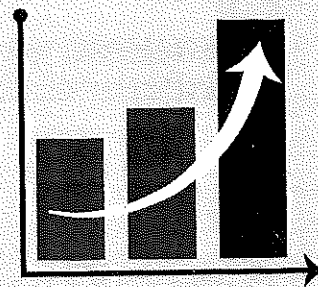


## Getting started

Consumers rely on businesses every day. Make a list of businesses, starting with any you have used this week. How many sell products? Which provide services? Compare your list with a peer. How many have you identified? Expand this list as you work through your course and use it during research.



# A

## Explore the features of different businesses and analyse what makes them successful

Most businesses rely on making a profit. The bigger the profit, the more successful the business. Although, remember that not every business measures its success by the amount of profit it makes. You will explore why that is a little later. However, the way a business is organised to deliver its aims and meet the needs of its customers is critical to its success. In this unit you start to explore types of businesses and what influences success and failure.

### Features of businesses

Another word for 'feature' is 'characteristic' or 'attribute'; therefore business features comprise the characteristics that make up every organisation. For example, if you refer to the list you created earlier, you may have identified some businesses as one-man-bands, known as sole traders, such as a plumber or mobile hairdresser offering a service to customers who live locally. Other businesses might be very big and sell their products or services around the world, such as the BBC, Virgin Atlantic and GlaxoSmithKline.

Your list should include businesses of different sizes, purposes and possibly the types of customers who use their services or buy their products. You, your peers, friends and family will favour some of the same and different businesses and no doubt share different experiences. You will now explore the range of features as separate characteristics.

### Ownership and liability

Businesses are owned in one of three ways: private, public and not-for-profit.

#### Private

Private businesses are those owned by citizens and therefore they are liable for all aspects of the business. Owners of private businesses are likely to take many risks as they are in business to make a profit. Privately owned businesses can be of any size and owned by many partners. Some of the largest include:

- ▶ Virgin
- ▶ Toys "R" Us
- ▶ Mars
- ▶ Tesco.

#### Public

Public businesses which are identified as belonging to the public sector are owned by the government. These types of businesses may have been set up by the government or subsequently bought by the government from the private sector for investment or to save them from financial ruin, such as Northern Rock and the Royal Bank of Scotland.

#### Research

Identify businesses for every category in Table 1.1. Seek information about businesses in your local area and those you listed earlier.

As the government is then liable for the success or failure of the business, they are less likely to take risks than businesses in the private sector because they aim to benefit the public.

### Not-for-profit

Businesses which do not aim to make a profit are often charitable organisations, such as the international Médecins Sans Frontières which provides doctors and nurses across the globe to in-need areas. Businesses like this often share many of the same features as private and public businesses, such as running on normal business lines, and have many paid workers but only seek to make enough money to cover running costs.

Voluntary organisations are also not-for-profit businesses. They are set up, organised and staffed by people working on a purely voluntary basis. Examples include the Royal Voluntary Service (RVS) and Voluntary Service Overseas (VSO).

Table 1.1 suggests a few examples of businesses under each of the three categories which you could investigate further or use to help identify your own businesses to research. There are variables, however, within each category. For example, limited companies do not need to have large numbers of employees and some, such as specialist consultancy services, may be sole traders.

### Key term

**Partnership** – comprising two or more people who set up in business together and share all profits and losses.

► **Table 1.1:** Suggested examples of business ownership

Private, for example:		Public, for example:		Not-for-profit, for example:	
Sole trader	<ul style="list-style-type: none"> <li>• Decorator</li> <li>• Gardener</li> <li>• Photographer</li> <li>• Pilates instructor</li> <li>• Childminder</li> <li>• Taxi driver</li> </ul>	Government department	<ul style="list-style-type: none"> <li>• Department for Education</li> <li>• Department for Business, Innovation and Skills (BIS)</li> <li>• Ofsted</li> <li>• NS&amp;I</li> <li>• Ministry of Defence</li> </ul>	Charitable trust	<ul style="list-style-type: none"> <li>• Buttle UK</li> <li>• Hospice UK</li> <li>• WWF</li> </ul>
Partnership	<ul style="list-style-type: none"> <li>• Accountants</li> <li>• Solicitors</li> <li>• Dental practice</li> </ul>			Voluntary	<ul style="list-style-type: none"> <li>• Rotary Club</li> <li>• Round Table</li> <li>• MAIN – Taking Autism Seriously</li> <li>• Voluntary Service Overseas</li> <li>• MacMillan Cancer Support</li> </ul>
Private limited company	<ul style="list-style-type: none"> <li>• Estate agents</li> <li>• John Lewis Partnership (JLP)</li> <li>• McLaren Technology Group</li> <li>• River Island</li> </ul>				
Public limited company	<ul style="list-style-type: none"> <li>• Aer Lingus Group</li> <li>• Rolls-Royce Holdings plc</li> <li>• Tesco plc</li> <li>• Manchester United plc</li> </ul>				
Cooperative	<ul style="list-style-type: none"> <li>• The Co-operative Bank</li> <li>• FC United of Manchester</li> <li>• Brighton Energy Co-operative</li> </ul>				

**Tip**

For more details on limited companies, visit the UK government website at [www.gov.uk/business-legal-structures/limited-company](http://www.gov.uk/business-legal-structures/limited-company).

**Key term**

**Economy** – the state of a country, such as its wealth, production and consumption of goods and services.

**Tip**

Useful places include Companies House for information about limited companies (Ltd) and the London Stock Exchange for public limited companies (plc).

**Key term**

**Liability** – an obligation of a company, or amounts owed to lenders and suppliers.

**Research**

Select one business from each type of ownership from your list. Identify at least three insurance companies offering business insurance and compare the extent of protection against liability each of them offers.

Privately owned businesses can decide to become limited companies at any time. A decision to do so might be made to ensure that business profits and liabilities are properly shared based on the percentage of ownership by each of its directors. Business finances are kept separate from personal finances, therefore, if the business fails, owners' personal assets, such as homes, cars, etc, cannot be used to pay off any debt.

Owners of limited companies have to pay corporation tax and can draw dividends from their businesses. Depending on personal tax liