services, while the quaternary includes services requiring special know-how and technology, such as cloud computing and FinTech in this case.
- 10 A stakeholder conflict is solved when the interest of the two groups are somehow bridged or aligned. The response of the business could help in the conflict resolution because:
 - The new verification system can help reduce the extent to which minors are exposed to addictive games, partially satisfying the NGO and the government.
 - The growth plan is in a market that shows social responsibility and adds value, offering positive services improving children's welfare, which is what both the NGOs and the government want.

Limitations:

- Online video games such as the Honor of Kings have a huge base of users and are very addictive products. The profitability of Tencent will still be based on them. It is questionable if the new educational games will be able to reach such a huge user base.
- The verification process and technology is very difficult to implement, users may find ways to overcome the restrictions.
- For as long as the business offers addictive products with content that may not be appropriate for kids, it should be prepared to face conflicts.

Chapter 5 Growth and evolution

Business in context

- This question is really at the core of the content of Chapter 5 so it is unlikely that learners, at first read of this case study, will arrive at all of the points mentioned in the chapter. However, they might identify and discuss: increases market share quickly; removes a competitor (if horizontal); quicker than organic growth; might provide secure supplies or a guaranteed outlet for sales (if vertical); it could spread business risks (if conglomerate).

- It is likely that there will be different impacts on different stakeholder groups, and learners should be encouraged to discuss: shareholders – will the integration increase profit?; employees – will jobs be more or less secure?; customers – will there be less choice and higher prices? Local community – will more or fewer jobs be created in the local economy?

Case study 5.1

- 1 'Economies of scale' are reductions in the production cost per unit resulting from a business's decision to increase its scale of output.
- 2 Bulk-buying (purchasing) economies of scale because suppliers would be willing to offer Hasan lower prices per unit of raw materials bought, transportation economies because of transporting much bigger quantities, technical economies of scale because of buying advanced machinery which could produce a bigger quantity per man-hour than before at a lower cost per unit.
- 3 Hasan would be able to produce a bigger quantity for more revenue and profit. Moreover, stakeholders often perceive big businesses as being better than small ones, and this is important for Hasan to survive in a competitive environment.
- 4 Advantages:
 - Economies of scale of various types, which are important to reduce the high production cost. This would help the business to become more price-competitive.
 - Improved technology could assist Hasan to produce new types of products or to further improve the quality of existing ones.
 - Higher quantity sold abroad would lead to higher profits in the long term.
 Disadvantages:
 - Diseconomies of scale in the form of managerial complexity and alienation of workers.
 - Hasan would have to abandon his effort to 'centralise' all decisions and would have to trust his managers with more responsibilities.
 - Personal relationships between the ownership and the labour force could be lost. This could damage employees' morale and motivation.
 - The investment in new technology would require significant financial resources and there is always a risk of failure behind growth.

Case study 5.2

- 1 Plcs need to communicate their financial results and most of their strategic plans to the public. Coca-Cola was forced to communicate its declining revenues to shareholders along with its plans on how to escape from over-dependence on soft drinks.
- 2 Internal growth: organic growth, without involving other businesses in the process, e.g., the product development example of 'Coca-Cola Zero Sugar' in the US.
External growth: inorganic growth, by involving other businesses in the process, e.g., the acquisition of Costa Coffee, the acquisition of Topo Chico premium.
- 3 Economic factor: global GDP growth.
Social factor: changing consumer tastes moving away from sugary drinks.
- 4 Advantages:
 - Escaping from over-dependence on the declining soft-drinks market.
 - Improving an expanding the product mix, potentially higher sales, and profits in the future.
 - Entering new, growing markets such as mineral water, energy drinks and coffee.

Disadvantages:

- Very high cost, especially for external growth such as the acquisition of Costa Coffee.
- Significant risk of failure because of lack of experience in the new markets.
- Threat of competition.
- Potential diseconomies of scale due to managerial complexity because of operating across different markets.

Case study 5.3

- 1 A business becomes a 'conglomerate' when it proceeds to conglomerate integration, i.e. growth through the acquisition of businesses across different industries.
- 2 Strategic alliance with Starbucks on the distribution of Starbucks products outside Starbucks outlets; the acquisition of Aimmune Therapeutics.
- 3 Bulk buying (purchasing) economies of scale due to huge quantities of milk bought, technical economies of scale because of advanced technology in the factories.
- 4 Advantages:
 - Conglomerate integration allows the business to balance the risk of failure across different industries.
 - The business combines both organic and inorganic growth successfully.
 - Significant economies of scale.
 - High profits and increasing share value.
 - Nestlé's brand name is recognisable across the globe due to its sheer size.

Some disadvantages:

- Diseconomies of scale, especially significant in conglomerate businesses because of operating across different industries.
- High risk of failure when Nestlé acquires businesses in completely new industries such as the biopharmaceutical market.

Case study 5.4

- 1 A 'franchise' is a legal agreement between two businesses, the 'franchiser' and the 'franchisee'. The franchiser sells a licence to the franchisee, according to which the franchisee can produce and/or sell the products of the franchiser under certain terms and conditions specified by the franchiser.
- 2 Less risk of failure for the start-up business, the franchiser supports the franchisee through national advertising campaigns and employee training, the business model is already established and successful, the franchisee is protected from competition from other Pizza Delight restaurants.
- 3 Harry does not have a say on strategic decisions, he must share his revenues, is not free to apply his cooking talent, and has no freedom of choice regarding the suppliers and decorations in the store. Moreover, there is a \$100000 flat fee to buy the licence.
- 4 Main arguments in favour of Harry buying the franchise:

Harry is not an experienced manager, the risk of failure from opening his own restaurant is big. The franchise exposes Harry to much lower risk, as it is a tested business model. The franchiser will offer full support to Harry regarding how to manage the store and many other things such as a national advertising campaign.

Main arguments against Harry buying the franchise:

Harry wants to leave his job to become a boss in his own business. But the franchise option does not allow him to make any strategic decisions and he cannot apply his cooking talent in an innovative way. Moreover, the fee to buy the licence is very high and he will have to share his revenues with Pizza Delight. He would not have to bear such costs if he opened his own business.

Activity 5.1

- 1 Fortune Global 500 is a list published every year by *Fortune* magazine, ranking the top 500 corporations in the world in terms of revenue. The table shows the top ten biggest corporations in the world, according to their official financial statements released before 31 March 2021. It shows the total revenues in million dollars and how these changed compared to the previous fiscal year, as well as the total profits in million dollars and how these changed compared to the previous fiscal year.
- 2 Walmart
- 3 Apple
- 4 It has to do with the nature of the industry. Walmart retails mainly groceries at the lowest possible prices with a small profit per unit, while Apple sells a smaller quantity of premium-priced products at a much higher profit per unit.
- 5 The Covid-19 pandemic favoured e-commerce sales, as people faced lockdowns and physical shopping restrictions.

Activity 5.2

UK regulators believe that the deal creates barriers to entry for new competitors in the display advertising market. The main stakeholders that could be discussed are the shareholders of both businesses who bear the risk of the deal but could be making great profits in the long term, social media users who will enjoy a better Giphy experience in Facebook's social media platform but may have restricted use in other platforms such as Twitter, and competitors who may see this merger as one giving even more monopoly power to Facebook on social media.

Activity 5.3

1		Internal growth (organic)	External growth (inorganic)	Horizontal integration	Conglomerate Integration	Vertical Integration
	The development of Coca-Cola Diet and Zero	✓				
	The acquisition of Costa Coffee		✓		✓	
	The acquisition of Monster Beverage		✓	✓		
	The acquisition of the North American Coca-Cola bottling company		✓			✓
	The Coca-Cola and Nestlé partnership on the NESTEA ready-to-drink products		✓			

- 2 Coca-Cola combines many methods of growth to leverage the advantages and disadvantages of the different strategies, aiming to be the leader in the wider beverage industry.

Exam-style questions

- 1 'Diseconomies of scale' are increases in the production cost per unit, because of a firm's decision to increase its scale of output.

- 2 'Horizontal integration' takes place because of mergers or acquisitions between two businesses in the same market/industry.
- 3 A joint venture in the form of collaboration with PAI Partners for the distribution of Tropicana; a joint venture with Beyond Meat for the development of plant-based products; acquisitions of other businesses such as Quaker Oats.
- 4 External growth enables the sharing of know-how with other businesses, such as the case of Beyond Meat specialising in plant-based protein products. This can boost innovation in the business. Moreover, external growth can help PepsiCo to add new products to its portfolio fast, while it takes years to develop new products internally.
- 5 Managerial complexity because of managing several brands in many countries.
Alienation of workers, especially since the huge business is the result of many acquisitions.
- 6 Big businesses enjoy economies of scale because of their size, such as bulk buying economies. PepsiCo buys some raw materials in bulk for 23 different brands and is expected to be offered very low prices per unit. Moreover, big businesses, especially the ones operating globally, are able to build a strong global brand name that attracts consumers. Pepsico sells many 'world famous' brands.
- 7 In a merger, two businesses become one. Pepsi's product portfolio in soft drinks was combined well with the snacks of Frito Lays, allowing the merged business to capture more business opportunities by selling the united portfolio to retailers. In addition, the merger was successful because the two businesses collaborated smoothly without clashes of culture (the CEOs of the businesses called the deal 'a marriage made in heaven').
- 8 Internal weakness: diseconomies of scale, pushing PepsiCo to simplify the product portfolio. External opportunity: the growing consumer demand for healthy food and beverages.
- 9 A merger (such as the one between Pepsi and Frito Lays) is an external growth option that leads to the creation of a new business, in this case PepsiCo. The initial identity of the merged businesses is lost (e.g., Pepsi changed its name to Pepsico and now sells food **as well as** beverages). In an acquisition, one business buys another – for example, PepsiCo acquired Quaker Oats. The identity of the business that is acquired may or may not change, depending on what the buying company wants.
- 10 Advantages:
 - Selling products that have no long-term growth potential, to invest in new, potentially more profitable innovative goods.
 - Satisfying consumers' wants and acting in a socially responsible manner by offering healthier products (i.e. that have lower-sugar content).
 - Reducing some managerial complexity, since the portfolio contains many brands and the business probably faces some diseconomies of scale.
 Disadvantages:
 - The brands sold are still profitable.
 - The demand for juices during the Covid-19 pandemic was revived because they are perceived to be a source of vitamin C. It could be the case that the business will miss out on some significant profits, as the brands were sold before demand started to fall.

Chapter 6 Multinational companies (MNCs)

Business in context

- Many possible reasons: cheaper labour than home country; access to materials might be easier; to exploit local markets which could be growing faster than the home market; take advantages of lower levels of regulation; cheaper land costs; government subsidies might be offered; to use it as a base to supply regional markets which might be located far away from the home market.

- Yes: it increases output and GDP; inward investment can bring in much-needed capital; it might be invested in high technology which will encourage local producers to become more competitive; it creates employment; it increases tax revenue; it might lead to exports from Nigeria.
No: it might create too much competition for local suppliers and drive them out of business; the MNCs might try to exert too much pressure on the government to change policies; production methods might be polluting; profits might be taken out of the country; high-salaried managerial jobs might be given to foreigners.

Case study 6.1

- 1 'Multinational companies' are those that have invested in long-term assets such as production units and shops in more than one country.
- 2 The country is rich in natural resources; labour is abundant; the government tries to attract FDI through fiscal policies; the geographical location of the country favours transportation of raw materials and final goods. These factors give multinationals many opportunities for profitable business at a low production cost.
- 3 Poor infrastructure in many locations; political instability; problems in the legal framework such as lack of land property rights.
- 4 Possible advantages:
 - Economic growth, as multinationals will produce goods to be exported abroad.
 - Foreign firms would bring know-how in the country as well as financial resources to invest.
 - The young labour force would be offered jobs.
 - Foreign firms would have an incentive to improve local infrastructure and to generate economic activity in poor areas.
 Possible disadvantages:
 - Foreign firms are going to Mozambique to take advantage of its valuable resources at a low cost. The production methods used might not be ecologically sustainable.
 - Multinationals usually take advantage of cheap labour without transferring technical and managerial know-how to the local population.
 - Mozambique has become over-dependent on FDI especially in the primary sector. Global commodity prices have been falling, reducing FDI for many in the country for several years in a row.

Activity 6.1

Group 1: Main reasons behind increased levels of FDI in the area

Brazil: opportunities in oil, gas extraction and electricity industries, enhanced by the government's effort to boost economic activity, deregulate markets and privatise public assets.

Colombia: opportunities in oil and mining but also some tertiary sector industries, such as financial services.

Peru: a big increase in non-financial services, increased mining investments.

Chile: opportunities in utilities, mining and services, especially given the devaluation of the peso in 2019 which increased the profit margins in the mining industry.

Group 2: The main reason behind falling levels of FDI in Mexico

A reduction in foreign direct investment in the automotive industry, mainly in the auto parts segment, due to the ratification of the regional trade agreement between the United States, Mexico and Canada (the USMCA), which came into force on 1 July 2020.

Exam-style questions

- 1 'Foreign direct investment' is the investment of firms in foreign countries in the form of long-term assets such as production units, stores, etc.
- 2 Economic: largest economy in the region, availability of workers.
Environmental: availability of natural resources.
Political: political stability.
- 3 Political: corruption, complex business environment.
Legal: many legal requirements for businesses wanting to enter the country.
Economic: lack of sufficient infrastructure.
Environmental: environmental pollution.
- 4 FDI will create job positions for the labour force in the country. MNCs export their products, adding to Indonesia's GDP.
- 5 Arguments in favour of continued reliance on MNCs: the foreign resources will create job positions for the huge population; growth through exports; investment in R&D to increase the productivity of capital.
Arguments against continued reliance on MNCs: environmental pollution; depletion of resources such as palm oil; deforestation. The government must spend money on incentives such as tax-deductible initiatives. These resources could be spent on supporting domestic producers and boosting domestic consumption. The government must reform and simplify the business environment to attract more FDI.

Unit 2: Human resource management

Chapter 7 Introduction to human resource management

Business in context

- Learners can list the differences between the three businesses and the statements being made, but in all cases it is clear that the long-term welfare of employees is given a high priority. There are also indications that the policies these three businesses have put in place will, in the longer term, benefit not just employees but the businesses themselves in a number of important ways.
 - This is one of the great conflicts in HRM – which is more important?
 - Should HR managers focus on reducing business costs with short-term flexible employment contracts for employees, low wages, few work-related benefits and little attention to wider social issues such as diversity?
 - Or should HR managers treat employees with respect and understand their wider human needs (other than just 'job and pay') even though this might mean a higher-cost strategy in the short term.
- There is no overall clear answer – it may depend on the nature of the work/size of business/legal structure of the country that the business operates in. Learners should have plenty to discuss.

Case study 7.1

- 1 'Labour mobility' measures the extent to which labour is able and willing to move between different jobs (occupational mobility) or geographical locations (geographical mobility).
- 2 When migrants go to Germany, the wages of workers are expected to fall. Moreover, firms may benefit from highly skilled migrant workers in occupations where the supply of German workers is limited.
- 3 A developed country could attract migrant employees with legislation enabling geographical mobility such as temporary work visas. It could also increase incentives for permanent residency of high-skilled workers, such as enabling migrants to bring their families to the country.
- 4 Possible advantages:
 - Remittances sent back to the country help to improve the standard of living.
 - Unemployment is eased.
 - Migrants may acquire important skills to bring back to the country to improve the quality of the local labour market.
 Possible disadvantages:
 - Labour migrants are often from lower-income groups and become subject to economic abuse from their employers abroad.
 - Migrants often have to leave their families in the home country, leading to long-term separation anxiety for the families and behavioural problems for the children.
 - A cycle of financial dependency might be created for migrants who earn much higher incomes abroad compared to the wages they could earn in their home country.

Case study 7.2

- 1 'Change management' is the process of planning, implementing and monitoring the transitioning of a business from a current state to another.
- 2 Many employees at LB are skilled manual workers but they are not accustomed to technology, so they might be worried that they will not be able to cope with it. Moreover, they might feel that eventually technology could lead to more redundancies, as technology replaces manual labour (other factors such as inertia could also be applied).
- 3 A conflict between the owners and employees, as the owners want to put new production methods in place, while employees feel more secure with the previous ones. There could also be a conflict between the owners and the local community. The owners want to control the production cost so they will declare people redundant, but the community wants LB to safeguard the job positions and not to create unemployment.
- 4 Change management is needed because:
 - By initiating a change management process, the two owners will start to set a new vision and objectives for LB, which is very important because the market is changing fast. The exact processes and type of technological upgrading will then be decided based on the new strategy.
 - It will be vital to communicate the change to the workforce in a way that employees understand the benefits for the whole organisation. Employees do not value the change at this point.
 - The business would have to design a detailed training session for the employees who will be staying in the organisation, to support them through the change.
 - A gradual change, with a focus on the impact on the local community, could help to find ways to limit the impact of the redundancies. Gradual redundancies will be easier for the community to handle compared to massive and sudden job cuts.

However, change management will not save LB from all of the problems related to change.

- Since jobs will be lost, the business will have to deal with ethical considerations no matter how well it proceeds with change management. Conflicts with stakeholders and industrial action could occur even if the business tries to manage the change appropriately.
- Change management requires people to work effectively in project groups, but the organisation does not have the know-how or the appropriate culture to embrace change.
- The process would be time-consuming, whereas the market conditions change fast and LB needs to respond fast.

Case study 7.3

- 1 A 'project champion' is a person who has the responsibility of driving a project forward and supporting the team working on the project and the whole organisation during the change.
- 2 The project champion must manage a team of people working on a project, in this case the implementation of the e-ordering process by ensuring all resources are in place. Moreover, they must explain the change to the whole organisation so that all stakeholders support it. In this case, Zhan has to communicate the benefits of the change to restaurant managers and to the finance department to help reduce their resistance to the project.
- 3 The availability of financial resources (which Zhan has to secure from the finance department to make things happen) and her power/authority and leadership capability as a senior manager in the Dining Group (which could help to influence the organisation in favour of the new system).

Activity 7.1

Google has always been famous for using flexi-time, especially in the post-pandemic era when maximum flexibility was given to employees along with the ability to work from home a couple of days per week, plus the ability to work temporarily from locations other than the main office. By making flexibility and the well-being of employees key priorities in the organisation, the business motivates employees who balance their personal and work lives better. However, certain problems arise such as the practical communication issues among employees who maintain different schedules.

From the perspective of employees, job satisfaction tends to increase from empowerment through flexi-time. However, some employees complain that in return for this flexibility they spend most of their personal time working for the business.

Google enjoys many advantages through embedding flexi-time, mainly in terms of attracting and motivating talented employees. This motivation due to autonomy and empowerment is important to enhance creativity and innovation. Therefore, many businesses in the quaternary sector choose flexi-time.

Activity 7.2

- 1 Uber: offers transportation services in many countries around the world. Uber drivers are freelancers who use their vehicles to offer services based on their preferred time schedule. Customers find Uber drivers through an online app.
Amazon Flex: an Amazon service by which freelancers use their vehicles to deliver packages for Amazon.
99 Designs: an application connecting customers interested in logo designing, web and application designing, advertising services, etc. with independent professional designers.
- 2 The labour force of businesses such as the above that offer services via the internet (and not through physical shops) must be flexible, willing and able to adjust fast to the constantly changing market conditions. Moreover, they avoid the high costs of permanent employment contracts, such as health insurance, paid sick leave and redundancy packages. But gig workers may not be loyal to one business activity. They are typically people who want to increase their income through flexible work patterns. Thus, the quality of their services cannot always be relied upon.

Activity 7.3

Force field analysis could help the school to decide if it should proceed with the change by weighing the driving versus the restraining forces. Moreover, the management would have the opportunity to identify factors against the change and possibly try to reduce them, such as the difficulties to monitor the attendance and quality of participation of learners online. However, a school has many stakeholders (the management, the teachers, the learners, etc.) with different points of view. This makes the weighing up process difficult, so there is a risk that the result of the analysis would be highly inaccurate and of limited practical value.

Exam-style questions

- 1 A 'gig economy' is a way of working in which companies employ temporary and flexible workers, freelancers and independent contractors instead of full-time employees.
- 2 'Human resource planning' involves the systematic ongoing planning of the labour factor of production to ensure that a business has an adequate amount of labour with the appropriate skills.
- 3 Human resource planning is the process by which the business would ensure employees have adequate skills to stay productive and motivated at work. Moreover, this process decides the appropriate flexible patterns that a business can apply to avoid the extra costs of full-time contracts, but at the same time it would ensure that such patterns fit the needs of the employees to motivate them.
- 4 The gig economy can help restaurants to capture opportunities arising from the increasing demand for delivery services through gig economy applications and without directly hiring full-time employees. But restaurants that already employ delivery personnel and which are interested in replacing their contracts with flexible patterns such as freelancing arrangements may have to deal with resistance, as employees lose their job security.
- 5 Big restaurants are often led by managers who are experts in change management and know how to plan for changes before they are implemented. They embed a culture that embraces change in their organisations. Moreover, they have more resources to spend on change management, such as the ability to hire project champions with responsibility for driving the process of change and dealing with issues of resistance to change.
- 6 Workers in delivery services are not offered full-time contracts. Thus, they may feel more job insecure. Moreover, they may be afraid of the economic instability associated with working for the gig economy, as when there are few delivery orders there is little income for gig workers.
- 7 A project champion will typically be a person in a managerial position, able to lead the change and put it into practice. When new technology is used in a restaurant for order and delivery, employees might resist it because of having to change the way they work. A project champion would help to reduce this resistance, for example by explaining to employees the reasons for the change. Moreover, the project champion would ensure enough resources are allocated to support the change, for example by arranging adequate training for the people involved.
- 8 A force field analysis would help a small restaurant to decide on possible changes to be made due to the Covid-19 pandemic. Such changes could involve the addition of outdoor facilities, the creation of drive-through delivery, etc.

Possible advantages of the tool: it would help the restaurant owners to identify the exact driving forces and to weigh them for their significance. For example, a restaurant may examine the benefits of adding a drive-through facility by first examining the extent to which their customers are interested in take-away food in a contactless manner due to the pandemic. Then the driving forces would be weighed against the restraining forces, such as the cost of implementing the changes and the possible resistance of employees.

Limitations of the tool: it would help the restaurant owners to identify the forces and weigh their significance, but it will not help to provide solutions on how to reduce the restraining forces so that a change would be implemented smoothly. This depends on the ability of the owners to lead change. Moreover, the weighing of the factors would be subjective. For example, an owner may believe that the effects of the pandemic would only be short term, but the dining habits of people may change permanently after the crisis. A wrong assumption such as this will lead the owner to create an inaccurate force field analysis.

Chapter 8 Organisational structure

Business in context

- An organisational structure creates a framework for managing the business with different sections (such as departments) and, usually, different levels of management authority. It shows lines of authority and communication routes within the business. In a large company such as Tata it shows how the different sections making different products are linked to the central decision-making power in the organisation. It shows each employee where they and their department 'fit into' the overall framework.
- Different business objectives may require a change to organisational structure. So, a manufacturing business that sets a new objective to develop innovative products might organise the business into cross-functional teams with a minimum of hierarchy. A business setting an objective of developing operations in different countries might change its structure to one that is organised on a country-by-country basis. A business aiming to diversify into different product areas for the first time might change from a hierarchical structure to a product structure to allow some autonomy with each product section.

Case study 8.1

- 1 'Centralisation' takes place when all important decisions remain in the hands of a few managers, typically within the head office of a business.
- 2 In small businesses, it is common to observe informal organisational structures with one or a few owners/shareholders and some supporting employees. Thus, the structure of the business is such that only a few people are in the position to take strategic decisions.
In small businesses the number of decisions to be taken are rather limited, making it practically possible for just a few people to control the decision-making process.
- 3 Main advantages: local decision-making is enabled and thus it is possible to better satisfy the needs of consumers and other stakeholders and to respond fast to changes in local market conditions. Employees are motivated by being trusted with responsibility.
Main disadvantages: businesses may suffer from a lack of consistency in the strategy followed across the different markets, the decision-making process may become chaotic.

Case study 8.2

- 1 'Delaying' is the process of removing one layer from a hierarchical organisational structure.
- 2 When there are many layers in a tall organisation, decisions must pass through many middle managers down to the employees, so decision-making is slowed down.
Vertical communication between the upper and the lower levels of the hierarchy is disrupted.
The more the layers in the hierarchy, the higher the costs of the business in relation to the pay and benefits of the middle managers.
- 3 The chain of command is the route through which decisions are passed down in a business, through the various levels of the hierarchy. In the era of teleworking, the directors can communicate decisions and may delegate responsibilities directly to the 'shop-floor' employees, without consulting the middle managers. Thus, the notion of the chain of command becomes gradually less important.
- 4 Possible advantages:
 - The labour cost is reduced in the long term.
 - The distance between the upper and the lower levels of the hierarchy is reduced, so communication is enabled.
 - Decision-making may become faster.

- Delegation of responsibilities is enhanced, since the span of control becomes wider, and the remaining managers need to give more responsibilities to subordinates.
- In the era of teleworking, communication between senior managers and shop-floor employees is possible without the need for middle-managers.

Possible disadvantages:

- Middle managers are the ones who can make the plans of directors a reality, and they closely monitor and support employees during change. This is what happened with the shift to teleworking due to Covid-19.
- Delaying creates short-term issues such as redundancy costs and stress among the employees staying behind who have to cope with the extra workload. This is one reason why many firms postponed or cancelled their decision to delay in the Covid-19 era.

Case study 8.3

1 The 'matrix structure' is a type of organisational structure that is formed through the creation of cross-functional project teams.

2 Advantages: clarity in the chain of command, which is important because the business maintains 2000 employees; specialisation is enabled.

Disadvantages: it does not facilitate the decision-making process at a regional level; horizontal communication problems are created; it does not allow collaboration among departments for innovation; it creates bureaucracy.

3 The needs of consumers and the local competition conditions in the new market where the factory opens may be different.

A regional hierarchy would facilitate de-centralisation and decision-making at a country level.

Under such a structure, local employees would be recruited and united into effective teams based on the common underlying culture. This could improve the efficiency of communication within each region.

The performance of the different markets would be easier to monitor.

4 Possible advantages:

- Team working would be enhanced, and the launch of new products would be facilitated.
- The business would become less bureaucratic and decision-making would be faster.
- Team working could be challenging and motivating compared to the repetitive job of employees in the traditional hierarchy.

Possible disadvantages:

- The business does not have the right culture for such a change, senior managers are resisting.
- Training would be needed to help people operate in a matrix.
- Employees may suffer from 'divided loyalties', not knowing who to prioritise: their line manager or their project supervisor.

Activity 8.1

The traditional hierarchy by function mainly serves the needs of the business to control the corporate strategy at the headquarters. Given that Starbucks uses the 'global localisation' approach in international marketing, the structure by geographical divisions has been gradually developed over time to adjust the corporate strategy at a regional/local level. The 'by product' structure helps managers focus on the different types of products sold by the firm (e.g., coffee products, teas, merchandising material, etc.) for better marketing effectiveness. Lastly, the matrix structure in Starbucks stores helps to enhance project-based teamwork. Moreover, it assists in spreading Starbucks' corporate culture, which has to do with excellent services provided by highly motivated people. Starbucks' structure enables the business to achieve alignment across the various decision-making levels of the organisation. However, such a hybrid organisation requires highly trained and motivated managers in order to be effective.

Activity 8.2

Some of the main changes that many businesses decided on were delayering for faster decisions and less bureaucracy and the matrix structure to deal with Covid-19 challenges on a project basis. Also, responsibilities were delegated within and outside the businesses by subcontracting activities and using flexible work patterns, thus moving towards more flexible and less traditional organisational structures.

Activity 8.3

1

Problem	Possible solution
The Managing Director cannot effectively communicate with the shop-floor employees in a traditional hierarchy with five layers	Delegation of responsibilities
Managers concentrate decisions and employees feel 'left out' from the decision-making process	Delayering
Horizontal communication is weak and the organisation is slow in responding to changing consumer wants with new products	Centralisation of the strategic decision-making process
The regional offices of a multinational business are not aligned one with another in terms of corporate strategy. The business loses the opportunity to get the maximum possible economies of scale from ordering supplies centrally for all subsidiary businesses	Forming a matrix structure

- 2 Small businesses usually maintain informal structures or flat hierarchies and are not expected to face these problems, except for the problem of lack of delegation of responsibilities which is sometimes observed in small organisations as well, especially if the span of control is narrow.

Exam-style questions

- 1 A 'traditional hierarchy' is one in which employees are organised in layers that determine the chain of command.
- 2 The 'span of control' is the number of subordinates who are directly reporting to a manager.
- 3 The tall hierarchy allows clarity in the lines of promotion, and this is motivational for employees. A disadvantage is the phenomenon of bureaucracy in the organisation, a key reason why CF is slow to respond to changes in the market.
- 4 The narrow span of control allows specialisation in CF, as managers have only a limited number of subordinates and tasks to perform. But a narrow span of control is typically associated with the problem of centralisation of decisions. In CF, senior managers do not delegate interesting projects to subordinates. If the span of control was wider, they would be forced to trust employees with more responsibilities.
- 5 More middle managers mean more indirect costs, while not all of them would positively impact sales revenues. Thus, profit might be lower. Also, profitability deteriorates because the ratio between the net profit and the sales is unfavourable.
- 6 Chocolate-producing firms that are 'shamrock' may have lower indirect costs because, in contrast to CF, they employ few core employees and no middle-managers. Thus, such organisations may generate a given level of revenue at a lower cost compared to CF.

- 7 Centralisation means that senior employees cannot focus on what they need, which is the long-term strategy of the business that needs to survive in the competitive market. Moreover, the company misses the opportunity to get good ideas from experienced middle managers/employees on improving its processes or producing innovative chocolates.
- 8 a) The span of control will get wider, as the remaining managers will have to manage the employees of the managers leaving the business.
b) More responsibilities will have to be delegated, and senior managers will not be able to centralise decisions any more.
- 9 Bureaucracy means that people are forced to follow processes, which is a problem because CF needs the flexibility to become more adaptive to the competitive environment of the chocolate market.
- 10 Delaying has many potential long-term advantages, such as reducing the wage cost and improving the profit margin of CF, combating bureaucracy and enabling faster decision-making, enabling delegation of responsibility and decentralisation. However, in the short term, the business's profit would be damaged because of the redundancy cost, and the employees of CF may be demotivated by seeing their colleagues leave. CF's ethical obligation to the managers who will have to leave is only partially addressed by the higher amount of compensation offered to them.

The matrix structure would help to solve the problems in horizontal communication and make the business more task oriented and responsive to market changes.

However, employees in CF are not accustomed to working in teams, and CF does not seem to have the right culture in place for teamwork. It could take a lot of time to make a matrix work in CF.

Chapter 9 Leadership and management

Business in context

- Learners' own answers.
- Learners' own ideas.
- The discussion might revolve around the key difference between management of resources (such as planning and controlling them) and giving a sense of purpose and direction as a leader. A manager is keen to improve efficiency of all the operations of a business so that resources are used to best advantage. A leader wants to inspire people to follow them and work hard to achieve the leader's vision for the business.

Case study 9.1

- 1 A 'manager' is a person who is responsible for setting objectives, organising resources and motivating employees so that the organisation's aims are met.
 - 2 Interpersonal role: inspiring and motivating employees. Informational role: collecting information on the financial performance of the store, communicating forecasts to the regional head.
 - 3 The financial budgeting process is linked to the role of a manager as a 'resource allocator', which is important for a store in order to ensure all needed resources will be in place to reach future goals.
 - 4 Managers should be able to direct and motivate staff, organise resources, solve problems, coordinate activities, communicate with other decision-makers in the organisation and control the performance in their department.
- Indah has some basic skills in terms of understanding the role of management, as she holds a business degree. She has also got communication skills, which are important when interacting with other managers in the coffee chain and to motivate and direct staff effectively. Being a hard worker, she would probably focus on finding solutions to problems and effectively organising the jobs in the store. But Indah is inexperienced in planning, which is one of the main activities of a manager. This could stop her from setting SMART sales targets. Without SMART targets in place, Indah will be unable to monitor and appraise employees effectively.

Case study 9.2

- 1 It is best identified as autocratic because employees are expected to follow exact orders under the threat of demotion or dismissal.
- 2 The style enhances the standardisation of processes, which is admired by customers. But the fear of demotion or dismissal creates dissatisfaction and employees leave to find jobs where they feel more secure. Moreover, creative employees get bored as they are not able to apply their ideas at work.
- 3 A more democratic style could improve employee motivation by involving employees in decisions. However, it could lead to slower customer service, and the processes would stop being 100% standardised, something that customers may dislike.
- 4 Some adjustments to the leadership style must be made because:
 - The leadership style adopted in Asia has proven limitations, so the business could try a different approach in Europe to reduce the labour turnover.
 - The effectiveness of leadership style depends on culture. In Europe, employees might be less willing to accept Fast Nuggets' autocratic approach and this would lead to an even higher labour turnover.
 - By involving employees in the European stores, the firm could apply production methods and approaches to customer service based on the ideas of people knowing better the local conditions. This could improve consumer satisfaction.

However, a radical change in leadership should be avoided because:

- The management of businesses with different approaches in leadership in different regions is much more complicated.
- Consistency in Fast Nuggets as a global brand would be lost.
- Rivalry between the employees that are less involved in decisions and the ones that are allowed to be creative at work could be created across the globalised business.

Case study 9.3

- 1 'Recruitment' is the process of hiring people in an organisation.
- 2 A democratic leader, who would involve employees in the decision-making process, but will keep the responsibility of the final decision for themselves.
- 3 Delaying could help to make the organisation flatter, and this could improve the efficiency of communication between the organisation's layers. Moreover, a matrix structure could help the businesses to become less 'hierarchical' and more focused on collaboration among departments in a project-based organisation. This could help the CEO to embed a common sense of purpose across Tides.
- 4 What is common: the responsibility to direct and motivate employees is a key role of a leader, but it is also one of the managerial roles (as per Fayol). The new CEO should ensure that all employees are aligned towards the higher purpose of Waves.

What is different: as a leader, the new CEO should inspire all stakeholders to engage in the mission of Waves and should innovate to raise funds for the philanthropic goals of Waves. This is not a manager's role. On the other hand, roles of the CEO as a manager include the management of all operations by coordinating the activities of the organisation and the responsibility to plan ahead as well as to set strategic goals for the business.

Activity 9.1

- 1 a i
b i
c ii

- d ii
- e i
- f i

2 Learners' own answers.

Activity 9.2

1 Examples of roles to be identified:

Interpersonal: symbolic leader of a class; motivating learners; linking with other teachers, the parents and the school's head to organise parent-teacher meetings.

Informational: attending seminars related to teaching; preparing and presenting class performance reports to parents and learners.

Decisional: deciding on appropriate teaching tools to be used in class.

2 Teachers are expected to demonstrate leadership skills by inspiring learners and creating a vision for long-term development and achievement. They should act as figureheads that are respected and trusted by their learners.

Activity 9.3

An 'inclusive leader' is a democratic leader who is aware of their own biases and actively seeks input from their subordinates in decision-making, to reach better decisions. A key characteristic of an inclusive leader is that they understand the significance of diversity and inclusion in an organisation as a power to improve the way things are done and to eventually reach the vision.

Mary Barra has been applying a 'consensus' approach in decision-making seeking input from a wide range of people within GM. Employees have praised her for her listening skills and approachability, and the way she has created highly effective teams to drive innovation and change in GM which had been quite static for some years before Barra took over as a CEO. She has also helped to shape a socially responsible profile for GM. Thus, she has been identified as a successful and inspiring leader and she eventually became the firm's chairman as well.

Barra has been criticised mainly for some decisions that she took as a senior manager of GM, such as the closing of five North American plants which resulted in the redundancy of 6000 workers.

Exam-style questions

- 1 'Scientific thinking' is the process of systematic investigation and analysis of data which allows the acquisition of reasoned knowledge.
- 2 'Human resource planning' is the matching of the demand with the supply of labour, including the processes of recruitment, training, appraisal, dismissal and redundancy.
- 3 Scientific thinking can help Oscar to take reasoned decisions about his approach in human resource management, leading to measurable improvements in labour productivity. However, such decisions could end up demotivating employees, because Oscar demonstrates no empathy about their needs.
- 4 Oscar demands obedience and uses threats to make things happen, so he is best identified as an autocratic leader.
- 5 Pierre is better identified as a situational leader, as he often switches between democratic consultative and laissez-faire leadership.
- 6 The laissez-faire leadership may boost the self-esteem of experienced chefs, who may feel appreciated for their skill and experience when allowed to decide on the restaurant's menu. But if the chefs are not skilled enough or not so loyal to the business, laissez-faire leadership may result in wrong or irresponsible decisions about the menu, eventually leading to dissatisfied customers.
- 7 Based on Herzberg's theory, the autocratic leadership approach and the fact that job security is not embedded in Le Menu is a violation of basic hygiene factors. This leads to employee dissatisfaction and high labour turnover.



Pierre's approach boosts the self-esteem of chefs who feel involved and often trusted to make their own decisions. This is motivational according to Maslow's theory, as 'esteem needs' is the fourth level of his hierarchy of needs.

- 8 Democratic leadership is about involving people in decisions. Temporary workers are not familiar with the business strategy, so their opinion might not be value-adding. Moreover, temporary workers may not be as loyal as permanent employees are, because of not having strong links with the business. Thus, it might be risky to trust them with decisions.
- 9 Intuition can help Pierre to take decisions fast, which is very important in pressurised conditions such as the ones prevailing in the industry of Le Menu. But when intuition is used when making decisions, the leaders often act under conditions of short-term emotional bias. For example, Pierre might be favourably biased when a chef seems polite and collaborative, and he might trust them with responsibilities that they cannot handle.
- 10 Possible advantages:
 - Democratic leadership makes people feel more involved, and this can be motivational.
 - Experienced workers may have good ideas to share to improve the services of Le Menu.
 - Temporary workers will be happier to work for Le Menu when needed because they will not be discouraged by the autocratic approach of Oscar.

Possible limitations:

- Democratic leadership is a slower process, in this industry decisions must be taken and applied fast
- Temporary workers are not always loyal, so they should not be trusted with decisions. Mistakes made by temporary workers would destroy the experience of customers, and this is a big risk in luxury services such as the ones provided by Le Menu.
- To some extent, the problems of Le Menu are not the result of the leadership style but have to do with the choice of the business to over-rely on temporary workers and not full-time employees. The firm could reconsider the employment contract of some of its workers.

Chapter 10 Motivation and demotivation

Business in context

- 1 Hopefully learners will recognise that work/employment can start to satisfy the need for material goods in order to survive and enjoy a certain standard of living. Other needs that might be met from work include: working with others – social needs; working as part of a team – belonging needs; a sense of achievement and feedback from managers – recognition needs; and any others that learners can identify.
- 2 Many businesses now operate in more than one country (MNCs) so it is essential for HRM to understand the cultural and social differences between people in different countries when planning a remuneration and benefits strategy. It might be quite easy to use inappropriate methods of paying people in some countries which could lead to demotivation and not motivation.
- 3 Receiving positive feedback can be very motivating for people in many situations including employment and education. It can help create a genuine sense of achievement and a feeling that efforts made are being noticed and commented on positively.

Case study 10.1

- 1 A 'piece rate' is a type of financial reward, a payment per unit produced.
- 2 Workers are likely to become more productive in their efforts to produce more meals per hour of work, so more product is produced by a given number of workers to satisfy demand. This is a cost saving for the business. But workers may neglect quality in their effort to work as fast as possible. This may spoil the image of the business.

- 3 It seems that some employees are looking to cover esteem needs from their work, which is one of Maslow's levels in the hierarchy. However, the autocratic approach adopted by Eva made them feel they were not respected.
- 4 Some arguments in favour of the use of the theory could include:
 - The simplicity of the mechanism of piece rate when the output is measurable.
 - The ability of the business to observe workers and reward them for productivity.
 - The fact that 'best practices' in the production of meals/beverages can be identified when workers try to do their job in the simplest and fastest possible way.

Some arguments against the use of the theory:

- The assumption that workers are motivated only by financial rewards – in this case there is evidence that workers are looking for 'esteem'.
- The role of the supervisor as an autocratic 'watchdog' – not identifying the importance of a healthy human relationship at work between supervisors and workers.
- Quality problems are typically associated with the mechanism of 'piece rates'.

Case study 10.2

- 1 'Motivation' is the process which increases the incentive of people to reach certain goals. In the workplace, motivation is the result of intrinsic and extrinsic factors improving job satisfaction and reducing phenomena such as absenteeism, high labour turnover and low productivity.
- 2 Job insecurity, bad working conditions.
- 3 It increases the level of challenge at work (Herzberg's motivator factor), but it increases the level/cost of training, as people need to be trained to change job positions.
- 4 The importance of motivation in the Case study can be explained through arguments such as:
 - higher productivity, thus more output per man-hour
 - lower labour turnover
 - better quality of work, which is important for firms trying to stand out from competitors.

But the process of motivating employees has disadvantages:

- It requires higher than the industry average wages and/or other extrinsic motivators.
- Employers may need to offer job security (thus more expensive full-time contracts).
- Intrinsic motivators such as job rotation must be used, which require training and to some extent disrupt the day-to-day operations of a business.
- The business productivity does not depend only on workers' motivation, CleverLog has to spend on technology as well.

Case study 10.3

- 1 'Job enrichment' is about giving employees more responsibilities, of higher complexity, to make their work more challenging.
- 2 Teamwork makes the work more interesting (a motivator as per Herzberg) and allows workers to cover some social needs (a motivator as per Maslow). However, as new recruits are expected in the business, they may feel 'left out' by the employees who have been there longer.
- 3 Answers could include job rotation and job enlargement; both could make work less repetitive in the restaurant.
- 4 Advantages could include:
 - Intrinsic motivation could improve because work becomes more challenging (Herzberg's motivators).
 - Employees become more knowledgeable/capable, could become more creative and productive, offering better services to demanding customers in a competitive area.

Limitations:

- It could be difficult to enrich the work of all employees in a way that it is perceived as 'fair' by all employees. Team spirit might be spoilt.
- Training is usually needed to support people when they are asked to take on more responsibilities; the work at the restaurant and the managerial responsibilities would become more complicated.

Case study 10.4

- 1 The sense of 'authority and power' are motivators according to McClelland. According to the case study, the urge of managers to control their teams motivates them because it gives them a sense of status. The need for 'affiliation' is another motivator based on the theory, and therefore based on the case study some people are driven by their need to make friendships at work.
- 2 According to Deci and Ryan, the feeling of 'competence' is important in motivation. Based on the research, many people are looking for opportunities for growth, aiming for 'mastery'. Moreover, the theory suggests 'autonomy' as a motivator. Based on the case study, many individuals are driven by the urge to be autonomous and to control their own working environment.
- 3 Based on Vrooms theory, 'expectancy' is the belief that increased effort will lead to better performance. This depends on the extent to which employees have enough resources available, skills and support. According to the research, employees need to feel that 'if they try more, they will have what it takes to perform better'. Another motivator based on this theory is 'instrumentality': the belief that good performance will lead to a valued outcome. In the case study it stated that based on the research, employees need 'leadership providing clear targets and appropriate rewards if these targets are met'.
- 4 Based on Adams' theory, employees look for 'fairness' between their 'inputs' and the 'outputs' they get from work. Based on the research, if the remuneration of people is lower than what they perceive as 'fair', they will become demotivated.

Case study 10.5

- 1 'Labour turnover' is the rate at which employees are leaving the organisation over a given period.
- 2 The quality of services to retailers is deteriorating due to employee vacancies and because employees ready to leave the business are not well motivated. Moreover, the business would have to bear the cost of recruiting and training new employees.
- 3 The low-skilled, less-motivated and less-productive workers who are leaving could be replaced with younger, enthusiastic ones. The younger employees are expected to accept flexible work patterns such as part-time work more readily than senior employees.
- 4 Possible advantages:
One of the reasons why employees at Electro are leaving is the low pay. A fair payment is a hygiene factor according to Herzberg and if it is too low employees are dissatisfied. By increasing pay and benefits, the labour turnover could be reduced effectively. Better-paid workers might become more productive and may stop trying to find new jobs. By keeping labour turnover low, the business would not have to pay the recruitment and training costs. The image of a business as one that is not fair towards its personnel could be partially reversed and this is important for a public limited company.
Possible disadvantages:
The high labour turnover at Electro is not only a result of low wages. Workers complain about bad working conditions. The firm needs to find out what the exact problem is and try to fix it. Otherwise, workers may continue leaving the business even if they receive better pay. Also, the higher pay and benefits would harm the profitability of the business, and the board of directors would have to explain such a decision to shareholders. Lastly, the firm has the option to recruit new employees without increasing the wage cost.

Case study 10.6

- 1 'Off-the-job training' is training that occurs away from the place of work, such as training courses organised by specialists outside the premises of a business, to introduce new skills and ideas to employees.
- 2 Internal recruitment takes place when an employee who is already working for the business is rotated or promoted to a vacant job position. The promotion of a sous chef to a chef would be an example of internal recruitment. External recruitment would take place if a professional chef was hired from outside the business.
- 3 Basic steps to mention: preparation of job description; preparation of person specification; decision between internal or external recruitment; in the case of external recruitment choice of recruitment methods, such as job advertisement or employment agency; drawing up a shortlist of candidates; conducting interviews (and possibly other selection processes such as aptitude/psychometric tests).
- 4 Possible advantages of internal recruitment:
 - The firm is a social enterprise and one of its aims is the professional training and development of young people.
 - The sous chefs have known qualities and skills. The risk of recruiting a person who does not fit the business culture is avoided.
 - The person promoted could be motivated by such as decision, other employees would be shown how the business delivers its promise to young employees.
 - External stakeholders may perceive such a decision as ethical and socially responsible.
 - Recruitment costs and induction training would be avoided.

Possible disadvantages of internal recruitment:

- No internal applicant is ready to undertake the position, the image of the business as a luxury restaurant of top quality could be endangered.
- The two sous chefs not being offered the job could be dissatisfied, internal rivalry among employees could be created.
- Expensive off-the-job training would need to be offered to the internal recruit, who would have to be away from work while being trained. Technical issues in the restaurant's kitchen would be created.
- FF would miss the opportunity of bringing in a new chef with potentially innovative ideas to support the business's demand and reputation as well as its profits, which are donated to charities.

Activity 10.1

Possible answers:

- 1 Group 1: Having covered her social needs, Carla seems to be looking to cover her 'esteem' needs at work. However, her unappreciative manager does not give her recognition.
Group 2: Carla's manager is described as 'autocratic'. Carla probably feels that treatment by the manager is not 'decent'. Thus, a hygiene factor as per Herzberg is missing and this is a reason for dissatisfaction. Also challenge at work – a main motivator factor as per Herzberg – is absent, causing demotivation.
- 2 Both theories can be used to explain Carla's lack of job satisfaction because of human needs that are not covered. But Maslow's theory assumes Carla climbs a hierarchy of needs and now finds herself unable to reach the next level, something which is not assumed by Herzberg's theory, which splits two factors affecting job satisfaction: hygiene and motivator factors. The lack of decent treatment by the management is a hygiene factor that causes Carla's dissatisfaction and feelings of resentment, while the lack of challenge at work causes demotivation.

Activity 10.2

- 1 The job description could identify the responsibility to give direction to teachers, to coordinate the department with the rest of the school, to introduce or maintain effective educational programmes, etc.

- 2 The person specification could include the degrees and work experience required, soft skills such as communication and organisational abilities, etc.

Activity 10.3

- 1 The driver job is not a managerial position, and it is typically compensated by an hourly wage. The hours that the person will spend driving for the business will be counted and multiplied by the hourly wage to calculate the payment per period of time. The Human resources director position is managerial and such positions require long-term commitment and focus on designing and delivering the strategy of a business, so they are often compensated through a yearly salary to provide more income security to the job holder.
- 2 Because the HR director job is managerial, it is more likely to be rewarded through 'status' fringe benefits such as a company car and a health insurance package.
- 3 The driver job is likely to pay for overtime because drivers would not be happy to provide their service without getting paid for it. However, managers are often compensated through generous salaries and benefits that cover for any extra hours spent at work.

Exam-style questions

Extract 1:

- 1
 - a 'Motivation' is the result of the combination of extrinsic and intrinsic factors that positively affect job satisfaction and allow employees to be more productive at work. Motivation helps to reduce absenteeism and labour turnover and improves the relationship between employees and employers
 - b 'Responsibility' is the set of duties that an employee is expected to do as part of their job, and for which they are kept accountable by their manager.
- 2 Ability to cover basic needs (e.g., graduates through their first salary), covering social needs (e.g., employees of small businesses), etc.
- 3 The explanation would include a description of how managers in small businesses are forced to delegate responsibilities to employees because of a wide span of control.
- 4 By applying the theory, candidates should identify the lack of equity felt by over-qualified employees forced to accept low-paid jobs.
- 5 Arguments justifying the use of the theory could include:
 - the differentiation of hygiene factors (leading to dissatisfaction and employees wanting to leave the business, e.g., low salary received by graduates) from motivators factors (such as challenge at work)
 - the value of strategies such as job enrichment and teamwork to motivate employees, to the extent that these are applicable by big firms.

Limitations of the theory:

- difficulties to apply job enrichment in big organisations where employees focus on very specific tasks
- difficulties to achieve camaraderie (friendship), which might make the work more interesting as per Herzberg and creates the conditions for effective teamwork
- other theories apart from Herzberg's should also be considered by big businesses to achieve motivation, such as Adams' (equity).

Extract 2

- 1 'Induction training' is the official and/or unofficial training offered to all recruits to introduce them to the organisational structure, business procedures, health and safety policies, etc.
- 2 High labour turnover means that employees are not 'engaged' in the firm's vision. Businesses with high labour turnover may produce goods and services of lower quality because high labour turnover means that the business is often left with vacant positions that are not yet covered, while the remaining employees may have low morale.

- 3 Internal recruitment can help to motivate employees because it gives them new opportunities, but sometimes there may be no internal candidates who are fit for the position, or the business may want to bring in new talent/know-how.
- 4 Appraisal is used to identify areas of improvement for employees, training needs, appropriate rewards, promotional opportunities, etc. Thus, it is essential in order to keep employees focused on their goals and ultimately on the business's aim and to help them feel 'engaged', reducing labour turnover.
- 5 Possible advantages: recruitment is important to ensure that people have the right skills and the right culture to fit the organisation. It reduces the risk of having to dismiss people and it reduces labour turnover, as candidates who are a good fit for the organisation may enjoy job satisfaction. Training can lead to increased productivity and improved levels of motivation because people will feel more competent (according to Deci and Ryan), and it will boost the image of businesses in the eyes of the best job applicants. Appraisal can help businesses to monitor employee performance and to spot areas of improvement, again keeping the level of productivity and motivation high. All three processes help HR to optimise the HR planning process.

Possible disadvantages: recruitment, especially external, can be costly and time consuming. Training (especially off-the-job) is costly, and people are absent from their job when receiving training. Appraisal is time-consuming and must be organised in a way that it is ethical and non-confrontational or judgemental. Lastly, motivation depends on other factors as well, such as the effectiveness or rewards for example, the relationships with the organisation, etc.

> Chapter 11 Organisational (corporate) culture

Business in context

- New senior managers – such as CEOs – might need to change the culture of the organisation if: the business is falling behind rivals because of the nature of its culture; the business environment is changing so rapidly that the 'old' culture is unable to allow internal changes needed to respond to external change; there is a potential clash between the culture that the CEO wants to bring to the business and the one that currently exists; legal or social changes occur that require a business to adopt a more participative and socially aware culture rather than one focused on rivalry, competition and profits.
- Collaboration and working together can generate benefits: social needs of employees are more likely to be met; cross-fertilisation of ideas between teams can lead to better outcomes, e.g., in terms of new product developments; the focus will be on being competitive with other companies not being internally competitive with other teams within the company. However, rivalry between teams can encourage initiative and enterprise if the successful teams are suitably rewarded, e.g., if two separate teams of chemists in the same company are seeing alternative pharmaceutical treatments for a serious illness.
- Appropriate cultures will be those that are based on a set of beliefs and values which best respond to the needs of employees and the requirements of the market that the business operates in. A culture of individualism and rivalry would be counterproductive in a hospital or other health organisations. A culture based on social responsibility, transparency and employee participation could be very important to a business operating in a market where customers expect high moral and ethical standards and high levels of customer service. Avoiding culture clashes within an organisation is also important, which is why CEOs and senior managers need to ensure that all employees understand and will contribute to the culture that these managers have decided on for the business.

Case study 11.1

- 1 'Organisational culture' is the set of norms, attitudes, beliefs and values determining how things are done in an organisation and the type of relationships among stakeholders.

- 2 A role culture where people operated by following processes. Everything evolved around roles and positions in the hierarchy, even if these roles were linked to no true accountability for the people having them. M&S had a role culture as its was “bureaucratic” and many managers “maintained roles with no true accountability”.
- 3 The CEO wants the culture to become more task oriented, to encourage the creativity of teams to better satisfy the changing consumer wants. The new culture would also be much more flexible and less bureaucratic, faster to respond to the challenges of the external environment.
- 4 A culture change may take many years to be implemented, as people may be resistant to it. For example, it might be difficult for employees to move away from their traditional roles and start operating in a team spirit. Moreover, it forces the business to proceed to reorganisation, as a simpler and faster structure would better serve the new culture. This means redundancies in the short term, which raise ethical considerations for the management.

Case study 11.2

- 1 A ‘cultural clash’ takes place when the norms, attitudes, values and beliefs of one business organisation are not compatible with those of another.
- 2 An acquisition will allow Amazon to diversify fast into grocery retailing, which is a huge industry. The acquisition will also help Amazon to secure its position in e-commerce since retailers such as Walmart try to capture opportunities in this distribution channel.
- 3 Amazon prioritises low cost, which is not compatible with Whole Foods’ aim for excellent quality. Moreover, Amazon believes in centralised decision -making whereas Whole Foods believes in decentralisation and empowerment of employees at a local store level. Lastly, Amazon is about automation and standardisation of processes, while Whole Foods is about personal services and relationships with the consumers.
- 4 The cultural clash could endanger the success of the integration, because:
 - The employees of Whole Foods are demotivated and cannot easily ‘buy into’ Amazon’s culture. This is obvious by the fact that the business does not appear in ‘Fortune’s best companies to work for’ list. As a result, the quality of services at Whole Foods may deteriorate over time.
 - Unless the two cultures are aligned, stakeholders such as consumers will be confused about the identity of Whole Foods. Thus, Whole Foods may lose sales and revenues.

However, the success of the integration depends on other factors as well, such as:

- The ability of the businesses to eventually unite all employees under a common mission, which depends on the effectiveness of leadership.
- The extent to which Amazon’s managers will be able to effectively manage and organise the change.
- External factors, such as the changing consumer patterns in favour of e-commerce, which will help Amazon to increasingly shift sales from the physical store of Whole Foods towards online sales.

Case study 11.3

- 1 In a power culture, decisions are taken by a few people in positions of power. A lot of emphasis is given to the hierarchy of the organisational structure which determines the individuals who have the power.
- 2 An advantage in the power culture is that it is clear who is in charge in each department, so it can be easier to supervise people in big organisations such as PEarth50. A disadvantage is that such culture may stifle creativity, which is important in PEarth50.
- 3 A set of values can become a source of identity for both employees and volunteers at PEarth50 and can give a sense of direction, which is very important especially given the change in culture underway.
- 4 The CEO can influence the culture because:
 - As a leader in PEarth50, he can set a vision and inspire people towards the desired direction.
 - He has the power to set clear values and objectives, encouraging people to work in teams to reach them.

- As a senior manager, he can arrange for the training of employees in the new way of doing things and organise resources to make things happen as planned.

However, there are limitations to the power of the CEO to change the culture:

- Managers may resist the bottom-up participation of employees and volunteers in decision-making.
- It can take a lot of time before employees embrace the new culture and values. Training might be costly, while it might prove particularly difficult to engage the volunteers in the new way of doing things.
- The process of cultural change may shift the focus of managers away from the marketing goals of the NGO which are very important for its long-term survival.

Activity 11.1

Learners should mention differences in terms of dress code, non-verbal communication elements, type of relationships among employees and/or between the employees and the person who seems to be the manager, etc.

Activity 11.2

- 1 'Inclusion and diversity' at Starbucks means that the business values social equity for employees and the community. It is about including all people in the Starbucks organisation and embracing diversity in all aspects, e.g., colour, ethnicity, religion, sexual orientation, etc.
- 2 Starbucks has implemented a series of policies and programmes to enhance 'inclusion and diversity'. Recent examples are a mentorship programme to connect 'black, indigenous and people of colour' (BIPOC) partners to senior Starbucks leaders, supporting non-profits that serve BIPOC youth, hiring thousands of military veterans and spouses in the USA, etc.
- 3 The Starbucks mission is 'To inspire and nurture the human spirit – one person, one cup and one neighbourhood at a time.' This people-centric aim could only be reached through a strong culture of 'inclusion and diversity'.

Activity 11.3

Element of organisational culture	Effect on employee motivation
In a fast-food restaurant, employees don't smile at customers, because of a strong power culture in place. Their supervisor, who controls everything his subordinates do, talks down to them and does not allow them to connect with consumers.	Dissatisfaction according to Herzberg's theory, because 'decent treatment by the management' is a hygiene factor
In a digital marketing agency, all employees are free to decide their own work schedule. There is no dress code, and people occasionally take the initiative to rearrange their seating arrangements.	Motivation according to Deci and Ryan, because of 'autonomy'
In a factory, when new employees are recruited the supervisor organises a lunch to introduce them to the rest of the workers. Teamwork is embedded in the production unit and many employees become best friends for life.	Motivation because employees cover social needs, one of the levels of Maslow's hierarchy

Element of organisational culture	Effect on employee motivation
In a big business selling clothes, all employees are treated as junior assistants, even long after they are recruited. Supervisors are always polite, but no employee feels that their job is secure. They know that the slightest mistake will mean that their temporary contracts will not be renewed.	Dissatisfaction according to Herzberg, because job security is a 'hygiene factor'

Exam-style questions

- 'Corporate culture' is the set of norms, attitudes, behaviours, beliefs, and in general any feature which determines how internal stakeholders interact with each other and with the external environment.
- Answers could be about the need to be more cost-effective and to generate more profit in favour of the shareholders or the need to become more adaptable to respond to competition and changing market conditions through flexible employment practices.
- A power culture, where everything would revolve around Josefina and her authority.
- An advantage is the excellent level of customer service, and a disadvantage is the high costs, especially of the off-the-job training which was a problem due to the low profits.
- The autocratic leadership style adopted by Josefina, along with the cut in salaries and the change of contracts from full-time to flexible ones led to worsening hygiene factors (Herzberg's theory), causing employee dissatisfaction and high labour turnover.
- An advantage could be the possibility to change the full-time workers with new ones hired on a temporary basis which could be a cost saving. A disadvantage is that new employees are not accustomed to the supermarket's culture and may not be as motivated as full-time employees. This could spoil the experience of the customers.
- A conflict is created between the management wanting to cut salaries to improve profits, and employees wanting high salaries. A second conflict is between the suppliers who want to sell their products to Prestige Supermarkets at a price high enough for them to make a profit and the management which is pushing for price reductions '5% below the cheapest'.
- The shareholders' value depends on the dividends and the share price appreciation. An advantage of this approach is that happy shareholders would be willing to buy shares and thus finance the supermarket with share capital. A disadvantage is that too much focus on short-term profit to satisfy the shareholder can lead to the dissatisfaction of the other stakeholder groups, e.g., employees who experience a reduction in their salaries. This can harm the long-term efficiency of the business.
- The mission statement reflects the 'who we are', the identity of the business. It helps employees to align with the main goal of the firm. The mission statement should be aligned with the organisational culture because otherwise, stakeholders will not relate to it. In Prestige Supermarkets, employees shape a culture that promotes customer service as a priority, as reflected in the mission, and this is a key reason why the business is successful.
- Josefina can affect the culture because:
 - She has the power to take the appropriate strategic decisions, such as to change the employment contracts from full-time to temporary.
 - As a leader, she is responsible to set a new vision for the business and to influence and motivate people towards the desired way of doing things.

However, the power of Josefina on the company culture is limited because:

 - The embedded 'family' culture in Prestige has been there for many years and it is difficult to change.
 - The high level of labour turnover disrupts the process of embedding the new culture smoothly and harms the morale of employees.
 - She does not seem to have the employees' support for what she is trying to achieve.

- The new culture seems to be conflicting with the mission of the business, which reflects the overall purpose of the supermarket and the reason for its success.

Chapter 12 Communication

Business in context

- 1 The pandemic has shown businesses the huge potential of working from home and communicating digitally with employees, suppliers and customers. The claimed benefits of Zoom meetings, for example, are: less need for high-cost office space; ability to work from home; less travel costs for employees; ability to link up with people in different geographical locations. Written forms of communication can be sent globally to those who need to receive it. Is using technology always better than face-to-face meetings with managers/subordinates? Is it better than physical team meetings where social interaction and brainstorming might be essential elements of a creative and productive work session? Learners could discuss these and other issues in different business contexts but also in the context of a school/college.
- 2 Never meeting people has disadvantages in creative and research-type organisations where face-to-face contact might generate better and more innovative ideas. Working from home can lead to isolation from colleagues and a failure to satisfy important social and belonging needs. It might be more difficult for new recruits to an organisation to impress work colleagues and their managers if they never, or rarely, meet up. Appraisal of employees might be difficult if there is never any face-to-face contact. Does the use of technology in communications increase or reduce work efficiency and productivity? This is a crucial issue for learners to discuss.

Case study 12.1

- 1 'Formal communication' is the flow of information through official channels in a structured manner and in a way that it can be traced back.
- 2 Email communication is formal because it is performed through an official channel. There can be evidence of it happening, and Vicente and his employees can refer to it at any point. Chatting about things in the corridor is not structured and not delivered through an official channel, so it is informal.
- 3 Effective communication can speed up decision-making, which is vital in fast-changing markets like the one in which Gidea operates. Moreover, effective communication is motivational for employees because it enhances their ability to contribute to decisions, which is a goal of Vicente as a leader.
- 4 Formal communication through emails helps Vicente to organise his priorities as a manager. It also helps his employees to structure their ideas so that any proposals for new products would be well-substantiated. This way, Vicente saves time from discussing ideas that are not applicable in Gidea. Misunderstandings can be avoided, and in the future Vicente can refer to all the details needed when considering the launching of new products. He can also give detailed, substantiated feedback more efficiently. However, the business misses the opportunity to discuss ideas face to face, which is a much faster process. One of the reasons Vicente is not receiving many ideas from his employees could be that it takes too long to write lengthy, detailed emails. Some good ideas may never come up because of this barrier, while others may be lost in information overload. Vicente cannot ask for clarification about employees' ideas, while employees cannot use non-verbal communication to explain their ideas as effectively as possible.

Case study 12.2

- 1 'Non-verbal communication' is the communication performed through signals such as body language, gestures, facial expressions and tone of voice.

- 2 Videoconferencing allows for fast exchange of large amounts of information and live discussions, which is essential for the engineers to perform the department's tasks. However, this information overload is one of the reasons why Angelique's subordinates feel exhausted.
- 3 One barrier is the overdependence on videoconferences for communication and the lack of a variety of communication channels. Another is the negative attitude of the alienated engineer who shows little interest in his work and no appetite to communicate effectively.
- 4 Angelique could try to broaden the methods of communication, e.g., by re-establishing face-to-face meetings to renew the team's relationships and reduce information overload. Moreover, she should try to boost the motivation of the engineer who is reluctant to use Zoom meetings and engage him in the process by explaining to him the advantages of this communication channel.

Activity 12.1

- 1 Employees see this statement many times a day as they pass in front of the wall. Eventually, they get very familiar with it, and it is a continuous reminder of their priorities.
- 2 A mission statement expresses the identity of the business, the reason why it exists. This is why it appears first on the official website to inform all stakeholders visiting the web page about the business aim.

Activity 12.2

Alexa helps with the fast organisation of business meetings; it can boost productivity, saves managers valuable time, and may lead to cost savings in the long term as businesses will need fewer people in administration. It also enables the creation of a voice interface to business applications, simplifying employees' work. But it requires employee training and can create inequality between employees who can easily handle technology and those who cannot. It also creates a barrier for direct personal communication among colleagues, as Alexa can arrange things for them electronically. This adversely affects the creation of interpersonal relationships at work.

Exam-style questions

- 1 Communication can be characterised as 'effective' when the sender transmits the message to the receiver in a clearly understood way, and the receiver can provide feedback.
- 2 Horizontal communication is ineffective, which means that the organisation might be too hierarchical. Vertical communication from customers to shop-floor employees and upwards is not smooth, which is a problem of a tall organisation.
- 3 Emails are fast and can allow communication to be formally documented. People can track them and file them easily, which is important in big organisations where a lot of information is spread across the business. But email communication is not personal, and this is a problem because the survey revealed the need for direct communication flow. The power of body language is lost, and it is difficult to prioritise messages based on their importance.
- 4 Factory workers could be trained to use information technology to communicate with the office personnel via electronic means. Moreover, managers could use more communication media such as visual presentations, billboards, face-to-face meetings, etc., to inform workers about the organisation's recent events.
- 5 Differences in culture may disrupt the flow of communication, such as in the case of Nigeria, in which younger employees find it difficult to communicate freely with other colleagues. This can slow down work, leading to lower levels of productivity. Moreover, such a barrier does not enhance creativity as it does not allow people to exchange ideas. This is probably one of the reasons why countries with significant cultural differences are characterised in Trench by low creativity.
- 6 Effective communication helps to align people towards the company's aims. Since communication is ineffective, not all of Trench's employees focus on the firm's mission. Effective communication helps multicultural

environments to operate more successfully. Moreover, it helps faster problem solving and could improve the relationships with internal and external stakeholders, such as customers in this case.

- 7 Trench is a big multinational organisation, employing thousands of employees. Informal communication may lead to unnecessary misunderstandings, while managers would not have a practical way to trace it back. Moreover, creating informal groups of employees, especially in the factory, may lead to a lot of wasted valuable time, while workers may get together to resist unpopular management decisions. However, if Trench opens informal communication channels, this could enhance the feeling of belonging in the production unit and across the organisation. It could also enable the fast transmission of information vertically, which is important because customer feedback does not easily reach the senior management. More informal communication could also gradually help to bridge conflicting cultures in the organisation, as people will get to know each other and bond together. Lastly, informal communication would also reduce the information overload problem created because of too much email communication.

> Chapter 13 Industrial/employee relations

Business in context

- Discussions could be based around: What causes conflict at work? What are the consequences of industrial conflicts to businesses, workers and the country, e.g., its economy? Government should get involved if the impact on the economy could be serious as reducing conflict will benefit output and employment. How should the government intervene? Enforced negotiations? Banning strikes – is this a restriction of people's freedom? Other approaches might be considered.
- Communication needs to be improved between employer and employees. Worker participation would help employees feel that they were involved in some decision-making and this might encourage them to work hard to achieve the objectives they have (some of which are the aims of employers too) – rising output/sales/job security and higher pay. Third-party involvement might help to achieve a resolution to conflicts and this would improve employer/employee relations (i.e., arbitration).

Case study 13.1

- 1 A 'trade union' is an organisation of workers who join together to achieve common goals, such as the level of their wages and salaries and the overall terms and conditions of their employment contracts.
- 2 One reason why Google workers decided to form a union was to have a common approach on issues that are specific to their employment contracts, such as problems of remote working. Another reason was to put pressure on Google to be more ethical and accountable to them.
- 3 One possible reason is that trade unionising could eventually put pressure on firms to increase salaries and wages. Another reason is that trade unions could restrict the flexibility enjoyed by tech industry employers in the employment contracts offered to their employees.
- 4 One possible reason is that due to the nature of the work of blue-collar employees, it is easier for them to physically interact and to join to form a union, compared to white-collar employees who are more distant and autonomous, often working via their computers. Another reason is possibly the fact that white-collar employees are usually rewarded with benefits and perks over and above their salaries, giving them less incentive to unionise to protect their basic rights.

Case study 13.2

- 1 'Industrial action' takes place when the union of employees take measures to put pressure on management to settle an industrial dispute in their favour.

- 2 One possible reason for the collapse of collective bargaining was the lack of willingness of the Abellio management to listen to the requirements of the employees, because of prioritising the business's profits over the demands of the union. Another possible reason was that the union of workers had little negotiating power because Abellio management did not believe that the workers would go on strike.
- 3 One reason was that the union wanted to put pressure on the management to start listening to their demands. Another possible reason was to draw the attention of the public to their problems, eventually strengthening their negotiating power.
- 4 Abellio could try arbitration, by using an independent third party to help with wage negotiations with the trade union. They could also try to achieve a closer working relationship with the trade union by encouraging some sort of employee participation, e.g., by offering the trade union a place in the board of directors. This way, they could be transparent about the reasons why they are not able to satisfy the demands of the employees (such as the falling revenues).

Activities 13.1–13.2

Learners' own answers.

Activity 13.3

- 1 Mandatory arbitration could be helpful for employees, as it could allow the fast resolution of a conflict while the employees would avoid the lengthy and costly legal procedures. However, the practice is highly controversial. Even though the signing of such an agreement is, in theory, voluntary, in practice employees are required to sign it in order to be offered a job. Moreover, mandatory employment arbitration is different from union-based labour arbitration, because the system is not designed bilaterally. Research suggests that employees are less likely to win their cases through mandatory arbitration than they are if they go to court.
- 2 Trade unions regard mandatory arbitration as a form of violation of worker rights, so California's decision to ban such agreements is in the right direction from their perspective.

Exam-style questions

- 1 'Collective bargaining' is the process of negotiation between the trade union and the representatives of the employers on the terms and conditions of employment including pay and benefits.
- 2 'Single-union agreement' is an agreement between employers and employees that discussions on payment and working conditions will be done with one union only.
- 3 A strike disrupts the production process, and this could lead to fewer cereal products being produced and thus problems covering the orders placed by customers. Moreover, the strike will attract negative media attention and may harm the image of the business.
- 4 Workers could decide to 'work-to-rule', a form of industrial action by which employees stop responding to demands for more productivity, longer hours of work, etc. but do only what their contracts specify. This can put pressure on C-Real in periods of increased demand by customers, such as the case of lockdowns.
- 5 A potential advantage could be the management deciding to give them what they request, in this case their pension and health care benefits. A disadvantage could be the management deciding to declare people redundant, close the factory and move to another country, where worker unionisation is expected to be weaker.
- 6 The management could initiate a lockout, a form of a work stoppage by which employees are not allowed to work, and thus lose their wages. This way, the employees may eventually stop pushing for their health and retirement benefits and settle for the financial rewards offered by the firm.
- 7 A non-strike agreement is a clause in a collective bargaining process by which employees agree not to proceed to strikes for as long as the collective agreement is valid. This way, they could manage to get some of what they

demand in terms of health and pension benefits. However, they would give up their right to strike, which is one of the most powerful types of industrial action to protect their rights.

- 8 According to Maslow's theory, when people are deprived of their health and pension benefits, they may not cover their security needs, which is the second level of Maslow's hierarchy. This causes feelings of dissatisfaction and workers may decide to go on strike to re-establish their feeling of security.
- 9 Employee participation, by inviting members of the union to join the board of directors, which could help to enhance transparency in decision-making and show willingness for cooperation from the side of the management. Conciliation or arbitration could be used to facilitate the process of collective bargaining which has been difficult and unsuccessful for more than a year.
- 10 Reasons why the workers may want to sign such an agreement:
 - To facilitate the process of collective bargaining and to finally reach an end to this dispute.
 - To potentially get agreement to some of their requests from management in return.
 - To avoid the disadvantages of a strike from the employees' perspective, for example the loss of wages.
 - To avoid the negative publicity that the trade union may attract by pushing the employer to the limit and harming the business.

Reasons why the employees may not want to sign the no-strike agreement:

- After signing such an agreement, the future negotiating power of the union will be diminished. In case of a new dispute, the union would have little room to react and to protect the rights of its members.

Unit 3: Finance and accounts

Chapter 14 Introduction to finance and sources of finance

Business in context

- Start-up businesses need capital for initial stock, premises and equipment. Finance will also be needed if they offer customers credit. Expanding businesses need finance for additional stock, factory/office extensions or larger premises. Established businesses with a growth objective will need long-term finance for takeovers or for growing the business organically.
- A loan might be arranged with the existing bank at a fixed rate of interest. This will give the business an assured sum for a fixed time period with known interest costs and repayment levels. The interest rate could be high – especially if the bank considers the venture to be a potentially risky one. There is no loss of managers'/owners' control with a loan. Selling shares means that the original owners must give up some ownership and control of the business. The finance from the sale of shares is permanent and does not have to be repaid; dividend payments can be varied depending on the profit made. The final decision might depend on what managers need the finance for, how long they need it, and what proportion existing loans are to the capital of the business.
- Traditional commercial banks avoid risky loans and small loans which carry a relatively high administrative cost. Some avoid lending to business start-ups where the entrepreneur has no previous business experience. In some countries it is difficult for women to borrow capital to start a business.

Case study 14.1

- 1 'Retained profit' is the profit after tax and dividends that shareholders leave in the business as a source of finance.



- 2 Internal sources such as retained profit that Ernesto plans to use have no direct cost. Moreover, when internal sources are used, no liability is created for third parties. If his expansion in a new town fails, he will not end up owing money.
- 3 Capital expenditure relates to the addition of capital in the business, such as the office equipment and the scooters. Revenue expenditure is needed to pay the running costs of the delivery firms, such as the wages of the drivers and the salaries of the administrative personnel.
- 4 Retained profit belongs to shareholders, in this case almost exclusively to Ernesto who has 98% of the shares. There is no direct cost to be paid for using this source. But there is an opportunity cost. If the retained profit was not used as a source of finance for Tasty, Ernesto would have received a higher dividend per share.

Case study 14.2

- 1 An 'overdraft' is a short-term type of borrowing provided by a bank, typically to established customers. When a business has access to an overdraft, it can withdraw up to a pre-agreed amount of money from an account that has a zero balance. Interest is paid only after the business decides to use the overdraft facility and only on the amount finally used.
- 2 A medium-term loan or leasing can be substantiated as an external source of finance for a small-scale capital investment such as this.
- 3 Short-term sources such as the use of the overdraft facility which is already available, or trade credit, with Healing asking the creditors to pay them a few days later.
- 4 Possible advantages:
 - The ownership control of the two friends will not be diluted.
 - If the investment proves successful, after some years the loan would be repaid, and there will be no further obligation to the bank.
 - No dividend obligation would be created to new shareholders.
 - Access to the loan might be fast, given the relationship with the bank.
 Possible disadvantages:
 - As Faizal suggests, there is a risk that the interest rates would increase in the future, pushing the cost of borrowing higher for the business.
 - Such a loan would require the two shareholders to provide collateral, typically in the form of a mortgage. The asset could be lost if difficult market conditions prevent Healing from paying the instalments as agreed.

Case study 14.3

- 1 'Crowdfunding' is the process of raising money from a large number of people to finance a business project, typically through internet platforms. Each person offering funds will contribute only a small amount relative to the size of the investment.
- 2 Typical investors buying shares of private limited companies are not interested in taking big risks. In cases such as PopSocket, the business idea is completely new, and the risk of failure is high. Moreover, banks demand collateral in order to offer finance. Entrepreneurs with innovative ideas may not be in the position to offer adequate security.
- 3 Through crowdfunding, David managed to pull resources from many contributors, raising awareness of his innovative idea at the same time, something which was crucial for its future success. However, by turning to crowdfunding David took the risk of failing to make his idea acceptable to the public. Then the reputation of his business would be destroyed and the entrepreneur would be denied access to other sources of finance.

Activity 14.1

- 1 To avoid liability to third parties, the business could use retained profit or share capital.

- 2 Access to a bank could be limited for a sole trader, so most likely personal funds would be used.
- 3 Leasing could be suitable, as the ownership and the responsibility for maintenance would stay with the leasing firm.

Activity 14.2

- 1 Serena Williams has invested in MasterClass and Impossible Foods.
- 2 There are numerous examples. Two examples of celebrities with notable investment activity are Ashton Kutcher funding Airbnb and Uber, and Will Smith has invested across many industries, such as real estate, information technology, recruitment consultancy and many more.
- 3 Celebrities may decide to act as business angels hoping for high returns from risky but promising investments, but many also want to make a difference to the world, so they focus on supporting social enterprises. An example is Matt Damon, who helped water.org, an innovative microfinance scheme providing small loans to people to gain access to clean water.
Celebrities risk their personal fame and reputation by getting involved in business ventures, especially in cases of unethical business behaviour by the organisations that they support. Other than that, they take similar risks to other business angels, as the business activities that they support are rather risky, with limited access to traditional finance sources.

Activity 14.3

Equity crowdfunding is the selling of shares or other securities by a private limited company through a crowdfunding online platform.

Advantages: the owners of a private limited company can keep control of their business by maintaining more than half of the shares, while they attract interest-free sources of finance by selling shares via the internet in a process that vaguely resembles the stock market.

Disadvantages: private limited companies interested in equity fundraising must trust popular crowdfunding sites, which are private businesses that are not controlled and regulated like the stock market. In the case of a hacker attack, serious problems may arise. Also, private limited companies trying to attract equity crowdfunding have been accused in the past of taking advantage of less-sophisticated investors who have no power to check their financial statements. Therefore, equity fundraising is subject to ethical issues.

Exam-style questions

- 1 A 'long-term loan' is a form of liability, typically repaid within 3 to 20 years. Banks usually require businesses to offer a fixed asset as collateral for the loan and expect regular repayment of the capital borrowed in pre-agreed instalments plus interest.
- 2 'Rewards-based crowdfunding' is a form of small-business financing, usually through the use of designated online platforms, where entrepreneurs attract small donations from individuals in return for various rewards, such as free products or services.
- 3 Business angels are often attracted by high-risk high-return activities.
- 4 A partnership is easy and low cost to set up, which is important given the limited personal savings of the two owners. Moreover, a partnership is suitable for people wanting to share responsibilities and profits on an equal basis, which is what they want from their collaboration.
- 5 The advantage is that no liabilities to third parties are created, so even if the club fails to make profits there is no financial obligation to external stakeholders. However, the two owners would risk their personal assets, as all business activities carry a risk of failure.
- 6 An advantage of this source is that the capital raised is not paid back. A limitation of the source is that it is most appropriate for creative activities which inspire the backers to support the idea.

- 7 Business angels are willing to accept the high risk of failure for a start-up business, such as the fitness club. However, this type of finance is often more costly than traditional sources of finance, because to help start-ups such as the business of Murad and George business angels would demand a high return.
- 8 Incorporated businesses are more advanced business types and release official financial statements which can be used by banks and investors to decide if they will offer finance to the business. Moreover, incorporated businesses can raise finance by offering more shares for sale to an unlimited number of shareholders.
- 9 Start-up businesses have a high risk of failure. Even though Murad is very optimistic about the future of the business, there is always a risk that the club will fail to satisfy consumer wants. The high risk of failure is one reason why it can be difficult to attract sources of finance. Another problem is that start-ups have difficulties forecasting future sales and profits due to limited experience and no past history. This makes the preparation of a business plan difficult, but external sources of finance such as banks demand a plan in order to examine the potential of the business that needs the finance.
- 10 Share capital advantages: there is no liability to third parties, no risk to assets held as security by a mortgage, and no risk of volatile interest rates.
 Share capital disadvantages: the two owners want full control of the business; new shareholders will be involved in the decision-making process and will be entitled to profits, which is a limitation especially since sales and profits are expected to be high.
 Loan capital advantages: if the business is successful, as Murad believes it will be, enough profit will be generated to cover for the repayment of the loan without the ownership being diluted.
 Loan capital disadvantages: the bank requires a detailed business plan and would force the owners to sign a repayment schedule which would have to be followed, or a mortgage asset would be lost (probably the club itself). This is a big risk for a start-up business like this. Moreover, if interest rates rise, the cost of the loan repayments will rise too.

Chapter 15 Costs and revenues

Business in context

- To be able to: calculate cost of each activity/product/division of the business; calculate the impact on the business total costs of producing less or more of a product; calculate profit or loss.
- Low sales mean that revenue will be low and reducing, and if total revenue is less than total costs then a loss will be made. This might put the long-term survival of the business at risk. If costs are not cut then if a loss is made, dividends will have to be cut, perhaps to zero (for a limited company) and this could lead to a much lower share price. This might encourage a takeover bid from another company if it believes it could start to make a profit again by cutting costs in the business it has taken over.
- Other revenue streams will act as a form of diversification for Dyson. If a new competitor entered the existing markets that Dyson operates in with technologically advanced products, Dyson's sales and revenue could fall. But if it was selling electric cars as well, then this revenue stream might still mean that the business makes a profit. Having more than one revenue stream is a form of spreading risks.

Case study 15.1

- 1 'Variable cost' is the cost that varies along with the level of output.
- 2 Coffee beans used to produce the final coffee product are a direct cost, clearly identified with each unit produced. The wages of the baristas are a direct cost to coffee shops such as Harry's.
- 3 Bulk buying economies of scale because of buying huge quantities of coffee beans and other supplies. Marketing economies of scale because with a given amount of marketing spending, to promote a large number of coffee products/services (or any other applicable type of economies of scale).

- 4 The cost of coffee beans is variable because the more coffees are produced, the more beans Harry would have to buy. The rent is a fixed cost because its yearly value does not change, irrespective of the level of output.

Case study 15.2

- 1 'Total revenue' is the income from sales generated by a business within a given period.
- 2 Operating loss takes place when the costs of the business exceed its revenues in each time period. This is possible if Twitter added extra costs such as promotional expenses to support its new revenue streams.
- 3 Extra revenue streams such as data licensing allowed Twitter to stop over-dependence on advertising revenue. But new revenue streams are not created for free. For example, Twitter had to pay \$350 million to acquire MoPub. Moreover, Twitter's operating costs increased when new revenue streams were added, initially leading to an operating loss.
- 4 Possible advantages:
 - New revenue streams in the area of data analytics were added to the business, allowing the firm to promise strong returns to shareholders in the long term.
 - Significant economies of scale could be generated through significant growth, such as marketing economies of scale for Twitter's various services.
 - Diversification for the risk of failure, which is important in the social media market which is becoming very competitive.
 Possible disadvantages:
 - To grow fast, Twitter proceeded to a risky and expensive acquisition.
 - The fast growth across different services can lead to managerial complexity and diseconomies of scale, as well as communication issues due to the growing number of employees.
 - New revenue streams meant higher operating costs and short-term losses for the business.

Case study 15.3

- 1 'Revenue streams' are sources of revenue from the selling of different goods or services.
- 2 $20 \times 50 = \$1000$
- 3 Bliss Inn can enjoy higher total revenues by adding new revenue streams. This is important because its room capacity sets an upper limit on how much revenue per day the business can make. Moreover, new revenue streams allow for diversification of activities, and Dajuan will stop being so dependent on one revenue stream. This is significant because the market is very competitive.
- 4 The management and control of guided tours or a content store require more resources, e.g., the hiring of new employees. Moreover, the business may lose focus on accommodation which is its key business activity and this may lead to falling demand.

Activity 15.1

- 1 The Virgin group is highly diversified, generating revenues mainly in the industries of music and entertainment, telecommunications, travel and leisure, financial services, and space operations.
- 2 The fact that the business has many different revenue streams allows it to take risks in innovative segments such as space. Failure in one segment can be offset by the revenues of the other streams. But managing a complex organisation such as the Virgin Group is difficult and demanding.
- 3 The significant diseconomies of scale and difficulty of focusing and specialising in specific areas has led other conglomerates to sell off some of their business activities.

Activity 15.2

Cost	Direct	Indirect	Fixed	Variable	Semi-variable
Rent of factory		✓	✓		
Management salaries		✓	✓		
Electricity		✓			✓
Piece-rate labour wages of production staff	✓			✓	
Lease of company cars		✓	✓		
Wood and other materials used in production	✓			✓	
Maintenance cost of special machine used to make one type of wooden chair	✓		✓		

Activity 15.3

1	Activity	New revenue streams
	A popular burger restaurant chain	Selling merchandise, creating books with recipes, etc.
	A beauty salon for ladies	Selling cosmetics, selling women accessories, creating services for men, etc.
	An online store selling organic food products	Selling other organic products such as clothes, selling other types of food such as vegan products, etc.
	A gym	Including a restaurant or a coffee facility, including beauty services, etc.

2 Learners' own answers.

Exam-style questions

- 1 'Indirect costs' or overhead costs are the ones that cannot be identified within a specific production unit.
- 2 Social media promotional costs, CSR expenses, salaries of office employees.
- 3 'Variable costs' are the ones that change along with the level of output, such as the wood used as raw material in the production of toys. 'Fixed costs' are the costs which remain stable irrespective of the level of output, such as the salaries of full-time employees.
- 4 Due to their size, multinational producers of toys have economies of scale, such as purchasing economies which allow them to buy raw materials at low prices, marketing economies of scale, etc. Moreover, they often use less costly raw materials such as plastic for their mass-produced toys.
- 5 When revenues fall, MyToys may have problems covering its costs. If it does not control its costs, losses will occur. Moreover, a reduction in costs may allow the business to reduce its selling price in order to attract more consumers and to support the sales and the revenues whilst this is necessary.

- 6 The direct cost is the cost required directly to produce one unit of output. One problem with cutting this cost is that it could reduce the quality of the product. For example, wooden toys might be perceived as of better quality than plastic toys. Another possible problem is that the business would have to demand lower prices from its existing suppliers or find new suppliers for its raw materials.
- 7 The indirect costs would be reduced, but there could be a negative effect on sales and revenues in the long term. A proportion of MyToys' sales may be the result of good relationships with shareholders and brand loyalty affected by the business's CSR.
- 8 The new revenue streams proposed would help the business to escape from over-dependence on the sales of toys for revenue. However, the revenue streams require the investment of capital and there is a risk of failure.
- 9 The business could issue new share capital to interested investors or it could seek a long-term bank loan (other long-term sources could also be suggested).
- 10 Advantages of cost cuts:
 - Some indirect costs could be reduced without a direct negative impact on sales, such as the reduction of CSR spending.
 - Cost cuts could allow MyToys to potentially reduce the price of its products to attract new consumer groups.
 - The business would become more competitive against big multinational firms which have a lower production cost.

Disadvantages of cost-cuts:

- Reduction of direct costs such as the use of plastic to replace wood could change the whole identity of the business and its unique selling proposition (USP). This could destroy the image of the brand and could lead to further reduction of sales.
- The reduction of CSR spending could harm the relationship and the business's image with the local community, while there are ethical considerations relating to the reduction of the number of employees.
- Temporary workers in the factory hired instead of full-time permanent employees to cut costs may not be as loyal and as productive.

Advantages of new revenue streams:

- Fun Parks for children could help the business to add more revenue while building relationships with consumers and shaping the desirable image, further supporting the sales of toys, which is the main activity.
- The multiplayer videogames and e-sports market are growing fast and MyToys can attract a new market segment (young adults).
- Both revenue streams are examples of diversification, which help the business to stop depending so much on physical toys for sales and profit.

Disadvantages of new revenue streams:

- Increased managerial complexity and possible diseconomies of scale.
- The business could lose focus on the main business activity (toys).
- Significant risk of failure, since new products/services are aimed at new markets.
- The business must find appropriate sources of finance for capital expenditure.

Chapter 16 Final accounts

Business in context

- To provide some transparency to stakeholder groups about how the directors of the business are managing the business in terms of profit or loss, sales, and asset values. For example: without these final accounts (which have to be checked and audited by external accountants) investors would not know how the capital they invested is being used; governments would not know how much tax the business should pay on profits; customers would not be aware of how profitable the business is from the sale of goods (are customers being exploited?); employees would not know if the business is profit or loss making and the likely degree of future job security.
- Learners' own suggestions are important here but: revenue and profit have both increased significantly; shareholders might be satisfied to identify the increase in earnings per share and directors/investors might be encouraged to see that equity in the business is growing at a faster rate than the long-term loans of the business. However, debt has increased – is this affordable to the business in terms of interest and repayments? How have other similar businesses been performing over the same period?
- The data is useful, but all stakeholders would also benefit from more detailed information, which would be contained in the final accounts. Customers might be concerned that profits are rising rapidly – are directors focusing too much on profit and not on giving customers 'value for money'? Investors will be encouraged to see that sales and profit are increasing and that the earnings on each share are rising – but how much of these earnings is being paid out to them each year as dividends?

Case study 16.1

- 1 $1500 \times 5 - 1500 \times 2 = \4500
- 2 Profit is a survival condition in the long term because profit is the reward for entrepreneurship. Moreover, profit can serve as an important internal source of finance because some of it can be retained in the business to cover future needs.
- 3 $(1500 \times 1.20) \times 5 - (1500 \times 1.20) \times 2 = \5400

Case study 16.2

- 1 'Overheads' are the regular indirect costs such as salaries and rent, paid to operate a business activity.

2 Statement of profit and loss
For the financial year ended 31/12/2021

	\$
Sales revenue	228 000
Cost of sales	<u>91 200</u>
Gross profit	136 800
Expenses	<u>70 000</u>
Profit before interest and tax	66 800
Interest	<u>10 000</u>
Profit before tax	56 800
Tax	<u>14 200</u>
Profit for period	42 600
Dividends	<u>21 300</u>
Retained profit	<u>20 050</u>

- 3** Answers may refer to any group along with a reason why it is interested in the statement, such as shareholders because their value depends on the profits, the managers who want to improve the financial performance of the business, etc.

Case study 16.3

- 1 Care Non-Profit Entity
Statement of profit and loss
For the financial year ended 31/12/2021

	\$000
Sales revenue	420
Cost of sales	<u>170</u>
Gross surplus	250
Expenses	<u>35</u>
Surplus before interest	215
Interest	<u>40</u>
Surplus before tax	175
Tax	<u>-</u>
Surplus for period	175
Retained surplus	<u>175</u>

2 Care Non-Profit Entity
Statement of financial position
as at 31/12/2021

Non-current assets	\$000	\$000
Property, plant and equipment	810	
Accumulated depreciation	70	
Non-current assets		740
Current assets		
Cash	30	
Debtors	30	
Stock	70	
Current assets		130
Total assets		870
Current liabilities		
Bank overdraft	15	
Trade creditors	55	
Other short-term loans	10	
Current liabilities		80
Non-current liabilities		
Borrowing-long term	590	
Non-current liabilities		590
Total liabilities		670
Net assets		200
Equity		
Retained earnings	200	
Total equity		200

Case study 16.4

- 1 'Depreciation' is the decrease in the value of fixed assets over the time that they are being used in the production process and because of technological evolution.
- 2 $(32\,000 - 8\,000) / 4 = \$6\,000$
- 3 $(32\,000 - 8\,000) / 30\,000 = \0.80 per unit
 Depreciation year 1: $0.80 \times 12\,000 = \$9\,600$
 Depreciation year 2: $0.80 \times 10\,000 = \$8\,000$
 Possible advantages:
- 4 This method will allow a more realistic calculation of depreciation compared to the straight-line method, as it assumes a higher amount of value lost when the printer is most productive. Thus, the business will have a more accurate estimation of the book value of its assets at any given point in time.
 Possible disadvantages: this method would not be very practical for other assets apart from printers maintained by the business (such as computers), because for such items it is difficult to calculate the expected units of output. Moreover, the business would be forced to also calculate depreciation with the straight-line method, because the units of production method is not accepted by the tax authorities. According to John's perspective, this would be time wasted. Lastly, the real output per year may differ from Margaret's initial estimations because it depends on many factors such as the quality of the machine, the level of consumer demand, etc. This would force the accountant to change the assumptions behind the calculations regularly, making the depreciation process complicated.

Activity 16.1

1	Period ending	12/31/2020	12/31/2019	12/31/2018
	Total revenue	\$386 064 000	\$280 522 000	\$232 887 000
	Operating income	\$22 899 000	\$14 541 000	\$12 421 000

- 2 Revenues increased during this period.
- 3 Covid-19 contributed to the increase in Amazon's sales because lockdowns around the world led to more online purchases.
- 4 Sales revenue increase by 38% while profit increased by 57%, which is a much bigger percentage. Even though the firm's expenses increased along with the rising sales, the change was proportionately smaller.

Activity 16.2

Change	Account(s) affected	Description of the expected impact
Enrolling more learners in the school	Profit and loss statement	Higher sales revenue
Taking a short-term loan to pay its creditors	Balance sheet	Higher current liabilities (short-term loans)
Increasing the yearly salaries of teaching personnel	Profit and loss statement	Higher expenses
Making better deals with suppliers to buy raw materials at lower prices	Profit and loss statement	Lower cost of goods sold
Buying a new printer for the school head's office	Profit and loss statement Balance sheet	Depreciation Non-current assets, accumulated depreciation

Activity 16.3

	Fixed tangible assets	Fixed intangible assets	Current assets	Current liabilities	Non-current liabilities	Shareholders' equity
Company's car	✓					
Work in progress			✓			
Four-year bank loan					✓	
Money owed to suppliers				✓		
Issued share capital						✓
Dividends owed to shareholders				✓		
Value of patents		✓				
Payments due from customers			✓			
Retained earnings						✓
Cash in bank			✓			

Exam-style questions

- 1 The 'final accounts' are the income statement and the balance sheet prepared by companies at the end of the financial year.
- 2 'Debtors' are individuals or firms owing money to a business.
- 3 A social factor is a growing demand for organic cloths which favours the expansion in the industry, and an economic factor is the low interest rate which means that the cost of borrowing money for growth is currently low.

4 Natcloth Ltd

Statement of profit and loss

For the financial year ended 31/12/2021

	\$000
Sales revenue	410
Cost of sales	<u>170</u>
Gross profit	240
Expenses	<u>40</u>
Profit before interest and tax	200
Interest	<u>50</u>
Profit before tax	150
Tax	<u>30</u>
Profit for period	120
Dividends	<u>48</u>
Retained profit	<u><u>72</u></u>

5 Natcloth Ltd
Statement of financial position
as at 31/12/2021

Non-current assets	\$000	\$000
Property, plant and equipment	800	
Accumulated depreciation	80	
Non-current assets		720
Current assets		
Cash	40	
Debtors	35	
Stock	60	
Current assets		135
Total assets		855
Current liabilities		
Bank overdraft	–	
Trade creditors	50	
Other short-term loans	8	
Current liabilities		58
Non-current liabilities		
Borrowing-long term	115	
Non-current liabilities		115
Total liabilities		173
Net assets		682
Equity		
Share capital	492	
Retained earnings	190	
Total equity		682

- 6 The depreciation of assets will reduce the profit before interest and tax, as it has an effect similar to expenses. In the balance sheet, the value of property, plant and equipment will increase by the original value of the new fixed assets, while the yearly depreciation will increase the value of accumulated depreciation.
- 7 The straight-line method is simple to calculate, and this is important to save time for the accountant, especially as Natcloth is a manufacturing business with many different assets. But this method assumes a fixed annual depreciation for all assets throughout their life. The new technologically advanced machines to be bought in the factory are expected to be more productive in the first rather than the last years of their useful life, so the assumption that depreciation is constant is not very realistic.
- 8 The potential investors (that Natcloth may approach to finance its growth) would be interested in seeing the financial position of the business. The government would need the income statement to charge the appropriate tax. (Any other relevant group could be applied.)
- 9 Economies of scale such as bulk buying economies would mean a lower per-unit production cost, and thus would reduce the cost of goods sold for any given quantity of sales.
- 10 Possible advantages:
 - The family-owned business would keep its ownership status, the ownership would not be diluted.
 - No indefinite obligation for dividends would be created for new shareholders.
 - The interest rates are currently low, so the cost of borrowing money is favourable for a long-term loan.
 - Since the business is profitable and financially healthy, a long-term loan could be readily available.
 Possible limitations:
 - If the expansion fails, Natcloth would lose assets provided as collateral (e.g., buildings given as security for a mortgage).
 - The interest rate may rise in the future, so the cost of the loan may prove higher than initially thought.

Chapter 17 Profitability and liquidity ratio analysis

Business in context

- Final accounts can be compared with any other business, but the comparisons are most useful when they are between businesses in the same or a similar industry. This is because the amount of capital required will be different; the degree of risk of operating in each industry may be different; the stock-holding requirements may be different, etc. So, comparing a soft-drink business with a construction business has limited value other than for shareholders or potential shareholders to compare the likely return on investments in shares in both types of businesses.
- Short-term debts are those that must be paid within the next few months or weeks. If the business has insufficient liquid funds available to pay these debts then: suppliers may refuse to supply until the debts are paid; a high interest overdraft may need to be arranged; a long-term loan might be needed to cover short-term capital needs, in the expectation that the finances of the business will improve to allow both short-term debts to be paid from current income and for the loan to be repaid.
- A single figure for 'profit' is of little value to the users of the accounts. This profit needs to be put into a 'relative context', e.g., by comparing it with revenue or the value of capital invested in the business. What might appear to be a low profit figure might be a high proportion of capital invested if the business is relatively small. Making profit comparisons between different businesses is nearly always done by comparing ratio results.

Case study 17.1

1		2020	2019	2018
	GPM	2.99%	3.06%	3.22%
	NPM	0.76%	0.79%	1.02%

2 Both ratios have been falling and thus are deteriorating over time because for every \$100 of sales revenue the business is making both a lower gross profit and a lower net profit.

3 Possible advantages of increasing the price:

- Quantity demanded may not fall significantly because energy products are necessities.
- The business will not have to cut marketing expenses which are needed to support the brand image in the long term.
- Both the gross profit margin and the net profit margin would improve.

Possible disadvantages of increasing the price.

- It could create a social backlash, as energy is affecting the costs of production and thus the prices across the whole economy.
- Consumers could turn to cheaper competitive companies or substitute forms of energy. Revenues may fall.

Possible advantages of cutting marketing expenses:

- The price of the product will not change so there is no direct negative effect on sales.
- The reduction of marketing costs does not create a social backlash the way other types of cost cuts do (such as redundancies for example).

Possible limitations of cutting marketing expenses:

- Loss of market share, in the long term, allowing the competition to build their image.
- Only the net profit margin and not the gross profit margin would be improved.

Case study 17.2

1 COGS is a bigger proportion of the selling price. The net profit margin is lower than the industry average, suggesting that DairyFun's expenses are higher than the industry average as a proportion of sales revenues. However, the ROCE is better than the industry average, showing that the business enjoys a higher profit as a percentage of total capital employed.

2 Technical economies of scale could allow the business to produce more dairy products per hour at a lower cost per unit, by making the process more capital intensive. Bulk-buying (purchasing) economies of scale could be created as the business would buy the raw materials (e.g., milk) in big quantities and potentially at lower prices from suppliers. (Any other type of economies of scale could be applied here.)

3 The business could examine the possibility of increasing the price of some of its more successful products, depending on the extent to which consumers would be happy to absorb the price increase. Moreover, the business could seek cost cuts, such as reducing unnecessary overheads in the dairy factory or the offices of the business.

4 Possible advantages:

- Growth can lead to economies of scale and thus the business would be able to sell at the same price with a lower production cost. Both the gross and the net profit margin could improve.
- In the long term, efficient investments for growth could also generate more profit for every \$100 of capital employed, leading to a further improvement of the ROCE.

Possible limitations:

- Growth is risky, especially given that the market is very competitive.
- The effort of the business to generate more economies of scale could harm the quality of the products. Small-scale production can give opportunities for selling premium products at a high price while avoiding diseconomies of scale.

Case study 17.3

1		Ahmed (\$000)	Flash (\$000)
	GPM	28.57%	25.00%
	NPM	5.71%	10.00%

- 2 Given the quality of his services, Ahmed could consider increasing his prices. He could also try to find ways to cut costs and expenses, for example by buying less-expensive raw materials.

3		Ahmed (\$000)	Flash (\$000)
	Current ratio	2.22	1.25
	Acid test ratio	1.11	0.75

- 4 Flash could consider keeping some more stock. This way, they could compete better with other builders such as Ahmed who are ready to respond fast to customer orders, and it would also improve the liquidity of the business. Moreover, the business could seek ways to reduce current liabilities, for example by using less short-term borrowing.

Activity 17.1

The average gross profit margin varies across industries because of the difference in the level of competition, which affects the level of prices, and because of the difference in the cost structure of various sectors. Moreover, the nature of the product sold affects the profit margins. For example, basic commodities such as metals are sold at a relatively low price per unit compared to luxuries such as communication services.

Activity 17.2

Learners should identify other financial information needed to make the decision, such as the evolution of revenues and profits over time, the dividends distributed to shareholders, etc. and other non-financial information, such as the overall corporate strategy (for example Coca-Cola diversifies only in beverages while PepsiCo has diversified into foods as well).

Activity 17.3

The ROCE is important to show the effectiveness of management in generating profits by using the capital invested in the business in the long term. In cyclical markets, to achieve high and constant returns on capital employed, businesses have to regularly invest the capital available in new profitable opportunities and on technologies that improve efficiency.

Exam-style questions

- 1 The 'current assets' are assets of the business to be turned into cash within a year.
- 2 The 'capital employed' is the sum of the non-current liabilities and the equity of shareholders.
- 3 The current ratio in 2020 was 1.00 and remained the same in 2021. The current assets of the business are just enough to cover the current liabilities. If any debtor does not pay on time, or if part of the stock remains unsold, the business will not be able to pay its current liabilities.
- 4 The acid test in 2020 was 0.70 and in 2021 it fell to 0.59, which is deterioration. The current assets of the business excluding the stock are not enough to cover the current liabilities.

	Year ending 31 December 2021 (\$m)	Year ending 31 December 2020 (\$m)
ROCE	11.67%	13.08%
GPM	70.00%	72.97%
NPM	8.75%	9.19%

- 6 In 2020, for every \$100 invested in the business in long-term sources of finance the management returned \$13.08 to shareholders. In 2021, for every \$100 invested the management returned less (\$11.67). Thus, the management's efficiency to generate profits for the shareholders deteriorated.
- 7 The overhead cuts affected the net profit of the business positively, so they had a positive impact on the net profit margin and the ROCE for 2021. The gross profit margin was not affected by the overhead cuts.
- 8 The inventory is a type of current asset, so it increases the working capital and the value of total assets in the balance sheet.
- 9 Share capital is a component of the total capital employed. The effect of an increase in the total capital employed depends on the extent to which the net profit before interest and tax of RP would increase after the share capital is invested for growth. If the net profit increases by a bigger proportion than the increase in the share capital, then the ROCE will improve.
- 10 The business enjoys higher sales, gross profit and net profit. This is an improvement, as the shareholders' value depends on the level of profits. But the profitability of the business is deteriorating, as indicated by the three profitability ratios, while the liquidity is also worsening, as shown by the acid test. The worsening profitability is indicating that the business is losing its ability to control the cost of goods sold because of the supply shortages, which affected the gross and net profit margin. The profit generated as a percentage of the total capital employed also deteriorated, as the management lost some of its efficiency to generate profit.

Chapter 18 Debt/equity ratio analysis

Business in context

- Banks and investors will be most interested in the level of borrowing that a business has committed itself to. In particular they will want to calculate what proportion the total loans are of total capital. If this figure (gearing) is high, it suggests that the business managers are taking risks, perhaps borrowing capital to expand the business quickly. However, if this expansion is less profitable than expected the business still has relatively high debts to pay interest on and to pay back. Banks will worry – can the loans be repaid? Investors will be worried – are high interest rates reducing the profit available to pay out as dividends?

- Holding stocks involves considerable costs – but just one average stock figure for a year is of little value to business analysts. They will want to see whether the management of stocks is improving or worsening over time, so they will need more than one figure. They will also want to calculate the stock turnover – are stocks being used efficiently? Are they being used more efficiently than other similar businesses?
- Managing trade payables means not paying immediately as this will reduce cash flow – but not delaying payment so long that suppliers refuse to supply or cooperate with special requests. Managing trade receivables means encouraging customers to pay promptly – but not putting so much pressure on them that they take their custom elsewhere.

Case study 18.1

- 1 'Stock turnover ratio' measures the number of times inventory is converted into sales in a period of time, usually one year.
- 2
 - a Trade receivables turnover (debtor days):
 $\text{Value of receivables} / \text{sales revenue} \times 365$
 - b Trade payables turnover (creditor days):
 $\text{Trade payables} / \text{cost of sales} \times 365$
- 3
 - a Stock turnover ratio:
 $354 / 34 = 10.41$
 $369 / 42 = 8.78$
 - b Trade receivables turnover (debtor days):
 $27 / 625 \times 365 = 16 \text{ days}$
 $26 / 765 \times 365 = 12 \text{ days}$
 - c Trade payables turnover (creditor days):
 $23 / 354 \times 365 = 24 \text{ days}$
 $26 / 369 \times 365 = 26 \text{ days}$
- 4 The ratios indicate the following about Fencing Solutions' performance:
 - The stock turnover ratio has fallen from 10.41 to 8.78 which shows that Fencing Solutions has increased the rate at which stock is sold by the business so that the average time stock is held by the business has fallen. This may have improved the cash flow of the business.
 - The trade receivables turnover has increased so that the average time it takes a debtor to pay has reduced from 16 days to 12 days. This may have improved the cash flow of the business.
 - The trade payable ratio has fallen so that the average time it takes the business to pay has increased from 24 days to 26 days. This may have improved the cash flow.

Evaluation might include discussion of the weakness of only considering two years of data. There is also no data from the industry to see Fencing Solutions' relative performance compared to an average.

Case study 18.2

- 1 The trade receivables ratio measures how long, on average, it takes the business to recover payment from customers who have bought goods on credit.
- 2
 - a Cost of sales:
 $\$1.3\text{m} \times 4.5 = \5.85m
 - b Non-current assets :
 $\$5.4\text{m} \times 0.27 = \1.46m

- 3 OGCs trade payables ratio shows the average length of time the business takes to pay its suppliers, which is three days less than its main competitors.
- 4 OGC could do the following to reduce its trade receivables ratio:
 - Reduce the credit period offered to customers, which will reduce the number of days allowed for them to pay.
 - Stop offering trade credit to slow-paying customers and insist on cash payments.

Case study 18.3

- 1 'Stock turnover' measures the number of times inventory is converted into sales in a period of time, usually one year.
- 2 $\text{Cost of sales} / \text{average stock} = \text{stock turnover ratio}$
- 3 $\text{Average stock} / \text{cost of sales} \times 365 = \text{stock turnover ratio (days)}$
- 4 Two ways might include:
 - reduce the stock of furniture held
 - introduce just-in-time stock management.

Activities 18.1–18.3

Learners' own answers.

Exam-style questions

- 1 'Capital employed' is the long-term finance of a business made up on non-current assets and shareholders' funds.
- 2 a $2020: 15.5 / 34.4 \times 100 = 45.06$
 $2021: 15.1 / 34.5 \times 100 = 43.77$
 - b CTFC's gearing has fallen because less of its long-term finance is borrowed.
 - c Two benefits of lower gearing for CTFC might be:
 - the business is more secure because less money is borrowed
 - CTFC's interest payments fall.
- 3 a Stock turnover:
 $2020: 15.4 / 1.5 = 10.26$
 $2021: 17.2 / 1.1 = 15.63$
 - b Debtors turnover(days)
 $2020: 3.2 / 30.2 \times 365 = 39 \text{ days}$
 $2021: 2.9 / 35.3 \times 354 = 30 \text{ days}$
 - c Creditors turnover (days)
 $1.4 / 15.4 \times 365 = 33 \text{ days}$
 $1.6 / 17.2 \times 365 = 34 \text{ days}$
- 4 CTFC's trade payables in days has increased because it might be taking longer to pay its creditors.
- 5 The reasons CTFC might be considered more efficient might be:
 - Its stock turnover has increased which means it is managing stock more quickly through the business.
 - Its trade receivables in days has reduced, which means it is collecting payment from its customers more quickly.

- Its trade payables in days has increased, which means it is paying money to creditors more slowly which increases its working capital.
- Its gearing ratio has fallen, which means its long-term debt as a proportion of capital employed has fallen.

Evaluation might include discussion of the fact that the data is only over two years and there is no industry average data available.

Chapter 19 Cash flow

Business in context

- Profit/surplus might be very small so few financial resources are being retained in the business; may depend on sole trader or family to finance the business so cash may be in short supply; less able to borrow funds from financial institutions as they will not have the image/assets etc. of larger business to convince lenders to lend; suppliers might want immediate payment if they doubt the stability of the small business.
- Ask for credit from suppliers – but how likely are they to agree to offer a small start-up credit terms? Ask external investors to provide finance as well as using the entrepreneur's own savings/resources – but could some control over the business be lost? Other answers are possible.

Case study 19.1

- 1 'Cash flow' is the sum of cash payments to a business less the sum of cash payments from the business.
- 2 If the debtors of a business pay later than a business pays its own customers then more cash is leaving the business than is coming in, and this causes a business's negative cash flow to increase.
- 3 If a firm's sales are increasing, it needs to buy in more inputs to manufacture the products it is selling. If the goods that the Brazilian business sells are on sold on credit then it relies on these being paid for on time so that the business can pay its own debts. If payments are late the cash flow of the business becomes negative. The more is sold, the bigger a firm's debt will be.

Case study 19.2

- 1 'Debtors' are customers who have bought products on credit and will pay cash at an agreed date in the future.
- 2 Pro-printing would have forecast its cash flows to manage the cash in the business and reduce the risk of the business going bankrupt.

3

		January (\$000)	February (\$000)	March (\$000)	April (\$000)
Cash inflows					
	Cash sales	5	7	9	10
	Payments by debtors	3	4	5	6
	Total cash inflow	8	11	14	16
Cash outflows					
	Rent	1.5	1.5	1.5	1.5
	Materials	3.5	4	5.5	6
	Labour	3	3	3	3
	Other costs	1	1.5	1.5	2.0
	Total cash outflows	9	10	11.5	12.5
Opening balance		(2)	(3)	(2)	0.5
Net cash flow	Net monthly cash flow	(1)	1	2.5	3.5
Closing balance		(3)	(2)	0.5	4

- 4 Accepting the order would be a risk if the large company paid late, it could put Pro-printing in a negative cash flow situation. This is because Pro-printing could have paid for the material for the print job but not have been paid by the customer.

Case study 19.3

- Working capital is capital used in day-to-day trading operations, calculated as current assets less the current liabilities..
- If more customers pay immediately when they receive Chen's frozen food then this will bring cash into the business more quickly which will improve Chen's working capital cycle and cash flow position.
- The acid test ratio is measured by: $\text{cash} + \text{debtors} / \text{current liabilities}$. The value of 0.4 means the business only has \$0.40 of cash and debtors to cover each \$1 of current liabilities. This shows Chen is in a weak cash flow position.
- The risk of Chen going bankrupt because it runs out of cash is reduced. The loss of profit for Chen from holding too much cash is reduced.
- The advantage of delaying paying to customers is that it keeps the cash in Chen for longer and improves the working capital cycle.
 - The disadvantage of doing this is that Chen may lose any early payment discount such as the 2% offered by the major customer. Chen may also be seen as an unreliable payer, and it may lose suppliers because of this.
 - The advantage of increasing cash sales is that cash comes into the business more quickly and this improves the working capital cycle.
 - The disadvantage of increasing cash sales is that Chen might lose out on customers who want to pay on credit, and this reduces sales.

Activities 19.1-19.3

Learners' own answers.

Exam-style questions

- 1 A 'bank overdraft' is a short-term loan from a bank where more money is drawn from a bank account than is in that account.
- 2 Bankruptcy of one of Organiczny Ltd's customers would mean any money owed to Organiczny Ltd would not be paid and this would be a bad debt. This would have a negative effect on the business's cash flow.

		June (\$000)	July (\$000)	August (\$000)	September (\$000)
Cash inflows					
	Cash sales	60	75	62	87
	Payments by debtors	22	24	21	28
	Total cash inflow	82	99	83	115
Cash outflows					
	Rent			32	
	Materials	41	47	42	65
	Labour	15	15	12	17
	Other costs	12	13	9	18
	Tax		16		
	Total cash outflow	68	91	95	100
Opening balance		(3)	11	19	7
Net cash flow	Net monthly cash flow	14	8	(12)	15
Closing balance		11	19	7	22

- 4 Two sources of short-term finance that Organiczny Ltd could use would be:
 - a short-term loan where a fixed amount can be borrowed for an agreed length of time
 - debt factoring where Organiczny Ltd sells some of its outstanding debt to an outside company.
- 5
 - The advantages of Organiczny reducing its credit time to is that it will increase the amount of cash in the business.
 - The disadvantage is the business might lose customers if it reduces the credit period available to them.
 - The advantage of Organiczny reducing stock is that less cash will be tied up in stock and this will improve the business's cash flow.
 - The disadvantage of holding less stock is the business will have higher stock-out costs.
 - The advantage of Organiczny delaying payments to customers is it will improve cash flow.
 - The disadvantage of the business delaying payment is the business may lose early payment discounts.

Chapter 20 Investment appraisal

Business in context

- Before making important decisions about long-term investments, businesses will consider the long-term impact on costs, revenue and profit. There is little point in investing millions of dollars into a project if the business has no idea whether it will add to their profits or lead to a loss. Forecasting future profitability is often inaccurate due to several uncertainties but businesses should focus on improving the accuracy of profit forecasts and not give up on profit forecasts altogether. Inaccurate profit forecasts for long-term projects result from: unforeseen problems in construction; material costs rising above forecasts; labour disputes; material shortages causing delays; demand being less than predicted, e.g., as a consequence of a technology advance by competitors.
- Some businesses consider the environmental impact of their investment projects because of: increased pressure group activity; stricter government regulations, e.g., on planning and pollution; consumer expectations of socially responsible businesses; difficulty obtaining finance from banks and other investors unless an environmental assessment of the project appears positive. However, many businesses just focus on profitability and not the environmental impact of a new investment when: they operate only in countries with weak controls over environmental standards; they operate only in producer markets not consumer markets, so the impact of consumers' boycotts would be minimal; they are monopoly providers of a product and customers have very few alternative sources of supply.
- If a project pays back the initial investment quickly this means: the cost of interest on loans is minimised; risks are reduced as long-term paybacks involve greater uncertainties; cash flows received some time in the future are worth less in real terms than cash flows received in the short term; the paid back capital can be reinvested quickly. However, the payback period does not calculate the overall profitability of the investment projects.

Case study 20.1

- 1 'Payback' is the time it takes an investment project to repay its initial cash outflow.
- 2 SLHG would have produced forecasts on the initial costs and running costs of the hotel project to derive the cash outflows over the five-year period. It would have forecast revenues of the hotel for the five-year period to derive the cash inflows.
- 3
 - a Payback of the new hotel:
 $\$3\text{m} / \$7\text{m} \times 12 = 3 \text{ years and } 5 \text{ months}$
 - b Average annual rate of return of the hotel:
 $\$33\text{m} - \$22\text{m} / 5 = \$2.2\text{m}$
 $\$2.2\text{m} / \$22\text{m} \times 100 = 10\%$
- 4 The advantages of payback for SLHG are:
 - it is quick and easy to calculate
 - the results can be easily understood by managers
 - payback is good for screening projects
 - it is effective for businesses where liquidity is an issue.

The advantages of ARR for SLHG are:

- it uses the cash flows of the whole project time period
- it focuses on profitability of the project
- ARR is easy to understand and can be compared between projects.

Evaluation might include discussion of the weaknesses of payback and ARR such as the problems of forecasting cash flows, and neither method considers the time value of money.

Case study 20.2

- 1 NPV is the discounted value of net cash flows of a project over a certain time period.
- 2 Two items that could be included in New Frame's initial investment might be: legal and planning costs involved with the expansion of the cinema; and construction costs on the new auditoriums.

Year	Cash flow \$m	Discount factor 7%	Discounted cash flow \$m
0	(5.2)	1	(5.2)
1	1.1	0.94	1.034
2	2.0	0.87	1.74
3	2.2	0.82	1.804
4	2.2	0.76	1.672
		NPV	6.25 – 5.2 = 1.05

- 4 The advantages to New Frame Cinema of using NPV are:
 - It considers both the value and timing of cash flows over the time period of the cinema project.
 - By using a discount factor, the time value of money associated with the project is taken into account.
 - The discount rate can be adjusted if interest rates change in the economy.
 - NPV can be used to make comparisons between different projects.

Evaluation might include the problems of its complexity as a method, the difficulty of forecasting the future cash flows and using the appropriate discount rate.

Case study 20.3

- 1 'Accounting rate of return' (ARR) measures the annual profitability of an investment as a percentage of the average investment.
- 2 System A pays back its initial investment in 3 years and 7 months and system B pays back its initial investment in 4 years and 1 month.
- 3 System B is likely to be more profitable to Elk because it has a higher ARR and NPV. This means system B earns more cash flow from its initial investment over the life of the project.

Activities 20.1-3

Learners' own answers.

Exam-style questions

- 1 The accounting rate of return (ARR) formula is as follows:

$$\frac{\text{average annual profit}}{\text{capital investment}} \times 100$$

$$\text{where the average annual profit} = \frac{(\text{total returns} - \text{capital cost})}{\text{number of years}}$$

- 2 'Payback' is the time it takes for the net cash flows generated by a project to pay back the initial investment.

- 3 Sun and Sand might generate net cash flows by selling places on the yachts to customers and subtracting the costs of running the yachts.
- 4 Net cash flow needs to be discounted to allow for the time value of money where funds earn a rate of interest over time.
- 5
 - Payback *Royal Bird*: $0.3\text{m} / \$6.2\text{m} \times 12 = 3 \text{ Years } 0.58 \text{ months}$
 - Payback *Endless Sunset*: $\$1.8\text{m} / \$6.4\text{m} \times 12 = 4 \text{ years } 3.38 \text{ months}$
 - ARR *Royal Bird*: 6.95%
 - ARR *Endless Sun*: 4.18%
- 6 *Royal Bird* has a shorter payback and a higher ARR than *Endless Sunset*, so its performance is better on these measures.
- 7 The discount rate is used to account for the time value of money associated with a project.

Year	Discount rate 8%	<i>Royal Bird</i> net cash flows (\$m)	Present value	<i>Endless Sunset</i> net cash flows (\$m)	Present value
0	1	(19)	(19)	(22)	(22)
1	0.93	2.5	2.33	2.7	2.51
2	0.86	4.9	4.21	5.3	4.56
3	0.79	5.7	4.5	5.9	4.67
4	0.74	6.2	4.59	6.3	4.66
5	0.68	6.3	4.28	6.4	3.35
	NPV		+0.91	NPV	−2.25

- 9 *Royal Bird* has a positive NPV of +\$0.19 million, whereas *Endless Sunset* has a negative NPV of −\$2.25 million. This means that *Royal Bird* performs better.
- 10 Two weaknesses of relying on investment appraisal data are:
 - No account is taken of non-monetary factors that might affect the investment decision of Sun and Sand.
 - Investment appraisal data is based on forecast cash flows which are difficult to forecast accurately.

Chapter 21 Budgets

Business in context

- Finance is an important resource to any business. Just as human resources, operations and marketing need planning, so does finance – and budgets are financial plans for the business and cost/profit centres within it. By making budgets (financial plans) the business managers are helping to ensure that future expenditure is kept within the limits that can be afforded; that each cost and profit centre receives an appropriate allocation of resources; and that sales and revenue have budget targets set. This planning will then allow these budgeted figures to be compared with actual results so that under- or over-performance can be identified and then acted upon.
- Long-term projects (e.g., infrastructure projects) are very difficult to budget for as there are so many uncertainties such as: cost inflation; extreme weather conditions; construction problems; issues with equipment or unforeseen technical difficulties. The budgets can be made more accurate by: using past budgets and the variances from them as a guide to potential problems; making sure cost budgets are flexible where needed; using the experience of similar projects in other countries; involving as many managers from different divisions as possible in setting

and agreeing budgets; planning for different scenarios, such as technical difficulties, and being prepared to adjust budgets in response to these.

Case study 21.1

- 1 A 'profit centre' is a section of a business to which costs and revenues are allocated or charged.
- 2 The advantages of L'Chique operating its stores as profit centres include:
 - The performance of each store can be measured in financial terms.
 - It gives the managers and staff a specific objective to work towards.
- 3 Reasons for delegating budgeting to store managers include:
 - It can increase the motivation of the store managers as they have been allocated more responsibility.
 - The managers may have local knowledge of market conditions and be more effective at budgeting.
- 4 Effective budgeting is important to L'Chique because:
 - It allows the business to plan effectively which is important for areas such as cash flow.
 - It sets measurable objectives for the business to work towards.
 - It allows L'Chique to allocate resources such as staff and capital effectively to different stores.
 - Budget targets can be used to control the organisation as individual store performance can be judged against its budget.

Evaluation might include discussion of the weaknesses of budgets such as the problem of forecasting, the fact that budgets can lack flexibility, and they tend to be focused in a one-year time frame.

Case study 21.2

- 1 A 'budget' is a detailed financial plan for the future operations of an organisation.
- 2 Coordination is the use of budgets to plan the allocation and management of resources in different departments in a business. Controlling is the use of budgets when they are in place to check that the objectives of the budget are being achieved.
- 3 A cash budget is important because cash is a major determinant of whether a business succeeds or fails. A cash budget means a business is less likely to run out of cash which can lead to bankruptcy.

Case study 21.3

- 1 'Variance analysis' is the process of investigating any differences between budgeted figures and actual figures.
- 2 To produce a sales revenue budget Lighting Solutions would need to:
 - set a budgeted selling price for its lighting products
 - set a budgeted sales volume for its lighting products.

	Budget	Actual	Variance
Sales	1400	1550	150 (F)
Direct materials	400	488	88 (A)
Direct labour	350	386	36 (A)
Gross profit	650	676	26 (F)
Overhead cost	370	395	25(A)
Net profit	280	281	1(F)

- 4 The sales revenue variance is favourable, which means Lighting Solutions' actual revenue is great than its budgeted figure.
Direct materials, direct labour and overheads are all adverse variances because actual costs are higher than budgeted costs.
The net and gross profit variances are both favourable because actual profit is greater than budgeted profit.

Activities 21.1-3

Learners' own answers.

Exam-style questions

- 1 A budget is a financial plan for future sales.
2 A 'favourable sales variance' is where the value of actual sales revenue is greater than budgeted sales revenue.
3 Two factors needed to be accounted for in order to budget for direct labour for each hotel brand would be:
• the average wage rate of worker in each hotel brand
• the number of workers employed in each hotel brand.
4 Actual sales revenue – budgeted sales revenue

\$m	Ecostay			Nightstay			Premierstay		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Sales revenue	4.2	4.8	0.6(F)	6.4	6.9	0.5(F)	5.7	4.5	1.2(A)
Total cost	3.2	3.5	0.3(A)	4.1	4.5	0.4(A)	4.4	4.2	0.2(F)
Net profit	1.0	1.3	0.3(F)	2.3	2.4	0.1(F)	1.3	0.3	1.0(A)

- 6 Ecostay's net profit is a favourable variance which suggests this hotel brand has performed well over the budgeted period.
Nightstay's net profit is a favourable variance, which suggests this hotel brand has performed well over the budgeted period.
Premierstay's net profit is an adverse variance, which suggests this hotel brand has performed poorly over the budgeted period.
7 A recession may mean fewer people staying in more expensive hotels like Premierstay as people reduce their spending on luxury items.
8 Variance analysis would be useful to Staylef in the following ways:
• It can be used to measure Staylef's performance as a whole business against its budget.
• It can be used to measure performance of different Staylef brands.
• It can be used to measure how well Staylef and its brands have controlled costs.
• It can be used to measure how well Staylef and its brands have generated revenues.
Evaluation might include discussion of the problems of forecasting costs and revenue which the variances are based on. It could also consider other outside factors that could affect the variance which were not forecasted such as the economic recession in Eastern Europe.

Unit 4: Marketing

Chapter 22 Introduction to marketing

Business in context

- It does indicate that the business has become more competitive in this market as it has taken a higher proportion of the total sales in that market. However, if the total market size is falling it could mean that the business has increased market share at the same time as its overall sales are declining. So, this would not be a sign of success and it needs to research and enter growing markets to give itself a good chance of long-term success.
- Almost certainly this is a good strategy for these businesses to adopt. Trying to impose the food menus, marketing messages and business culture taken from their 'home' countries would lead to considerable consumer opposition in other national markets. Increasingly consumers in many countries are showing a preference for the products being sold to them to reflect their culture, local traditions and tastes.
- Market orientation depends on effective market research and means that there is a greater chance of new products being sold profitably in the market. Imposing a product-led strategy on consumers – where the business does not use detailed market research to determine which products to sell – will lead to poor sales performance in most markets.

Case study 22.1

- 1 'Marketing' is the management process responsible for identifying, anticipating and satisfying consumers' requirements profitably.
- 2 Two ways that Xiaomi has adopted a market orientated approach are:
 - use of extensive market research to find out about consumer tastes and preferences in the market
 - producing a smartphone that meets the wants and needs of the consumer.
- 3 Xiaomi's market research indicates that smartphone consumers are increasingly concerned about the environment, and it has produced smartphones to reflect this.
- 4 Two weaknesses might be:
 - the cost to Xiaomi of extensive market research to find out about market needs
 - the cost of changing its smartphones in response to changing consumer taste and preferences.

Case study 22.2

- 1 'Market growth' is the rate at which total sales in a market are rising from one time period to the next.
- 2 Increasing TV revenues; increasing number of viewers.
- 3 As technology advances in the cable TV market more people have access to TV news. Consumer preferences change in favour of more people watching TV news.
- 4 The disadvantages might be:
 - A market dominated by three companies might lead to higher prices.
 - There is less choice in the market for the consumers of TV news.
 - The three companies in the market have too much influence over the views of their consumers.
 - The three companies can stop new firms entering the market, which reduces market change and innovation.

Evaluation might include discussion of the benefits of three businesses dominating the market such as economies of sales and the profits made by the firms in the market being used for innovation.

Case study 22.3

- 1 'Market share' is the percentage of market sales accounted for by one type of product or business.
- 2 $\$0.71 \text{ billion} / \$3.2 \text{ billion} \times 100 = 22.19\%$
- 3 'Market leadership' is when a business has the highest market share of all firms that operate in that market.
- 4 Two benefits of Volkswagen being a market leader in Norway's EV market might be:
 - Being 'market leader' with the highest market share can be used in advertising and promotional material by Volkswagen.
 - As market leader Volkswagen will be in a strong bargaining position with its component suppliers and car dealers.

Activities 22.1-3

Learners' own answers.

Activity 22.4

- 1 Market share is the percentage of market sales accounted for by an individual firm in a market.
- 2 $A = 45\%$; $B = 30\%$
- 3 An increased profile in the market strengthens the brand. A firm can have more influence over the market price.

Exam-style questions

- 1 'Market orientation' is where a business identifies the needs and desires of consumers when creating goods and services.
- 2 $\text{Individual firms sales} / \text{total market sales} \times 100$
- 3 Improve product design.
- 4 The 'market leader' is the business that has the largest market share.
- 5 More influence over price; more exposure in the market.
- 6 Decrease its prices; increase advertising.
- 7 Market growth is measured by the percentage increase in total sales of the market.
- 8 Product design; packaging.
- 9 Market share is the percentage of total market sales M&C accounts for. Market growth is the percentage increase in total sales in dessert market.
- 10 Market orientation means M&C can:
 - understand its consumers more effectively
 - adapt its market mix to meet the needs and desires of consumers
 - know when the market for M&C's goods are changing.
 The weaknesses of market orientation are:
 - the cost of research
 - getting accurate information on the consumers.

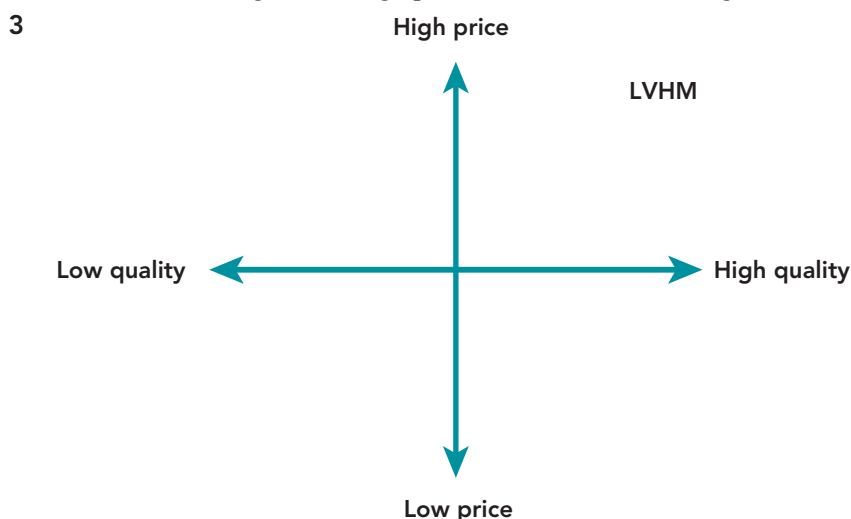
Chapter 23 Marketing planning

Business in context

- Objectives are important to the overall business and these should then be broken down into objectives for each department – such as marketing. Unless SMART objectives are set during the market planning process there will be no targets to aim for and no way of monitoring or assessing success in meeting them. Objectives help to plan the necessary marketing resources that will be needed and will guide the direction of the marketing strategies decided upon. Marketing objectives could include: increasing market share by 15% in 2 years; launching 1 new product every 12 months; increasing sales to the youth market by 20% in 4 years.
- Marketing spending will be wasted and ineffective if the marketing campaign is not focused on a target market. Mass marketing might be used for a few, general, undifferentiated products, but for most other products a target market should be identified and marketing activities directed towards selling products profitably to consumers in that segment.
- Learners' own answer/suggestions.

Case study 23.1

- 1 Geographic market segmentation means grouping consumers according to where they live, i.e., an area that can be local, regional or national. Demographic segmentation is based on age, sex, family size and ethnic background.
- 2 The profile of the typical Louis Vuitton customer means LVHM:
 - sets a premium price because it is selling to high-income consumers who are status conscious
 - distribute its good through premium retail outlets in high-income areas.



- 4 The advantages of market segmentation to LVHM might include:
 - The business being able to target aspects of its marketing mix at a specific group of consumers such as the price and product design LVHM uses for the luxury goods market.
 - It makes it easier for LVHM to monitor changes in the market.
 - Communicating with a specific group of consumers is easier when the market is segmented. This is particularly important for research and promotion strategies.
 - By targeting specific groups in a market LVHM achieves lower costs compared to targeting the whole market.

The discussion might include the disadvantages of marketing such as:

- The risk for LVHM of targeting a market segment if the market suffers a recession or goes into decline.
- By only targeting a particular segment LVHM limits the potential for growth in sales and profits.

Case study 23.2

- 1 'Unique selling point' is a factor that differentiates a product from its competitors.
- 2 The mass marketing approach used by Domino's means the business does not focus on a precise market segment but targets its product across a broad cross-section of the takeaway pizza market.
- 3 Domino's USP is important to the business because the delivery USP claim separates Domino's pizza as a product from its competitors in the takeaway pizza market. This gives Domino's the competitive edge it needs to attract and retain customers.

Case study 23.3

- 1 The management of H&M might be concerned with trying to achieve ethical aims when it is setting the marketing objectives because it wants to be more environmentally concerned in its approach as a business.
- 2 Two advantages of a sustainable approach by H&M might be:
 - It could make the business more attractive to consumers who are increasingly concerned about the environment.
 - H&M is more likely to avoid government environmental regulations.
- 3 Two disadvantages of a sustainable approach by H&M might be:
 - It increases H&M's costs as it has to invest in environmentally friendly technology.
 - It could increase bureaucracy and administration which reduces H&M's efficiency.

Case study 23.4

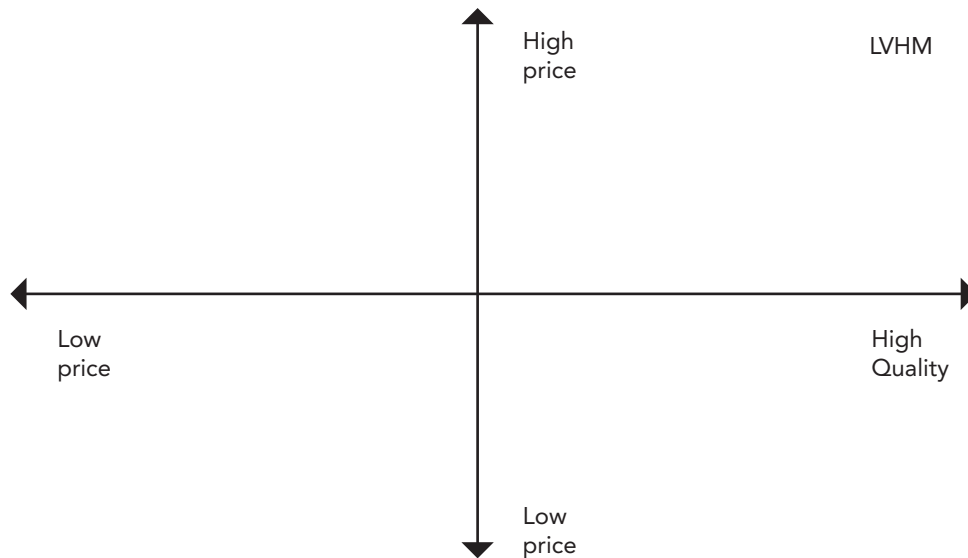
- 1 The Boston matrix sets out a business product portfolio based on the market share and market growth of each product in the portfolio.
- 2 Alien destructor – star; Battle star – problem child; Deep sea – cash cow; Law enforcement – dog.
- 3 Two ways might include: for guiding promotion strategy for each product; for guiding pricing strategy for each product.

Activity 23.1

Learners' own answers.



Activity 23.2



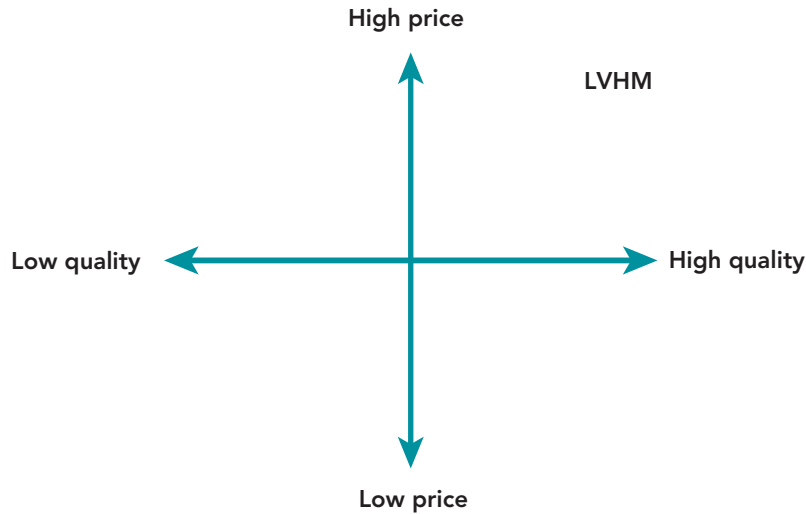
Activity 23.3

Learners' own answers.

Exam-style question

- 1 'Mass market' is selling the same products to the whole market with no attempt to target groups within it.
- 2 'Niche marketing' is identifying and exploiting a small segment of a larger market by developing products to suit it.
- 3 Demographic and psychographic.
- 4 Lemon electric could use product design and promotion.
- 5 Two elements of Lemon Electric's target market segment are: young professional people who live in cities; consumers who are concerned about the environment.
- 6 Lemon Electric markets a high-quality scooter as part of its marketing mix. This high-quality product is sold at a relatively high price in the market.
- 7 Lemon Electric's target market segment is important to the business because it guides the strategic decision-making relating to the promotion and distribution of Lemon's product in its marketing mix. For example, young professional people are more likely to buy products on the internet and be exposed to online promotion.
- 8 A 'product position map' is a two-dimensional model with horizontal and vertical axes that represent certain characteristics of a market such as price and product quality.

9



10 By marketing a less-expensive, lower-quality scooter Lemon Electric may achieve the following benefits:

- Higher sales and profits from the new scooter.
- Risk can be spread across a broader market that includes a range of consumers.
- Economies of scale that might be achieved by selling and producing more scooters.
- By increasing the number of scooter users the business might be more likely to achieve its environmental aims.

Evaluation might include discussion of the problems of the approach such as: a cheaper product adversely affecting the quality image of the company; a cheaper product may also have more faults which reduces Lemon's reputation for reliability; and if the business increases in size it may suffer from diseconomies of scale.

> Chapter 24 Sales forecasting

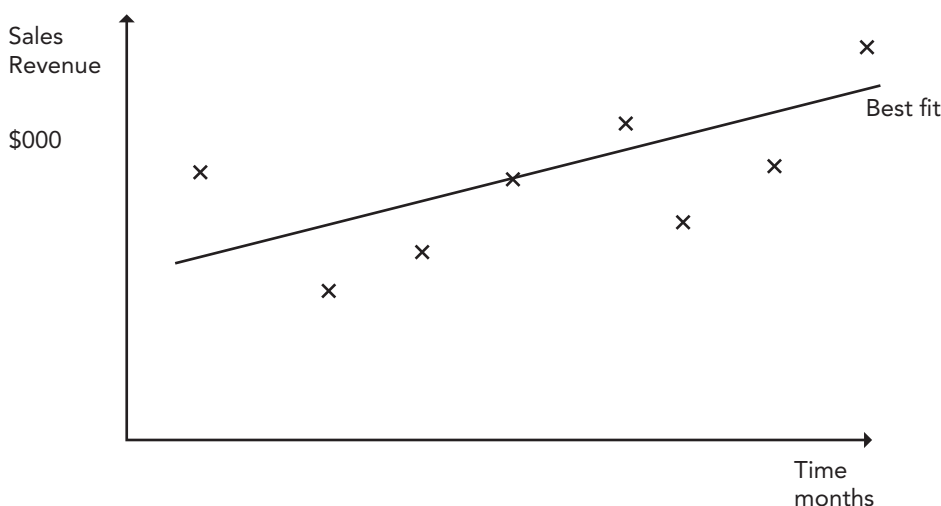
Business in context

- All businesses could benefit from making sales forecasts to help plan the materials, people, stock and other resources that they will need in future months or years. Businesses operating in a market that is subject to seasonal fluctuations will benefit in particular from understanding the impact of 'low' and 'high' seasons on their sales and the resources they will need. Sales forecasts (probably determined by market research) are an essential element of new product development and launches, and these forecasts will help to determine whether to go ahead with the product. Business that handle perishable stocks, such as food processing companies, will try to reduce the risks of food wastage by only producing to the level indicated by sales forecasts. Other businesses that operate in stable markets and which are little affected by economic cycles or seasonal factors, such as convenience stores, might have less need of sales forecasting.

- Basing sales forecasts only on past data is risky but it is usually the starting point for businesses that do have considerable amounts of past data about the sales, over time, of their products. Moving average analysis will help to smooth out fluctuations in demand so that the underlying trend can be identified. Seasonal factors can also be calculated and included in sales forecasts. Past data might not be a good guide to future sales if any one or more of the following factors occur: economic boom/recession; pandemic; extreme weather conditions; new competitors enter the market or some existing rivals leave; technological development by competitors; increased marketing spending by competitors.
- Economic recession, as the demand for these products could be quite dependent on income levels; competitors bringing out even more advanced consoles; governments increasing taxes on luxury electronic items.

Case study 24.1

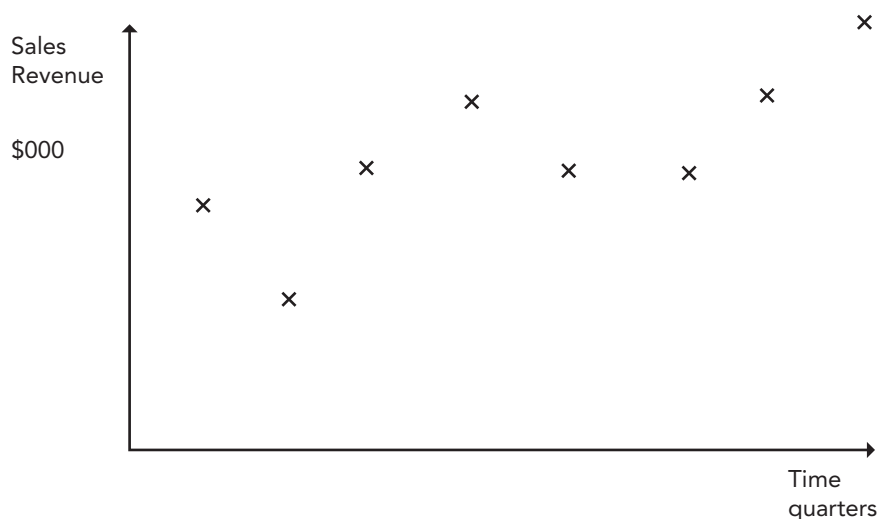
- 1 A 'sales forecast' is a prediction of sales for the next time period.
- 2 The operations department would know how many units of ice cream to produce. Fria-Gelo's HR department would know how many workers to employ.
- 3 Fria-Gelo's sales revenue against time and line of best fit:



- 4 The trend shows an increase in Fria-Gelo's sales over the two years.
- 5 The entry of a new competitor could have a significant impact on Fria-Gelo's sales. Fria-Gelo could experience a sudden rise in costs, which means it has to increase its prices which affects its sales.

Case study 24.2

- 1 Scatter diagram of Stepping Out's sales revenue against time and line of best fit:



- 2 Stepping Out's sales data shows an increasing trend in its sales.
- 3 It might be difficult to make judgements about Stepping Out's sales performance data because:
 - overall market sales might be growing faster than Stepping Out's sales
 - the time-period is too limited to make an accurate judgement on the trend.

Case study 24.3

- 1 'Sales revenue' is the total income to a business from the goods sold by the business.
- 2 Two factors will be: selling price; number of units sold.
- 3 The operations department will know how many units to produce. The forecasts can guide marketing strategy for the marketing department.

Activities 24.1-2

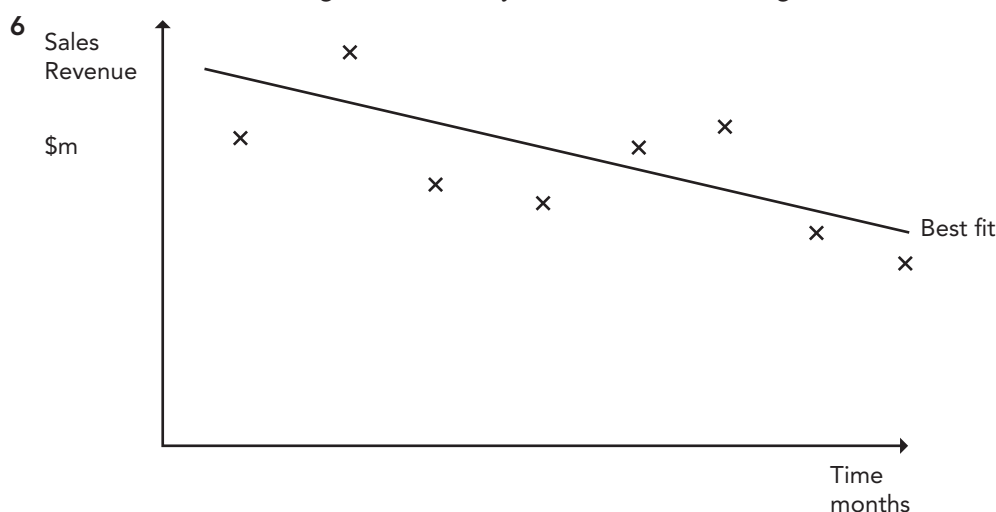
Learners' own answers.

Exam-style questions

Year 1	Sales (\$m)	Four quarter moving total	Eight quarter moving total	Quarterly moving average	Seasonal variation
Q1	2.13				
Q2	2.62				
Q3	2.01			2.18	-0.17
Q4	1.98	8.74		2.15	-0.17

Year 2					
Q1	2.10	8.71	17.45	2.12	-0.02
Q2	2.43	8.52	17.23	2.10	0.33
Q3	1.95	8.46	16.98		
Q4	1.82	8.3	16.76		

- 1 'Market orientated' is an outward-looking approach to marketing decisions based on consumer demand.
- 2 'Linear regression' is used to model the relationship between two variables.
- 3 A scatter diagram plots the data collected from two variables.
- 4 A line of best fit is useful to show trends in data.
- 5 'Correlation' means using statistical analysis to measure the strength of the relationship between two variables.



- 7 The trend shows Mansour's sales falling based on the line of best fit on the scatter diagram.
- 8 Two problems of Mansour Elite of becoming more market orientated might include:
 - The cost to Mansour Elite of the market research required.
 - Consumer tastes and preferences in the hotel market can be difficult to interpret from market research.
- 9 Two benefits of forecasting sales:
 - It is useful for managing cash flow.
 - It can be used to plan for the use of resources such as labour and raw materials.
- 10 Two problems of forecasting sales:
 - Future changes in the selling price of the hotel rooms.
 - Unexpected events that impact the number of people wanting hotel rooms.

Chapter 25 Market research

Business in context

- Social media sites offer immediate feedback to questions; up-to-date information is available about consumers' reactions to products and their preferences; unprompted social media posts can reveal consumers' true feelings;

social media analytics software can provide fast analysis of results; the cost is much lower than traditional market research methods; businesses can monitor conversations about competitors' products.

- Data may be biased towards young market consumers as social media users' average age is lower than that of the general population; the quality and amount of data may not be consistent; the volume that users post on social media can fluctuate over time as can the nature and subject of what they post. Social media is generally not useful for in-depth feedback, and traditional questionnaires might still be needed.

Case study 25.1

- 1 'Quantitative market research' is market research that leads to numerical results that can be presented and analysed.
- 2 Two methods of quantitative research might be:
 - Survey-based research that uses questionnaires with closed questions that generate responses that can be quantified.
 - Observations which involve researchers recording the behaviour of people targeted in the research, such as cookies on computer searches.
- 3 When a business is developing a new product, it will need to get information from consumers that might generate new ideas and gives a fuller picture of how the market might respond to a product.
Quantitative research tends to give data about what has happened rather than develop something new.

Case study 25.2

- 1 'Market research' is the process of collecting, recording and analysing data about customers, competitors and the market.
- 2 Government publications; market intelligence reports (Lab42); newspaper and periodical reports; internet reports and data.
- 3 Secondary research might help Netflix in the following ways:
 - It can be used to forecast future demand for Netflix by, for example, looking at trends in subscriptions.
 - It can give Netflix information about how its customers are responding to different elements of the firm's marketing mix.
- 4
 - Secondary market research is the use of market data and information that has already been published by someone other than the business itself.
 - Secondary data would be relatively low cost for Netflix to produce, which enables it to access large quantities of data on the subscription video market.
 - Secondary data can be accessed relatively quickly by Netflix.
 - Information gathered from a number of sources can give Netflix a thorough, balanced view of market conditions and consumer behaviour.
 - The companies that produce market research data such as Lab42 are specialists in market research and can produce effective information.
 - The information from secondary sources can be a useful support to primary research.

Evaluation might include discussion of some of the weaknesses of secondary research such as the research is not specific to the needs of Netflix, it can be out of date and could involve a biased or unreliable source.

Case study 25.3

- 1 A 'random sample' is a method of sampling where each person in the target population has an equal chance of being chosen to be part of the market research activity.

- 2 NSD uses stratified sampling with a statistical adjustment for gender, age, education and ethnicity. This sampling approach is based on using phone numbers that are randomly generated.
- 3 The advantage of random sampling for NSD is that it is more statistically accurate than other methods of sampling. The disadvantage of random sampling for NSD is it costs more and is more time consuming than other methods of sampling.

Activity 25.1-3

Learners' own answers.

Exam-style questions

- 1 A pie chart is a pictorial representation of the proportions of different data collected.
- 2 'Sampling' involves choosing certain individuals from the whole population to represent the whole population in market research.
- 3 Pie chart, bar chart.
- 4 Pie charts are better at showing the relative importance of a piece of information such as the proportion of people who buy a particular type of drink out of the whole market. Bar charts would just show the total amount of a drink bought.
- 5 Quantitative research gives information in a numerical format that can be presented statistically. Qualitative research looks to gain information from an individual or group in terms of their feelings, attitudes, beliefs, experiences and emotional reactions.
- 6 Two benefits of quantitative research might include:
 - The information can be measured objectively and used for statistical analysis.
 - The market research data can be easier to collect and interpret compared to qualitative research.
- 7 'Convenience sampling' is drawing a representative selection of people because of the ease of volunteering, or selecting people because of their availability or easy access.
- 8 Market intelligence analysis reports, government publications.
- 9 By segmenting the population into sub-groups and selecting people to interview based on specific numbers, quota sampling means fewer people need to be used to generate a representative sample compared to random sampling. This makes quota sampling quicker and lower cost than random sampling.
- 10 Market research would have given Banda Beverages the following benefits:
 - It allows Banda to better understand all aspects of the market when it is launching Energizze – such as competitors, consumers, size of the market, etc.
 - Secondary research gives broader-based information about the beverage market which is relatively quick and low-cost to collect.
 - Primary research will give Banda Beverages important information about the potential consumers of Energizze.
 - The information collected from market research can guide Banda Beverages in its strategic decision-making for specific elements of the marketing mix for Energizze.

Evaluation might include discussion of the weaknesses of market research in terms of problems of interpreting data, sampling errors and unreliable information and other factors that could have influenced the success of Energizze such as overall market growth or the decline of a competing brand.

Chapter 26 The seven Ps of the marketing mix

Business in context

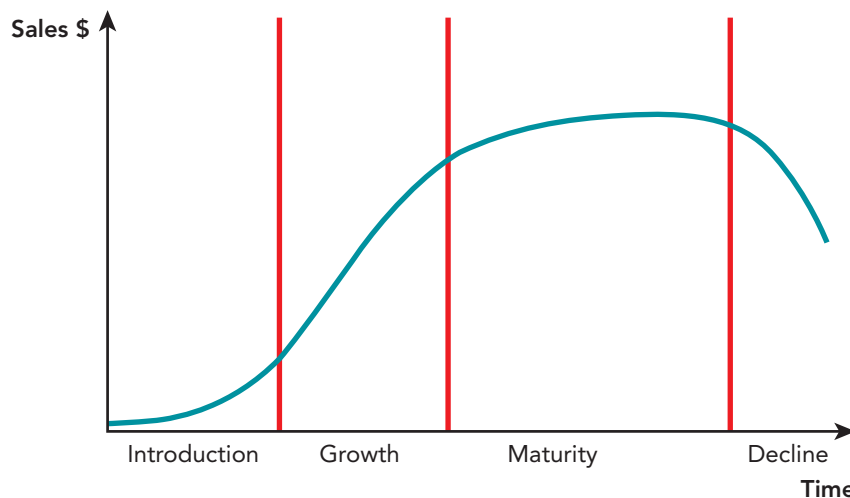
- Digital promotion is important due to global reach – the websites allow both businesses to communicate with existing customers and new markets and trade globally for a relatively small investment. It is also lower cost – a properly planned and well-targeted digital marketing campaign can reach the right customers in the market segments identified by Nike and Adidas at a much lower cost than traditional marketing methods. The age demographic of most customers of both businesses is likely to be mainly young people with access to the internet on several devices.
- Personalised communications with customers helps to build long-term relationships with them and develop brand loyalty. The opportunities for two-way communication with businesses that social media present, for example, is an important way for these two businesses with a youthful, athletic and dynamic brand image to build a strong and loyal customer base.
- Would a 10% price reduction increase sales for Nike or Adidas more than a well-focused digital marketing campaign? Would advertising low prices help to build a prestigious brand image and loyal customer base more than frequent two-way communication with customers via social media? Would price reductions be seen as an indication that quality has been reduced? These are the questions that learners should discuss – as is often the case, there is no right or wrong answer.

Case study 26.1

- 1 A 'product line' is a set of related products sold by a business.

2

Tencent product lifecycle



When products are launched, they enter the introduction phase of the product life cycle (PLC) where sales growth slowly at first. In the growth phase of the PLC the rate of growth in sales increases and then slows as the product enters the maturity phase of the PLC. The revenues of the product fall when it enters the declining phase of the PLC.

- 3 Two reasons for a short PLC in online video games might include:

- Consumer tastes change quickly in the market, which means businesses need to produce new games to meet consumer demand.

- Technology advances quickly in the market, which means businesses like Tencent have to change their products to keep up with the change in technology.
- 4 Explanation that the product life cycle (PLC) might have the following advantages for Tencent in the management of its product mix:
- It guides Tencent in the management of the marketing mix for each good in the product mix, such as pricing in the introductory section of the PLC and above-the-line promotion in the maturity phase of PLC.
 - It can be used to plan extension strategies for each product in Tencent's product mix, e.g., how to extend the life of an established computer game.
 - The PLC can help Tencent plan the introduction of new products so that the growth of revenues and profits of the company as a whole can be managed effectively.
 - The PLC can help Tencent manage the cash flow generated by its product mix.

Evaluation might include discussion of the problems of forecasting the revenues of individual products in the PLC produced by Tencent. The length of time a product spends in each phase of the PLC is difficult to forecast. It is also possible that a one-off market change can completely change the revenues in Tencent's PLC. This could be a sudden introduction of popular competing computer game.

Case study 26.2

- 1 An 'extension strategy' is the method/s a business uses to extend the life of a brand that it sells.
- 2 In the maturity phase of the product life cycle, Rocky Path's revenues tend to be at their highest relative to costs which increases the business' profits. Rocky Path's products tend to have high cash inflows relative to outflows in the maturity phase of the product life cycle, which increases the firm's net cash flows.
- 3 Cash cow products can generate high levels of net cash flow for Rocky Path. This cash can be used finance the development of new products. The successful development of new products is crucial for the long-term growth of Rocky Path because they replace products when they enter the declining phase of the product life cycle.
- 4 The Boston matrix might be useful to Rocky Path's brand management in the following ways:
 - When Rocky Path is balancing its product mix so that new products (problem child products) replace declining products (dogs). This might be important in the fast-changing clothing market.
 - It guides branding strategy and decision-making for different products that Rocky Path is marketing. For example, a cash cow waterproof jacket might need an extension strategy.
 - It helps Rocky Path's management make judgements about brand performance and then take appropriate decisions based on this. An underperforming problem child knitwear product may be discontinued if its sales growth is not fast enough.

Evaluation might include discussion of the problems of using a tool that tells managers what is happening now but not what might happen in the future. This makes it of limited use for future decision-making. Not all products follow the same problem child, cash cow, star, dog pattern. In the clothing industry products can quickly become stars and never achieve cash cow status.

Case study 26.3

- 1 A 'brand' is an identifying symbol, name, image or trademark that distinguishes a product from its competitors.
- 2 Facebook uses a clearly identifiable symbol to represent its brand name. Facebook uses set colours and typeface in its brand name.
- 3
 - Branding promotes consumer identification and recognition of the company and product. This might attract people to buy/use Facebook's products.
 - Branding means Facebook differentiates the company and its products from its competitors and can develop loyalty to the product.
 - Facebook's consumers/users get an emotional attachment and can develop customer loyalty.

- 4 An advantage to Facebook of rebranding might be the interest and publicity it creates which attracts more consumers to its products.
A disadvantage to Facebook of rebranding is that it leads to a negative reaction amongst its consumers who are less likely to use/consume its product.

Case study 26.4

- 1 'Cost-plus pricing' means adding a fixed mark-up for profit to the unit price of a product.

Total variable cost	\$450 000
Total fixed cost	\$330 000
Total cost	\$780 000
Units produced	2 400
Cost per unit	\$325
Add 50% mark-up	$\$325 \times 1.5 = \487.50
Add 30% mark-up	$\$325 \times 1.3 = \422.30

- 3 Two possible disadvantages of Mahmoud reducing the mark-up from 50% to 30% might be:
- The product it sells might be perceived as lower quality, which reduces demand amongst consumers.
 - Reducing the price would lead to lower revenues if demand does not increase very much.

Case study 26.5

- 1 'Premium pricing' is where a business sets a high price when a product is first launched onto the market.
- 2 As a smartphone moves through its life cycle and early adopters move on to new products and buyers of mobile phones become more price sensitive. So smartphone producers need to reduce prices to maintain sales, and this means using a going rate pricing strategy.
- 3 Two reasons why Apple might sell the iPhone 13 at a higher price than the Huawei Psmart and the Samsung Galaxy might be:
- The unit cost of producing an iPhone could be more expensive because higher-quality components are used in production and the finished product is better quality than its competitors.
 - By setting a higher price Apple is trying to communicate to buyers that the iPhone is a better-quality more prestigious product. It is a form of psychological pricing.
- 4 The advantages of a business using premium pricing include:
- It creates an exclusive, high-quality image in the mind of buyers.
 - Early adopters are willing to pay a high price for a product.
 - There is a high profit margin when firms use a premium pricing strategy.
 - The profits earned when a premium pricing strategy is used can be reinvested in new product development.
- The disadvantages of a business using premium pricing include:
- A high price might lead to low sales and profits if demand is price elastic.
 - A premium price might attract government intervention if they think the consumer is being exploited.
 - The image of the business might be damaged if buyers feel they are being exploited.

Case study 26.6

- 1 'Social media advertising' is a form of internet marketing that involves creating and sharing content on social media networks.
- 2 Choose any two objectives from:
 - To increase the sales of Nike's existing products by raising awareness of its brand.
 - To create or reinforce Nike's brand image in terms of inclusion and diversity.
 - To develop or adapt the public image of the Nike organisation in terms of inclusion and diversity.
- 3 'Above-the-line promotion' is a form of promotion where a business pays for the communication media used to reach its consumers. Nike pays for the 'You Can't Stop Us' advert to create an image of diversity and inclusion in the Covid-19 environment that attracts consumers.
- 4 Two reasons for its success:
 - The high-quality video production makes the advert very attractive to consumers.
 - The topical nature of the themes in the 'You Can't Stop Us' advert creates wide publicity and interest.

Case study 26.7

- 1 'Below-the-line promotion' is promotion that is not a directly paid-for means of communication but based on other incentives to purchase a business' product.
- 2 Choose two types of below-the-line methods of promotion used by McDonald's from:
 - golden arch signage at the stores
 - point-of-sale material in the stores
 - sponsorship of the World Cup and the Olympics.
- 3 Sponsoring the World Cup and the Olympic Games – both global events – enhances the image of McDonald's as a global brand and organisation.
As they are sporting events, the World Cup and Olympics suggest that McDonald's is associated with a healthy image.
- 4 The benefits of an effective promotional mix used by McDonald's might be:
 - It raises awareness of the McDonald's brand and the products it sells in the minds of consumers.
 - It increases McDonald's overall sales and sales of its individual products.
 - It can positively affect the brand and organisational image of McDonald's as an organisation.
 - It can be used to extend the product life cycle of individual brands.
 - It can be an effective way to support the launch of new products in the market.

Evaluation might include discussion of the cost of the promotional mix relative to the extra sales it might generate. Some methods of promotion may not be that effective and could even have a negative effect on sales. It is difficult to measure the effectiveness of a promotional campaign.

Case study 26.8

- 1 The 'promotional mix' is the combination of promotional techniques that a firm uses to communicate the benefits of products to customers.
- 2 Above-the-line promotion is where a business such as Strum and Pick pays for communication with its customers. An example of this is advertising. Below-the-line promotion is the use of more targeted promotional methods such as the sponsorship used by Strum and Pick.

- 3 An advantage of a guerrilla campaign for Strum and Pick is that it will create publicity and perhaps go 'viral' on the internet, which creates lots of exposure for its brand. A disadvantage of a guerrilla campaign for Strum and Pick is that the event could go wrong and create bad publicity for the business.
- 4 The strengths of Strum and Pick using below the line promotion might be:
 - Below-the-line promotion allows Strum and Pick to target existing and potential consumers more precisely.
 - The sponsorship of well-known musicians might strengthen the quality of the Strum and Pick brand in the minds of consumers.
 - By giving instruments to local music schools young musicians will be exposed to the Strum and Pick brand and they could become long-term buyers.

Case study 26.9

- 1 Product, price, promotion, place.
- 2 Costa Coffee uses a premium price as part of its market mix where it sets a high price for its drinks and food. Costa Coffee has a wide distribution network as its place strategy, selling in town centre high streets, train stations, motorway services and airports.
- 3 Costa Coffee's management believes the business's product is the most important element of the marketing mix because:
 - The business's food and drink are crucial to attracting and retaining the consumers.
 - It allows the business to set a premium price to achieve a high profit margin.
 - A high-quality product is an important part of the firm's word-of-mouth promotion strategy.
- 4 Two disadvantages for Costa Coffee of setting a low price for its product:
 - It may lead to a reduction in the firm's profit margin if unit costs cannot be reduced.
 - Consumers might perceive the business's food and drink as lower quality, which could affect the product element of the marketing mix.
- 5 Two advantages of Costa Coffee using word-of-mouth promotion:
 - It is very low cost.
 - Positive independent views of customers are a very strong attraction for potential customers.

Case study 26.10

- 1 'Distribution channels' are the routes that a product takes as it moves from the producer to the consumer.
- 2 Tesla is using direct selling to distribute its electric cars. This means Tesla sells directly to the consumer without using any intermediaries.
- 3 Tesla could use a one-intermediary channel to distribute its cars where it uses car showrooms as an intermediary to sell its cars. The Tesla cars would be sold to the business that owns the showroom that sells the cars.
- 4 Possible advantages to Tesla of using direct selling might be:
 - No profit margin is taken by an intermediary, which means more profit is available to Tesla.
 - Tesla has more control over the way the product is priced, promoted and sold to the consumer.
 - Tesla will get better information about the market and its consumers by dealing directly with them.
- 5 Two possible disadvantages of Tesla using direct selling:
 - Tesla will have additional storage costs and marketing costs from selling its cars directly.
 - The cars Tesla is selling cannot be seen at car dealerships and this might lead to lost sales.
 - Tesla could lose out on the specialist knowledge of businesses that are experienced in selling cars.

Case study 26.11

- 1 People, process and physical evidence.
- 2 Apples uses employee training to enhance the people aspect of the extended marketing mix by using techniques such as 'bring in experts', 'build relationships through trust', and 'up-sell newer models'.
- 3 Two problems might include:
 - Being able to find the right employees to train. Without the right employees Apple's training programme is less likely to be successful.
 - Training programmes can be a cost in terms of employing training staff and the time sales staff have to spend training rather than selling Apple watches.

Case study 26.12

- 1 Physical evidence is the ways in which the business and its products are presented to customers.
- 2 'We Care' sets out the way MOHG's hotels are presented to its customers in terms of their Covid-19 safety. This involved providing PPE equipment and increased cleaning measures.
- 3 Two benefits of achieving the best possible physical evidence include:
 - Customers are willing to pay a higher price for a hotel service that is presented as high quality.
 - Customers are more likely to be brand loyal to a hotel service that is presented as high quality.
 - Customers are more likely to recommend a hotel through word-of-mouth promotion if the service is presented as high quality.
- 4 Reasons why physical evidence is an important part of MOHG's extended marketing mix:
 - As a luxury hotel the quality of the rooms, facilities and the building itself (physical evidence) will be very important to the guests.
 - Guests will only pay a premium price for the hotel if the physical evidence is high quality.
 - Word-of-mouth promotion will often be based on the customer's experience of the quality of the physical evidence of a hotel.
 - Review businesses such as Trivago will only give hotels good write-ups if the standard of the physical evidence at MOHG is very high.

Evaluation might include discussion of the importance of other elements of the extended marketing mix such as people (quality of hotel staff) and process (booking system) which are both critical as well. Evaluation might also include discussion of the importance of the price, product, promotion and place of the marketing mix.

Activity 26.1

Learners' own answers.

Activity 26.2

- 1 Because one element of the marketing mix does not fit with the whole mix.
- 2 Watches: advertised on a local television network.
Electrical goods: sold only over the internet.
Nail saloon: high – premium prices set for consumers.
Coffee shop: advertised in local newspapers.

- 3 Watches: sports sponsorship.
Electrical goods: sold in low-cost retailers.
Nail saloon: discount prices.
Coffee shop: high-quality website.

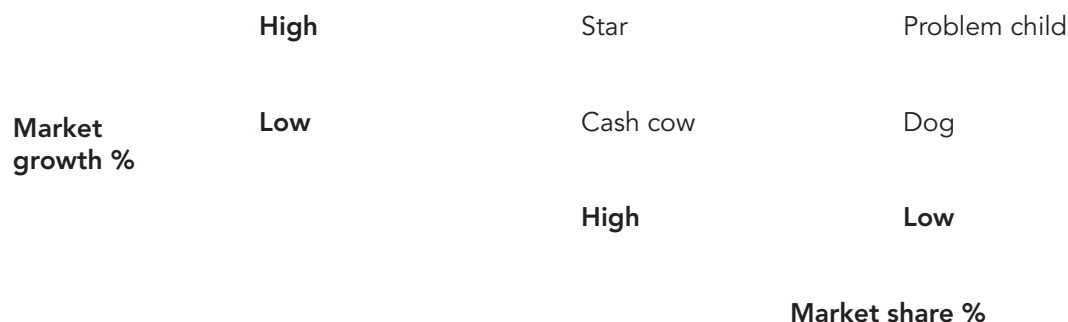
Activities 26.3–26.9

Learners' own answers.

Exam-style questions

Extract 1

- 1 A 'brand' is an identifying name, symbol, image or trademark that distinguishes a product from its competitors.
- 2 Family branding is marketing several related products under one brand name. Product branding means each product that a business sells has its own unique identity and brand image. L'Oréal uses the family branding approach.
- 3 The Boston matrix is a way of analysing a business's product mix in terms of market share and market growth. The diagram shows how the Boston matrix is set out. Cash cow products have high market share and low market growth; star products have high market share and high market growth; problem child products have high market growth and low market share; and dog products have low market share and low market growth.



- 4 The Boston matrix might be useful to L'Oréal's brand management in the following ways:
 - When L'Oréal is balancing its product mix so that new products (problem child) replace declining products (dogs). This might be important in the fast-changing fashion market.
 - It guides branding strategy and decision-making for the different products L'Oréal is marketing. For example, a cash cow shampoo might need an extension strategy.
 - It helps L'Oréal's management make judgements about brand performance and then take appropriate decisions based on this. An under-performing problem child beauty product may be discontinued if its sales growth is not fast enough.

Evaluation might include discussion of the problems of using a tool that tells managers what is happening now but not what might happen in the future. This makes it of limited use for future decision-making. Not all products follow the same problem child, cash cow, star, dog pattern. In the fashion industry products can quickly become stars and never achieve cash cow status.

Extract 2

- 1 'Marketing strategy' is the long-term plan established by a business to achieve its marketing objectives.
- 2 The physical evidence is the methods Sublimotion uses to present its product to customers, which is the way the restaurant is designed, the use of music and IT in the restaurant, and the quality of the food served.
The people element used by Sublimotion is the managers and employees who work in the restaurant, e.g., the high-quality chefs used by Sublimotion.
- 3 Physical evidence is an important aspect of Sublimotion's extended marketing mix because of the high quality, exclusive nature of the restaurant and the high prices it charges. Because of this, Sublimotion's consumers will have high expectations of the dining experience they receive from the restaurant.
- 4 The reasons why the people aspect of Sublimotion's extended marketing mix might be important are:
 - The high-quality food served by the restaurant depends on having very good chefs.
 - Sublimotion's consumers will expect high-quality service, and this will depend on having the best staff to serve in the restaurant.
 - The business will need to be effectively managed to make sure the process and physical evidence elements of the extended marketing mix are delivered efficiently.
 - As an innovative business, people will be important in designing new services and food offered by the restaurant.

Evaluation might include discussion of the other elements of the extended marketing mix and how they will be important to sublimotion. This will be physical evidence and process. Evaluation might also include discussion of the importance of the price, product, promotion and place of the marketing mix.

Chapter 27 International marketing

Business in context

- Opportunities include lower costs – the same products will not need to be adapted for each country; same/similar adverts and promotions can be used which will also cost less than producing new advertising promotions for each country's market; same global image, e.g., for IKEA it is the modern design of the furniture with a focus on good value. Threats include important market differences which might make some products inappropriate or require others to be adapted, e.g., average height/weight of consumers may be different in some countries so that beds/chairs/tables etc. may have to be adapted; some colours might be inappropriate in some cultures; adverts considered suitable for some markets might be misunderstood or be offensive to some cultures. Brand image could be damaged if marketing strategies are not adapted.
- Cultural relevance is vital for international businesses as, despite globalisation, there is an increasing awareness of cultural and national identities. Failing to be culturally relevant in the food, drink and clothing markets in particular could lead to considerable consumer resistance and even boycotts of certain products.

Case study 27.1

- 1 'International marketing' relates to a business selling products in overseas markets.
- 2 International franchising is a method of international marketing used by UPS to establish its brand in overseas markets. As the franchisor, UPS has established the brand and a business system, and an overseas franchisee pays a royalty and an initial fee for the right to sell the delivery service under the UPS name and system.
- 3 UPS might have used a pan-global approach to marketing its brand in overseas markets because of the strength of the UPS product as a high-quality shipping and delivery business in the mind of consumers. The strength of the brand may mean this is the best way to sell the UPS product in international markets.

4 The benefits to UPS of expanding into overseas markets might be:

- The domestic delivery and shipping market in the USA might be saturated, and expanding overseas offers UPS the opportunity for growth.
- By expanding into international markets UPS has the opportunity to increase its sales and profits as the business can reach a greater number of consumers.
- Expansion into international markets means UPS can spread its risk across different international markets, so if one declines another can be used to maintain sales.
- By increasing its scale of production UPS has the opportunity to benefit from economies of scale and reduce its unit costs.

Evaluation might include discussion of the differences when selling in international markets such as: language and cultural differences; varying business practices; and legal, political and economic differences. These are all challenges UPS will have to deal with as it expands into overseas markets.

Case study 27.2

1 'Global localisation' means adapting the marketing mix to meet the national and regional tastes and cultures.

2 To meet the different market segments of the holiday market it uses a mix of different products that include: Reserve it for accommodation, One deal for package holidays and Pick up and go for car rental.

3 Two problems for Reserve.com of marketing its products internationally might include:

- Political/legal differences in international markets such as visa requirements needed for foreign travel which will impact on Reserve.com when it is marketing travel.
- Social differences in the way people go on holiday, such as the extent to which people travel with their extended families.
- Cultural/language differences make it more challenging for Reserve.com to brand and promote its products.
- Economic differences can have a significant impact on the holiday market. For a travel business such as Reserve.com this might mean having to deal with exchange rates and currency differences between countries.

4 The benefits to Reserve.com of marketing its products online might be:

- By selling on the internet Reserve.com can reach consumers all over the world at relatively low cost and increase its revenues and profits.
- Selling online reduces Reserve.com's selling costs because it does not need physical shops to sell its holiday products.
- Reserve.com can use online marketing to present its products such as hotels and resorts in video form, which can be an effective way of marketing them.
- Online booking is a fast and effective way for Reserve.com to receive reservations and payments.
- Reserve.com can use internet-based marketing techniques such as pop-up adverts to promote its products.

Evaluation might include discussion of the problems for Reserve.com of selling online. For example, some consumers are uncomfortable booking through the internet, there can be issues of internet security, not all consumers have access to an effective internet connection, and a lack of human contact with consumers might reduce the quality of information Reserve.com gets from the market.

Activities 27.1–27.4

Learners' own answers.

Exam-style questions

Red and Blue plc consider expanding into Europe

- 1 A business in one country sets up a franchise in another. A business exports its products to other countries.
- 2 'Pan-global marketing' is about adopting a standardised product across the globe as if the whole world were a single market – selling the same goods in the same way everywhere.
- 3 Direct export; international franchising.
- 4 It spreads risk across different markets. Firms can exploit economies of scale.
- 5 Transport costs. Different consumer needs and wants.
- 6 A joint venture is where a business works with a local firm in the country to market a product.
- 7 'Global localisation' is where a product is marketed by a business in different countries and changed to fit the tastes and preferences of consumers in those local markets.
- 8 Red and Blue might use global localisation in the following ways:
 - Change the food it sells to meet local tastes in Europe such as offering more chicken and vegetarian options.
 - Use above- and below-the-line promotion that meets local needs, such as branding based on European languages.
- 9 The market for Red and Blue's product might be under threat as the number of consumers who are vegan or vegetarian increases and the number of consumers who have environmental concerns about beef increases. This could lead to a fall in the sales of Red and Blue's beef-based menu.
- 10 The advantages of Red and Blue expanding into Europe might be:
 - An increase in potential sales revenue.
 - Economies of scale and reduced unit costs as the size of the business increases.
 - Spreading the risk of the business across different markets.
 - The business can learn new production/marketing ideas from operating in overseas markets.

Evaluation might include discussion of the disadvantages of expanding into Europe such as different tastes and preferences in Europe compared to the USA along with management and logistical difficulties of operating in an overseas market.

Unit 5: Operations management

Chapter 28 Introduction to operations management

Business in context

- No, an oil and gas business can never be fully sustainable as it leads to the burning of fossil fuels which cannot be replaced even though other sources of them might be exploited. However, the oil and gas industry could be made more sustainable by reducing wastage and loss of gas and oil during storage/transport; improving the energy efficiency of the refining process; developing more efficient ways of using oil and gas and using renewable energy sources as well.

- The business will benefit from a more CSR-focused image; improved public relations; higher revenue from the sale of renewable energy sources; low-carbon operations might reduce business costs; favourable reaction from socially aware consumers could lead to higher demand for Total's products.

Case study 28.1

- 1 'Value added' is the difference between the cost of purchasing raw materials and the price the finished goods are sold for.
- 2 Two resources could be:
 - Land, which is the raw material used in production of Adidas products such as training shoes.
 - Capital, which is the machinery, buildings and equipment used in production of Adidas sportswear.
- 3 Adidas manages water by sourcing cotton that is grown using recycled water for irrigation. Adidas has become more sustainable in its energy usage by committing to being carbon neutral by 2050.
- 4 The benefits to Adidas of achieving greater sustainability in production might be:
 - It attracts consumers to Adidas who are concerned about the environment.
 - It attract employees to Adidas who are concerned about the environment.
 - Adidas is more likely to meet government regulations and not be penalised.
 - Sustainability can be used in Adidas promotion campaigns.
 - The management and employees are motivated by the feeling that they are contributing positively to society.

Evaluation might include discussion of the disadvantages of trying to be more sustainable such as higher production costs from the use of sustainable production methods. It may also be difficult the measure the benefits in revenue terms over time.

Case study 28.2

- 1 'Sustainable production' is the creation of production using processes and systems that have a minimal negative impact on the environment.
- 2 Notpla is a sustainable business because it produces Ooho sachets which are biodegradable and compostable. That means their use in the production of food products has a minimal negative effect on the environment compared to the use of plastics.
- 3 Two benefits to Notpla of being a sustainable business might be:
 - It is attractive to businesses that want to use a sustainable product in production, and this increases Notpla's sales.
 - Notpla gains positive publicity as a sustainable business producing an innovative product, which attracts new investors and customers.
- 4 Two disadvantages to food businesses of using Notpla's product could be:
 - Ooho might be a higher cost input product for food producers than plastics.
 - Notpla is a small business and if it went bankrupt then there would be an interruption to the food producers' supply of packaging.

Case study 28.3

- 1 Instead of owning a car or relying on public transport, people regularly share a car for travelling.
- 2 Car owners benefit financially from letting other people use their car. Companies that manage car sharing earn a profit.
- 3 The safety risk of sharing vehicles. Owners cannot use their cars all of the time.

Activities 28.1–28.3

Learners' own answers.

Exam-style questions

- 1 'Socially sustainable' operations and businesses can be sustained in the long-term by protecting the environment and not damaging the quality of life future generations.
 - 2 'Ecological sustainability' is the capacity of ecosystems to maintain their essential functions and processes, and retain their biodiversity over the long term.
 - 3 It uses solar energy and it uses energy-efficient equipment.
 - 4 'Value-added' is the way a business increases the economic value of its product through the production process.
 - 5 It could increase the quality of the food materials used in production and improve production methods.
 - 6 Labour: the workers employed in the restaurant to cook, serve the food and look after customers. Capital: the buildings and equipment used by the restaurant to produce and serve its food.
 - 7 Two reasons might include:
 - The Veg-Mexicana operations manager will tell the human resources manager how many workers are needed to produce and serve meals efficiently.
 - The Veg-Mexicana HR manager will tell the operations manager the employment regulations and practices that the restaurant needs to follow when producing meals and serving customers.
 - 8 Two ways might include:
 - Using locally sourced ingredients to produce food in the restaurant.
 - Ana Hernandez speaks out on social issues such as animal welfare.
 - 9 By being a sustainable producer Veg-Mexicana may be able to charge a higher price for its meals to customers who are willing to pay more for food that is produced sustainably, and this would increase the business's value added.
 - 10 Being a sustainable business might help Veg-Mexicana to be a successful business in the following ways:
 - It might increase Veg-Mexicana's sales and profits if consumers are attracted to it because it is a sustainable business.
 - Sustainability may allow Veg-Mexicana to increase its prices and value added.
 - It might allow the business to attract skilled and motivated workers.
 - Investors who are attracted by sustainability might put funds into the business.
 - Veg-Mexican might receive government funds and avoid regulations as a sustainable business.
- Evaluation might include discussion of the higher costs associated with sustainable production and the increased complexity in the production process.

Chapter 29 Operations methods

Business in context

- Learners' own suggestions plus supporting arguments. Perhaps basic food products such as rice or butter. Low-priced versions of products such as mobile phones that sell based on price not features or variations from the basic model. Can laundry and car washing services, etc. be 'customised'?
- From simple hand-held tools used by early manufacturers to today's factories which can be almost totally robotically controlled, there are many examples for learners to give to help explain how technology has transformed not just the products we buy but the ways in which they are made.

Case study 29.1

- 1 'Flow production' is producing items in a continually moving production line – also known as line production.
- 2 Mumbai Maestro uses job production where one suit is produced at a time. Des Gâteaux et du Pain uses batch production where units of bread are produced as a group.
- 3 Molinos Río de las Plata produces cars using flow production because it produces a large number of units, and it is most efficient to produce them continuously. The process of mass-producing sunflower oil makes it suitable for flow production.

Case study 29.2

- 1 'Mass customisation' combines the personalisation of individually designed products with the low unit costs associated with flow production.
- 2 Fisher has chosen to use mass customisation to manufacture its skis because it creates a product feature in the marketing mix which appeals to its consumers.
- 3 The disadvantage of mass customisation is the increase in costs that the production method involves for Fisher which may reduce its profit margins and or lead to higher prices.

Activities 29.1-2

Learners' own answers.

Exam-style questions

- 1 'Job production' is producing a one-off item specially designed for each customer.
- 2 'Batch production' is producing a limited number of identical products – each item in the batch passes through one stage of production before passing on to the next stage.
- 3 High production cost per unit produced. Difficult to meet large orders quickly.
- 4 Large-scale production of standardised products. Large-scale specialist capital is used.
- 5 Flow production with customised differences. Needs a flexible, skilled workforce.
- 6 'Process production' is producing standardised goods, typically in bulk quantities, by using a continuous input of materials and other resources.
- 7 Oil; paint.
- 8 Musa uses batch production for larger production levels where it manufactures a number of units that complete a stage of production before it starts the next one. Job production is used for individual chocolate products that are completed based on the specifications of individual buyers.
- 9 Two advantages for Musa of using job production might be:
 - A high-quality product can be produced that meets the demands of an individual buyer.
 - The individual product can be tailored to meet the needs of the buyer.
- 10 The advantages of switching the new factory to batch production might be:
 - It means workers have a greater variety of tasks in their work which increases their motivation.
 - Batch production allows Musa to change the products it produces in the factory, which gives it greater flexibility.
 - Musa is more experienced in using batch production methods compared to flow production.
 - Batch production is likely to give a higher-quality product compared to flow production.

Evaluation might include discussion of the disadvantages of the switch to batch production such as loss of economies of scale and the cost of investment in new capital.

> Chapter 30 Lean production and quality management

Business in context

- Involvement of employees should lead to improved motivation and quality; involvement in solutions for quality problems could lead to better ideas as workers have direct production experience; lower stock costs from lean production; shorter product development times.
- The advantages include: better ability to introduce models which reflect consumers' changing tastes and preferences; more up to date and technologically advanced models which should appeal to consumers; more competitive in the marketplace so more likely to be able to win customers from rivals and increase market share.

Case study 30.1

- 1 'Productivity' is a business's output per unit of resource input.
- 2 Management culture that involves staff in decision-making. Team-working which involves discussing ideas to improve quality.
- 3 By reducing the set-up time on machinery, RZY's production time can be increased by five hours a day and this increases potential revenue. By improving efficiency on delivery time, RZY's customer satisfaction will improve which may increase revenue.
- 4 The problems might include:
 - The time and investment cost in new production systems at RZY.
 - The time and cost of retraining RZY employees in a new production system.
 - Employees at RZY might be resistant to the change in production system.
 - Adopting JIT might be difficult if RZY has unreliable suppliers.

Evaluation might include discussion of the way of overcoming the problems such as staff consultation on the new system and attracting outside investment to change machinery. Discussion could also include the argument that the benefit of using lean production might outweigh the cost in the long term.

Case study 30.2

- 1 'Lead time' is the amount of time it takes from the order of a product by the consumer to the delivery of that product to the consumer.
- 2 Crest of Wave hold minimal stock levels. Stock is ordered by Crest of Wave only when it is needed.
- 3 Two advantages might include:
 - By holding minimal stock, Crest of Wave allocates more of its factory space to production, which generates revenues and profits.
 - Crest of Wave will not have to hold too much working capital (cash) in stock.
- 4 Two disadvantages might include:
 - If Crest of Wave's suppliers are unreliable, it risks running out of stock and interrupting production.
 - The workforce at Crest of Wave may not be efficient enough to meet consumer demand if it cannot hold some stock.

Case study 30.3

- 1 'Lean production' is producing goods and services with the minimum of wasted resources while maintaining high quality.
- 2 Customers use touch-screen computer technology to make their order. Each sandwich is prepared by the restaurant staff when the order for it is received.
- 3 Two advantages to McDonald's of using lean production might include:
 - Reducing the service time means more customers can be served, which increases revenues.
 - Increasing efficiency through lean production reduces McDonald's unit costs.
- 4 Two disadvantages to McDonald's of using lean production might be:
 - Increased costs of staff training to use the system.
 - Increased capital costs to use the system.

Case study 30.4

- 1 'Cradle-to-cradle production' is a manufacturing principle that seeks to create production techniques that are not just efficient but are essentially waste free and truly sustainable.
- 2 The products produced in this way might attract environmentally aware consumers. The firms producing products this way might receive government support.
- 3 Disadvantages include the potential for business costs to increase, and it limits the production methods available to firms using this method.

Case study 30.5

- 1 'Quality assurance' is a system of agreeing and meeting quality standards at each stage of production to ensure consumer satisfaction.
- 2 Quality of inputs; production quality; delivery systems; customer service including after-sales service.
- 3 Two consequences of poor quality include the increased cost of repairing and replacing faulty farm machinery, and lost revenues from customers affected as a result of CFM producing faulty products.
- 4 The benefits to CFM of improving its quality assurance might be:
 - Improving the quality of the final product will increase its sales and revenues.
 - The business will not incur such high costs of repairing and replacing products.
 - There will be fewer faulty products in production that have to be reworked or scrapped.
 - Overall efficiency on the production line is improved as less time is spent dealing with faulty products.

Evaluation might include the capital costs and employee costs of employing a quality assurance system. Quality assurance may not solve CFM's problems with faulty products if they are caused by things such as out-of-date production line machinery.

Activities 30.1–30.4

Learners' own answers.

Exam-style questions

- 1 A 'quality circle' is a group of employees who meet regularly to discuss ways of resolving problems and improving production and quality in the organisation.

- 2 Well-trained employees; motivated employees.
- 3 Aiko employs TQM in the following ways:
 - It employs the best employees who can work with the system.
 - It uses the quality circles extensively to improve production systems and the quality of the computers.
- 4 Less waste in production; greater efficiency in production.
- 5 Reduced cost per unit; reduced production times to meet orders.
- 6 Team-working amongst employees; empowerment of workers in teams.
- 7 'Just-in-time' is a stock-control method that aims to avoid the need to hold stocks by requiring supplies to arrive just as they are needed in production, and completed products are produced to order.
- 8 Strong relationships with suppliers; equipment and machinery must be flexible.
- 9 Two ways JIT can increase profits at Aiko might include:
 - By using JIT Aiko can reduce its stock levels to a minimum, which reduces the cost of holding stock which increases profits.
 - Allocating more production space to value-added activities means that revenue can be increased which would increase profits.
- 10 Lean production could lead to Aiko's success in the following ways:
 - Greater productivity through TQM and JIT can increase Aiko's efficiency and reduces its unit costs.
 - TQM can increase revenues and profits because the quality of Aiko's product is improved.
 - JIT can increase customer satisfaction, which increases revenues and profits.
 - Employee motivation might be improved through lean production, which makes the business more efficient which can reduce unit costs and increase revenues.

Evaluation might include discussion of other factors that could contribute to Aiko's success such as the quality of its management, the weaknesses of its suppliers, or the strength of demand in the market.

Chapter 31 Location

Business in context

- Learners' own assessment based on the case study and own knowledge. Points might include: good transport links; proximity to the USA; extensive port facilities; state support/finance for businesses locating there; some natural resources, e.g., agave and oil.
- Soft drinks – need to be located close to market as this product gains weight during production, i.e., mainly water and water is expensive to transport but quite low value so proximity to market will help to keep costs lower. Some raw materials might be needed, e.g., juice extracts, and if these need to be imported then proximity to sea ports would be important. Labour force must be available locally, and as equipment is largely automated, some qualified engineers need to be encouraged to locate to the area.
Hairdressing – proximity to market is important too as the materials used are relatively inexpensive to transport but customers might not be prepared to travel far. Is a town centre location better than on the outskirts of towns/cities? This will depend on the image of the business and the type of clients it is trying to attract. Access to qualified employees is important, so a local college offering hairdressing courses might be an advantage. Is location important for all businesses? Perhaps internet-based website design is an example of a business that could be located anywhere that there are good internet connections.

Case study 31.1

- 1 'Optimal location' is a business location that gives the best combination of quantitative and qualitative factors.

- 2 The grant paid by the local government to help the new factory's set-up costs. The relatively low land costs for the construction of the factory.
- 3 An available skilled workforce will be important to BerSport as it is a high-tech company that will need employees with the ability to manufacture BerSport's batteries.

Case study 31.2

- 1 'Payback' is the length of time it takes an investment project to repay its initial investment.
- 2 An average rate of return of 7.9% means location B makes an average annual profit of \$7.90 on each \$100 invested.
- 3 Location C is likely to be the most profitable location in the long term because it has the highest average rate of return at 9.1%.
- 4 The advantages of a location being the most profitable might be:
 - The highest return for the shareholders of the business.
 - Allows the business to pay more to its employees and gives them greater job security.
 - Gives ARP more funds to invest in future projects.
 - It can give ARP greater security in the long term.

Evaluation might include discussion of non-financial factors such the environmental considerations of location C or the access to infrastructure at location A or the access the skilled labour at location B.

Case study 31.3

- 1 A 'qualitative location factor' relates to the non-measurable factors that may influence business decisions.
- 2 An ethical location decision might be the influence that diversity has on a business's location decision. An environmental factor might be the influence of weather and climate on a tech business's location decision.
- 3 Qualitative factors are important in location decisions because they enable tech businesses to attract and retain the best employees. These employees are one of the most important factors in a tech business's success.
- 4 Qualitative factors are important in the location of service businesses for the following reasons:
 - They enable businesses to attract and retain the best employees and managers.
 - A good location can enhance the experience of workers and increase their motivation.
 - Service businesses can locate near their customers, which increases revenues.
 - They can enhance the ethical and environmental image of a business.

Evaluation might include the discussion of quantitative factors that are important in location decisions, such as the cost of renting or buying an office. It is also difficult to judge the relative importance of qualitative factors relative to quantitative factors.

Case study 31.4

- 1 'Offshoring' is the relocation of a business process done in one country to the same or another company in a different country.
- 2 Google has offshored its research and development function to Eastern Europe so that the business, CloudSimple, will do Google's research and development.
- 3 Two benefits to Google of offshoring might be:
 - Lower labour costs because wage levels are lower in Eastern Europe.
 - Access to new research and development ideas from a business in another country.

Case study 31.5

1 'Expected value' is the likely financial result of an outcome obtained by multiplying the probability of an event occurring by the forecast economic return if it does occur.

2 and 3

Town	Probability × forecasted revenue	Expected value
A	0.4 × 5 000 0.6 × 8 000	6 800
B	0.3 × 3 000 0.5 × 4 000 0.2 × 8 000	4 500
C	0.4 × 3 000 0.5 × 6 000 0.1 × 10 000	5 200
D	0.3 × 5 000 0.3 × 6 000 0.4 × 9 000	6 900

4 Amit should choose option D because it has the greatest expected value.

5 Accuracy of the past records; accuracy of the information from the other stallholders.

Activities 31.1–31.3

Learners' own answers.

Exam-style questions

- Clearwrite could relocate its production process to a new firm in Bolivia.
- Two problems might include:
 - A lower profit from offshoring than locating a factory in Bolivia.
 - Clearwrite may not achieve the level of quality in production compared to producing the product itself.
- 'Optimal location' is a business location that gives the best combination of quantitative and qualitative factors.
- 'Qualitative factors' are non-measurable factors that may influence a business in a location decision.
- Safety of employees; room for further expansion.
- A new plant might cause pollution and adversely affect the natural environment. Accessible, good quality infrastructure will improve efficiency.
- Purchase of land; cost of capital equipment and machinery; legal expenses; regulation costs.
- $\$16.7\text{m} \times 0.089 = \1.49m
 $\$21.4\text{m} \times 0.078 = \1.67m
- Clearwrite should choose option X because it yields the highest profit per \$ invested in the project at 8.9% compared to location Y at 7.8%.

10 Quantitative factors are important for Clearwrite because:

- Good infrastructure in location X can lead to greater efficiency in production.
- Good infrastructure in location X can lead to lower costs of production for Clearwrite.
- Government support for location X can reduce Clearwrites set-up costs.
- Lower set-up costs in location X increase the ARR of location X.

Evaluation might include discussion of qualitative location factors such as the security concerns of location X, and it does not have such good access to skilled labour as location Y.

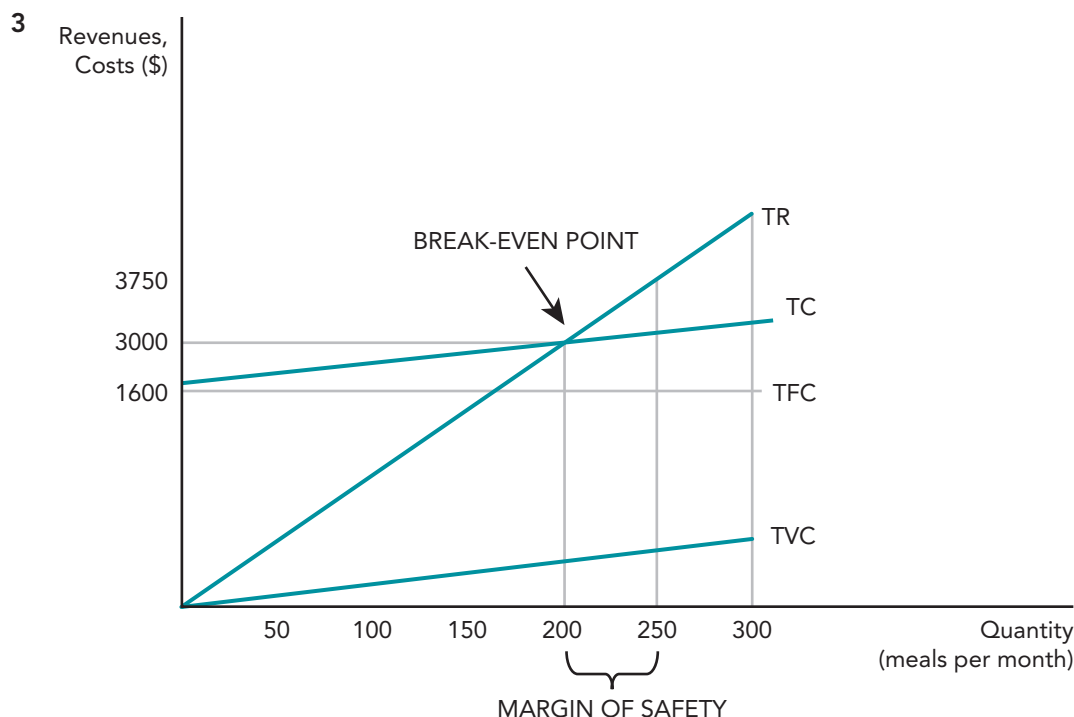
Chapter 32 Break-even analysis

Business in context

- It is very important for all business owners/managers to know what level of output or sales will lead to all costs being covered – so no loss or profit is being made. For newly established businesses in particular, this information would assist an entrepreneur in quickly assessing the likelihood of their business starting to earn a profit and pay back some of the loan finance (if this was used to start the business). For businesses experiencing an economic recession or other factors that cause a fall in demand, the BE point will show managers how far sales can fall from existing levels before a loss is made – indicating when corrective action should be taken. If managers are considering major decisions such as price changes or opening a new branch/store, break-even analysis can be used to indicate the likely impact of these decisions on both the break-even level of sales/output and the total profit made.
- As the break-even point is achieved at the level of output at which revenue equals total costs, measures must be taken by a loss-making airline to either boost revenue or cut costs. Such measures could include: increasing fares on routes for which demand is price inelastic; reducing prices on routes for which demand is price elastic; reducing staff levels on each aircraft (if safety regulations allow); leasing smaller aircraft to increase the chances of operating them at close to full capacity.

Case study 32.1

- 1 'Break-even' is the quantity at which the total revenues of the business equal its total costs.
- 2 Start-ups usually have low revenues until they get established in the market. The targeted consumers probably buy their lunches from other competitors already, so it could be difficult for Zhen, in the beginning, to sell enough to break even. Moreover, the business may have some one-off extra costs at the beginning of its operations, such as the production of promotional leaflets, which make break even difficult in the early days of a business such as Zcook.



4 $300 \times 15 - (1600 + 7 \times 300) = \800

Case study 32.2

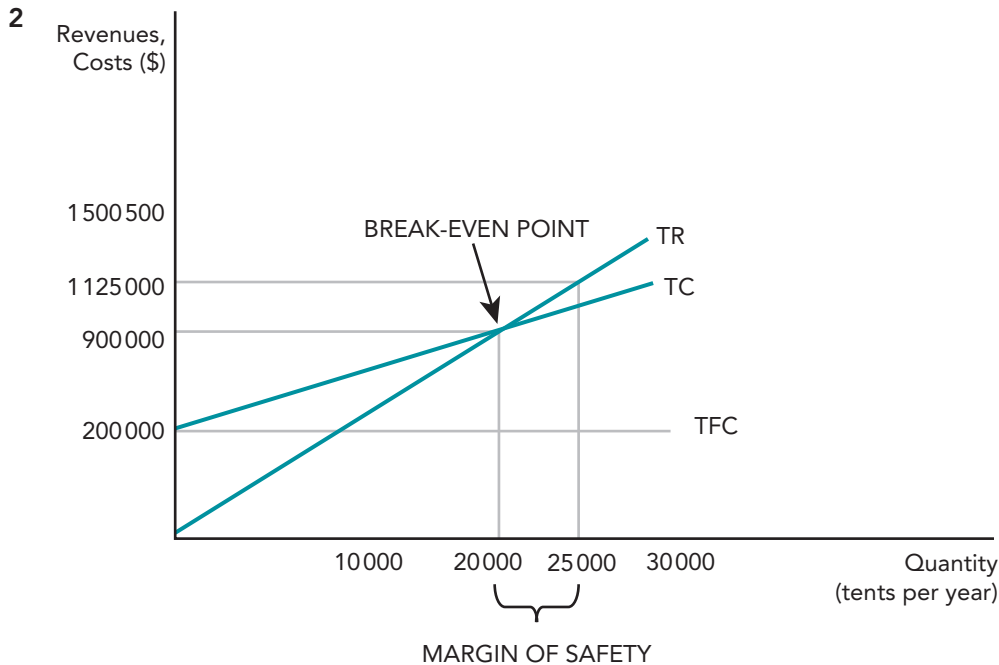
- 1 The 'margin of safety' is the difference between the quantity produced by a business and the break-even quantity.
- 2 $100\,000/2000 = \$50$
- 3 Zero (2000 pairs is the break-even quantity)
- 4 $20\,000/2000 = \$10$
- 5 $2500 \times 50 - 2500 \times 10 = \$100\,000$
- 6 If the price rises, the total revenue curve will shift to the left (it will become steeper), so the break-even quantity will fall below 2000 units.
- 7 We assume no impact on the demand or revenue curve from the price change (that the total revenue curve is a straight line).

Case study 32.3

- 1 The 'target profit' is a given level of profit that a business wishes to achieve within a given time period.
- 2 Profit for 2021: $25 \times 10\,000 - (90\,000 + 15 \times 10\,000) = \$10\,000$
 Target profit level of output = $\frac{\text{fixed costs} + \text{target profit}}{\text{contribution per unit}} = \frac{90\,000 + (10\,000 \times 1.2)}{25 - 15} = \frac{102\,000}{10} = 10\,200$ balls
- 3 Break-even target price = $\frac{\text{fixed costs}}{\text{production level}} + \text{direct cost} = \frac{90\,000}{8000} + 15 = \26.25
- 4 The increase in the price would bring a reduction in the break-even level of output from 9000 to 8000 units, thus the margin of safety would increase at any given level of output.

Case study 32.4

1 'Unit contribution' means unit of output.



$$\text{Profit} = 25\,000 \times 45 - (200\,000 + 35 \times 25\,000) = \$50\,000$$

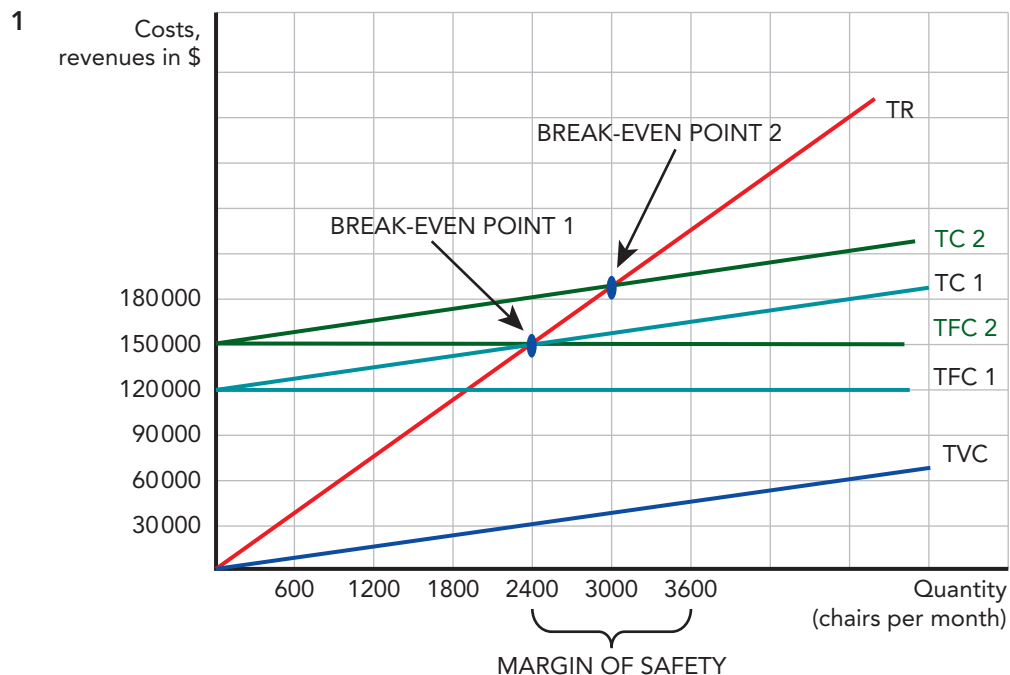
3 Possible advantages:

If the marketing director is right, then psychological pricing would attract many consumers who would perceive the price as 'value for money' since it will be placed right below the maximum price they were ready to accept. This way, the total revenues of La Pitch would increase. This strategy could help the business to increase its market share and resist competition.

Possible disadvantages:

- Unit contribution would be reduced, so the business would realise a lower profit per tent sold.
- A lower price would increase the break-even quantity and would reduce the margin of safety at maximum capacity.
- The lower price could harm the 'high quality' image of the business.
- If the strategy proves to be successful, then the business may reach its full capacity and it would have to consider ways to solve the capacity shortage.

Activity 32.1



$$\text{Profit} = \text{TR} - \text{TC} = 300\,000 - 180\,000 = \$120\,000$$

- 2 Factors such as an increase in the price of raw materials used to produce chairs, wages rising because of the government increasing the minimum wage, etc.
- 3 Break-even analysis can help the business to determine the minimum level of output to cover the costs, the margin of safety at a given level of output and the expected profit. It can also help them to take marketing decisions such as changing prices, deciding on appropriate location, etc. Even if sudden changes happen and assumptions alter, the break-even analysis can still be one of the basic tools used to help businesses with the decision-making process. The effect of such changes will need to be considered and evaluated and reflected in updated break-even analysis.

Activity 32.2

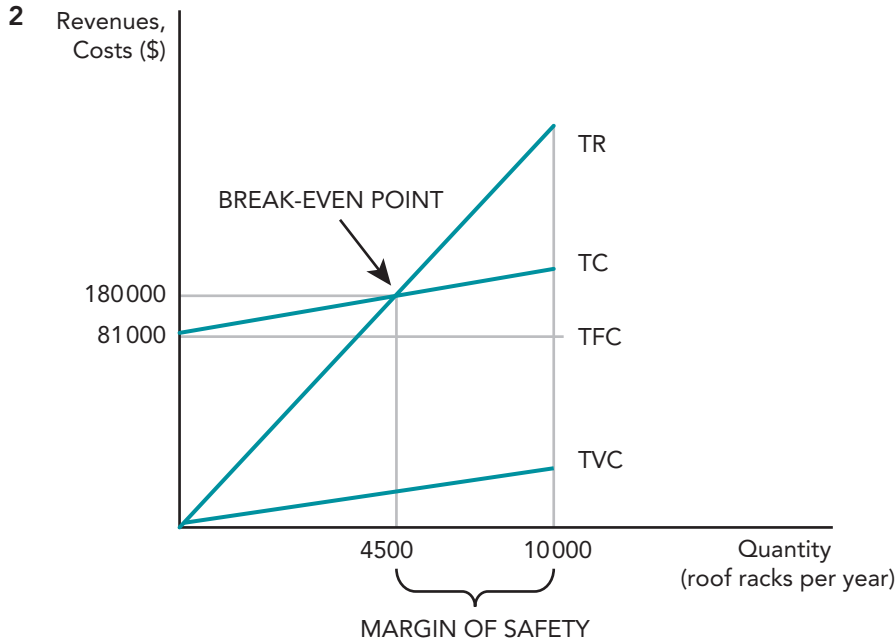
- 1
 - a Fixed costs rise, and so do the total costs. The break-even quantity increases.
 - b Fixed costs fall, and so do total costs. The break-even quantity falls.
 - c Variable costs per unit rise. The total cost curve shifts to the left (becomes steeper). The break-even quantity rises.
 - d The variable cost per unit falls. The total cost curve shifts to the right (becomes less steep) and the break-even quantity falls.
 - e Same as d.
- 2 Yes, the break-even quantity would fall if the business managed to increase the price, e.g., because of an increased level of brand loyalty or if it found a way to cut costs for any reason, e.g., changing a supplier to one that is more affordable.

Activity 32.3

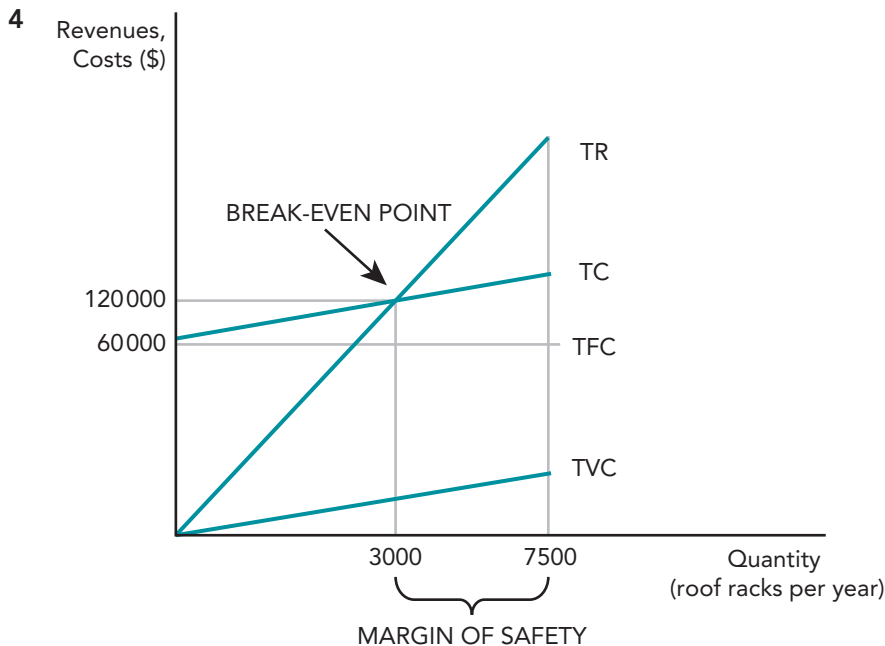
Learners should discuss the significance of break-even level, the margin of safety, maximum capacity, maximum possible profit, as well as marketing reasons such as the extent to which each location could attract the targeted consumers.

Exam-style questions

1 Rent for the current premises, salaries of permanent employees, insurances related to the factory, etc.



3 Profit = $40 \times 10000 - (81000 + 22 \times 10000) = \99000



5 Profit = $40 \times 7500 - (60000 + 20 \times 7500) = \90000

6 The total fixed cost (TFC) curve would shift vertically upwards and so would the total cost (TC) curve, thus a higher fixed cost would mean a higher break-even quantity and a lower margin of safety.

7 Profit = $45 \times 4500 - (54000 + 22 \times 4500) = \49500

- 8 One advantage is the increase in unit contribution, which allows the business to make a higher profit per unit sold, after covering the fixed costs. A disadvantage is that retailers may decide to turn to competitive products, leading to lower sales and potentially revenues (depending on how much the quantity sold would reduce after the price increase).
- 9 In this case, the partners must choose from various options. Break-even analysis allows comparisons to help with the decision. However, there are many assumptions behind break-even analysis, e.g., that what is produced will also be sold. However, if the productive capacity of WCR is increased and it starts producing more, there may be periods of time when there is unsold stock, depending on demand conditions. (Any other advantage or limitation could be applied.)
- 10 Paolo's proposals: Both options focus on increasing the productive capacity of the business which is needed because the business has reached full capacity, while demand is growing. Option 1 allows a bigger maximum profit compared to option 2, but it also leads to a higher break-even quantity. If demand keeps increasing, Option 1 is better, but in difficult trading conditions, it will be easier to break even with option 2. Both options will require capital investment, which could be difficult to get since the business is a partnership with limited access to external sources of finance.

Stefano's proposal: This option allows for a higher profit in the short term, without the business proceeding to capital expenditure. However, it does not solve the problem of capacity shortage. If demand keeps growing, the business will soon be faced again with the decision whether to expand. Moreover, if Stefano is wrong about his forecast, the increase in the price might lead to a bigger drop in the quantity demanded, while relationships with retailers might be destroyed.

Learners can recommend any of the options if they substantiate their choice.

Chapter 33 Production planning

Business in context

- Businesses hold stock to maintain production flow; meet consumer demand; give consumer choice of goods in stock; benefit from large-scale ordering of supplies; benefit from rising prices by selling stock held for more than planned. In addition, in many industries work-in-progress is an essential part of the production process, e.g., housebuilding.
- This is the aim of JIT (just-in-time), but zero stock is impossible in the manufacturing industry as work-in-progress is always likely to be held – but zero raw material stock (new supplies arrive just as required) and zero finished goods stock (all goods made to order and despatched once completed) might be possible. Zero stocks in some service businesses is unlikely (e.g., restaurants) but might be possible in a business that focuses on online or telephone customer services.

Case study 33.1

- 1 A 'supply chain' is all of the producers of inputs that a business needs to use when it is producing its product.
- 2 An effective supply chain should achieve the lowest cost of inputs that meet the organisation's set standards, and a reliable supply of inputs.
- 3 Two advantages to Samsung include:
 - It enhances the reputation of the business in the mind of the consumer.
 - The business is more likely to meet its CSR objectives.
- 4 Two disadvantages to Samsung include:
 - Only using sustainable suppliers can increase the business's costs.
 - It makes the process of finding suppliers more time consuming and bureaucratic.

Case study 33.2

- 1 Just-in-time stock control aims to avoid holding stocks by requiring supplies to arrive just as they are needed in production, and completed products are produced to order. Just-in-case stock control is a stock management strategy that businesses use when they hold a high level of stocks because there is a risk of 'stock-out'.
- 2 Cross-docking involves suppliers delivering goods to Walmart's warehouses using vehicles loading stock directly onto Walmart vehicles which then ship the goods to their stores. This minimises the stock held in Walmart warehouses.
- 3 Two advantages to Walmart of using JIT might include:
 - It reduces stock levels and means fewer funds are tied up in stock.
 - The cost of managing stock in the form of administration, labour and insurance is reduced.
- 4 Two disadvantages to Walmart of using JIT might include:
 - Walmart risks stock-out costs by holding low stock levels.
 - The JIT system involves the cost of using highly efficient systems applied by skilled labour.

Case study 33.3

- 1 'Re-order level' is the level of stock at which a business re-orders from its supplier.
- 2 'Lead time' is the normal time taken between ordering new stocks and their delivery.
- 3
 - a 800 000 units
 - b $800\,000 \text{ units} - 146\,250 \text{ units} = 653\,750 \text{ units}$
 - c $10 \text{ days} + 14 \text{ days} = 24 \text{ days}$
- 4 The advantages of EoC choosing a new supplier might be:
 - EoC will not suffer from lost orders if it has more reliable stock levels.
 - The business will not have to interrupt production if stock orders are more reliable.
 - The reputation of EoC will be enhanced if its business customers can rely on it because it does not run out of stock.
 - The quality of the stock from the new suppliers is better so it might allow EoC to increase prices.

Evaluation might include discussion of the higher cost of the new supplier and how important stock-out costs are in reality to EoC.

Case study 33.4

- 1 'Capacity utilisation' is the proportion of maximum output capacity currently being achieved.
- 2
 - a
 - 2019: 86.45%
 - 2020: 83.64%
 - 2021: 80.86%
 - b MKP's capacity utilisation has fallen over the three-year period.
 - c Rohit Chandra might have blamed the marketing department because the actual output of MKP's products is largely dependent on the company's level of sales, which is the responsibility of the marketing department.
- 3 'Labour productivity' is the ratio of outputs to labour inputs during production.
- 4
 - a
 - 2019: 1.22
 - 2020: 1.13
 - 2021: 1.1
 - b MKP's labour productivity has fallen over the three-year time period.

- c MKP's labour productivity might have fall because:
 - Motivation levels amongst MKP's workers has fallen so they are not as productive.
 - Some key employees have left MKP and been replaced by more inexperienced workers.
- 5 • Investing in employee training might increase MKP's labour productivity because improving the skill level of the workforce can improve productivity.
 - Adopting management techniques to improve employee motivation can make workers more productive.
 - Investment in new technologically advanced machinery could improve productivity.
 - Increasing pay levels might increase employee motivation and this could increase productivity.

Evaluation might include the costs associated with employee training, investment in capital, and increased pay levels. It could be the case that workers are working efficiently, but lower output due to reduced sales has an adverse effect on productivity.

Case study 33.5

- 1 $\$50 - \$15 = \$35$
- 2 $\$35 \times 7 \times 100 = \$24\,500$
- 3 $\$24\,500 - 1000 = \$23\,500$
- 4 The deal makes an extra $\$20 - \$15 \times 20 = \$100$ so it could be accepted on this basis. It may also generate future revenue if the guests are attracted back to the hotel. However, existing guests might be unhappy about the special price and if the rooms can be let at the normal price the offer should not be accepted.

Case study 33.6

- 1 'Direct labour cost' is the expense of workers who are specifically employed to produce the product of a business.
- 2 a $(\$2.50 + \$3.80) \times 5000 + \$11\,000 = \$42\,000$
 b $\$7.50 \times 5000 = \$37\,500$
- 3 Buying in the roller component would reduce Cutting Machines' costs by \$4500.
- 4 Two factors that might influence the Cutting Machine's decision could be:
 - The quality of the rollers bought in. If they are of lower quality, then the business might decide to keep producing the rollers itself.
 - The reliability of the outside company. If the outside company is unreliable then Cutting Machines might choose to maintain production of the rollers.

Activities 33.1–33.3

Learners' own answers.

Exam-style questions

- 1 'Capacity utilisation' is the proportion of maximum output capacity currently being achieved.
- 2 The maximum output of machinery; the availability of labour.
- 3 $900\,000 \times 0.62 = 558\,000$
- 4 Improved marketing by of Blue Ltd might increase its unit sales as more people are attracted to the brand and this might increase capacity utilisation.
- 5 Falling labour productivity means that output per worker employed is reducing. Instead of producing 100 units per worker, Blue Ltd might only be producing 80 units per worker.

- 6 'Labour productivity' is output per unit of labour input.
- 7 Total output/number of workers employed.
- 8 By reducing the labour force by 20% labour productivity will increase if Blue Ltd's output remains unchanged, increases or falls by less than 20%. This is because fewer workers are producing greater output per worker.
- 9 Two disadvantages of Blue Ltd carrying too much stock might be:
 - Blue Ltd might be using too much factory space which cannot be used for productive activity.
 - Holding too much stock means Blue Ltd is tying up capital in an unprofitable way.
- 10 The benefit to Blue Ltd of Anton and Anna's proposals might be:
 - TQM might improve employee motivation because they feel more responsible for quality assurance, and this could improve the quality of Blue Ltd's product.
 - Using JIT might improve stock management and reduce stock levels which reduces the business costs.
 - Making 20% of the current workforce redundant may increase labour productivity and reduce labour costs.
 - Increasing pay by 20% for the remaining workers might improve their motivation which could improve their productivity and the quality of the goods produced.
 - Effective marketing of Blue Ltd's product could increase capacity utilisation.

Evaluation might include discussion of the cost of switching to TQM and JIT along with the difficulty of getting the workforce to use these approaches. The redundancies could have a negative effect on staff morale and could reduce staff motivation. The new marketing campaign could add to the business's costs.

Chapter 34 Crisis management and contingency planning

Business in context

- Yes, it could have been planned for, but not necessarily prevented. Aviation accidents can happen despite the best aircraft maintenance programmes. Planning for crises helps to manage the aftermath of accidents. Employees should know what to do both on board the aircraft and on the ground; the publicity department should be trained to manage media communications; senior management should be trained how to communicate bad news and what steps to take to lessen the impact on the people involved and, ultimately, on the reputation and goodwill of the business.
- A major incident requires the involvement of senior management as the customers, employees, media and other stakeholders want to hear directly from top executives. They want to know what happened and why, and what the business is doing to reduce the impact on the people involved. They also want to know what the business is going to do to compensate them and the steps being taken to minimise the risks of similar events occurring in future.

Case study 34.1

- 1 'Crisis management' is the steps taken by an organisation to limit the damage that occurs due to a significant, damaging event by handling, containing and resolving it.
- 2 The North Face could have used the following elements to manage the crisis:
 - Transparency – the business could have been honest and open about the crisis.
 - Communication – the business needs to communicate clearly in a crisis.
 - Speed – the business could have reacted quickly to the problem.
 - Control – it could have managed each aspect of the crisis effectively.

- 3 Two advantages of effective crisis management for The North Face might be:
 - The business can limit the damage that the crisis might cause to The North Face brand in the mind of the consumer.
 - The business can limit extra costs that might occur as a result of the crisis such as compensation to Wikipedia.

Case study 34.2

- 1 Identify the potential disasters that could affect the business. Assess the likelihood of these occurring.
- 2 The contingency plan can reassure employees, customers and the local community about how the hotel is going to respond.
The contingency plan can manage the negative impact on customers and suppliers in the event of a forest fire.
- 3 Producing a contingency plan can be costly and time consuming because disasters are difficult to forecast.
Because the threats to a business are constantly changing, a contingency plan needs to be constantly updated.

Activities 34.1–34.3

Learners' own answers.

Exam-style questions

- 1 'Contingency planning' is preparing the immediate steps to be taken by an organisation in the event of a crisis or emergency.
- 2 A business can reduce the negative publicity of a crisis and allocate its resources efficiently to manage a crisis.
- 3 Transparency; communication.
- 4 Time to make a plan; the cost associated with the plan.
- 5 All stakeholders in the organisation need to know the implications of a crisis for them.
- 6 Effective public relations is needed to give the business's perspective to stakeholders in a crisis situation.
- 7 Two ways Volkswagen tried to minimise the crisis were:
 - Setting aside €6.7 billion to cover the cost of recalling vehicles.
 - Managers being honest about the mistake Volkswagen made.
- 8 Speed would be important so that Volkswagen's stakeholders are clear about the emission problem before they hear about it from other sources.
Honesty will mean that Volkswagen's stakeholders believe that management understand the problem and trust they are managing it effectively.
- 9 It is important to manage risk in a contingency plan to assess the impact of different outcomes and forecast accurately.
- 10 Effective contingency planning had the following advantages for Volkswagen:
 - It helped to reassure different stakeholders that the emission crisis could be dealt with.
 - It minimised the negative impact on different stakeholders.
 - It promoted a culture of safety/honesty within Volkswagen to prevent future crisis events.
 - The public relations response was quicker and clearer.

Evaluation might include the problem of planning for any future event and costs associated with doing so. It is also difficult for Volkswagen because it caused the problem itself.

> Chapter 35 Research and development

Business in context

- Successful R&D can result in innovative products and processes. New products can meet consumers' unmet needs and result in high sales, revenue and profit. New processes – ways of producing a good or providing a service – can result in efficiency and productivity gains leading to lower average costs and higher profit margins. The case study refers to investments in artificial technology which could allow Alphabet to offer new services to customers (increasing demand) or lower costs (increasing profit margins).
- Not all R&D is successful in terms of developing an innovative product that consumers want to buy or an innovative process that increases efficiency. Sometimes the researchers fail to achieve their scientific goals, e.g., to find a cure for the common cold. In other cases, competitors might produce an innovative product first, which results in consumers opting to buy the rival's product. If competitors achieve a disruptive innovation then this could damage the long-term prospects of a business that has invested in R&D but has failed to develop a similar transformative product.

Case study 35.1

- 1 'Innovation' is the practical application of new inventions into marketable products.
- 2 Samsung is developing its intelligent camera on its phones. Microsoft is developing machine learning. Huawei is developing its 5G network.
- 3 Two reasons why R&D is important to these businesses might be:
 - Technology is a fast-developing industrial sector and businesses will need to invest in R&D to keep up with the competition.
 - By developing technology and improving their products, technology companies can increase brand loyalty.

Case study 35.2

- 1 Product innovation; process innovation; positioning innovation; paradigm innovation.
- 2 Autonomous vehicles are an example of product innovation because they are new, marketable products.
- 3 Two risks for Baidu might be:
 - The very high cost of developing a driverless taxi service.
 - Potential customers might be reluctant to use such a new service.

Case study 35.3

- 1 Adaptive creativity is where a business changes an existing product. Innovative creativity is where a business introduces a completely new product.
- 2 Examples of adaptive creativity are:
 - a new razor with an increased number of blades
 - a razor with an electric-powered head.
- 3 Gillette's high level of R&D expenditure enhances the company's image as a dynamic, forward-thinking business, which is appealing to customers.
- 4 Increasing profits is an important reason for R&D by Gillette because:
 - It is a return for Gillette's shareholders who fund the spending in its R&D.
 - The profit generated can be used to fund future innovation.

- Profits from innovation can be distributed to employees.
- Profits from innovation maintain Gillette's long-term security as a business.

Evaluation might include discussion of other reasons for innovation such as environmental and ethical reasons. Gillette might also innovate in response to competitive pressure.

Activities 35.1–35.3

Learners' own answers.

Exam-style questions

- 1 'Innovation' is the practical application of a new invention to a marketable product.
- 2 Paradigm innovation; positioning innovation.
- 3 Process innovations are a new methods of producing energy used by Proxima.
- 4 'Invention' is the discovery of new ideas for products or processes.
- 5 Payback is the time it takes for the net cash flows of an investment to repay the initial investment cost.
- 6 $\text{Average net cash inflows} / \text{initial investment cost} \times 100$
- 7 Sum of the discounted net cash inflows – initial investment cost
- 8 Anaerobic digestion is an example of process innovation because it is a new method of producing energy.
- 9 Proxima Energia's investment in an anaerobic digestion plant is an example of sustainable innovation because the new energy production process is a renewable form of energy that does not have a negative effect on the environment.
- 10 Advantages of Proxima Energia investing in anaerobic digestion might be:
 - The investment has a payback that is less than the industry average.
 - The project is profitable over its life and has a positive NPV.
 - A sustainable investment could fit with the business's CSR.
 - A sustainable investment could enhance the reputation of the business.

Evaluation might include discussion of disadvantages of the investment in anaerobic digestion, such as the risk that the innovation might not work as well as expected and the ARR is below the industry average.

Chapter 36 Management information systems

Business in context

- The impact of an increase (or decrease) in price on consumers' demand for a product can be analysed by recording sales data from all of the supermarket's stores, especially if the price was changed in some stores but not others. Analysing the data could allow the PED to be calculated. If this is relatively high then the increase in price is likely to lead to lower revenue from sales of this product. Using consumer loyalty card data will allow the demand response of individual consumers to be monitored and if some stop buying a product because of the price increase, personalised price discount vouchers could be sent to encourage them to start buying the product again.

- Gathering masses of data – especially personalised data that can identify particular consumers (or employees) – carries security risks. Such data could be very useful to criminal hackers who might want to access the data to send spoof messages or emails. Should personalised data be retained and used by businesses such as supermarkets? Will consumers benefit from the use of this data? Could the data be put to uses which are harmful to consumers or society (especially if it is hacked into)? Do holders of large amounts of personal data need to be regulated?

Case study 36.1

- 1 'Big data' is very large datasets that are collected, stored and analysed on a mass scale to inform business decisions.
- 2 HTT uses AI in product design by tracking the wants of consumers, and in quality control and insurance by using production line data.
- 3 HTT can use AI to reduce its costs by reducing waste by improving quality control using AI. It can also use AI to get a better understanding of consumer demand and thereby improve the efficiency in stock ordering.
- 4 AI will help HTT to improve its profits by:
 - improving customer experience, which might attract customers and increase sales revenue and profits
 - reducing HTT's costs by improving quality control and assurance.

Evaluation might include discussion of the costs of implementing and operating AI and virtual reality technology.

Case study 36.2

- 1 'Customer relationship marketing' means using marketing activities to build and establish good customer relationships so that the loyalty of existing customers can be maintained.
- 2 Products that consumers buy most regularly. Average spending of customers on products.
- 3 Customer loyalty schemes encourage 'dormant' customers to return to a business and increase their spending. They also encourage new customers to buy a product.
- 4 Customer loyalty programmes can be a sustainable strategy that creates long-term customer relationships and values customers who keep buying a business's product. Loyal customers may recommend the business to friends and family, which can increase sales revenue.

Evaluation might include discussion of the cost of IT systems and training of employees. Customer loyalty programmes also require an existing customer base, which small businesses might not have.

Case study 36.3

- 1 'Data mining' is the process of analysing a large batch of information to establish trends and patterns which could be useful for business decision-making.
- 2 Data mining can help Target with promotion; it can provide information about where to advertise and the style of promotion by understanding who the customer is.
For the product, it gives Target information about how to lay out its stores and merchandise its products.
- 3 There may be privacy issues amongst people targeted by data mining. There may also be security issues amongst the people targeted if the data is released.

Activities 36.1–36.3

Learners' own answers.

Exam-style questions

- 1 Large amounts of quantifiable information. Information is analysed using IT systems.
- 2 Big data could give The Leaf information about the demographics of its existing and potential customers to help with the products it needs to stock.
Big data could give The Leaf information about times customers shop and their movement in store to help The Leaf with opening times and store layout.
- 3 Using AI will help with customer experience and increase brand loyalty.
AI could increase online sales by giving customers the ability to try on clothes remotely.
- 4 A 'database' is a store of information that is organised for easy access, management and updating.
- 5 'Data analytics' is the science of analysing raw statistical data to make conclusions about that information to inform business decision-making.
- 6 It provides information about the buying behaviour of customers in response to a promotion campaign.
It provides information about the impact of price changes on sales.
- 7 'Cybercrime' is any criminal activity that involves a computer, networked device or computer network.
- 8 It helps to prevent customer data from being accidentally released or stolen. It helps to prevent funds from being stolen.
- 9 Phishing scams; malware attacks.
- 10 The benefits of new technology to The Leaf include:
 - Using data analytics to improve the firm's marketing strategy.
 - Using big data to give the business a better understanding of its consumers.
 - Using AI to increase its online sales.
 - Using virtual reality to improve customer experience.Evaluation might include discussion of the financial costs of setting up and operating the technology and losing the 'human' element to marketing.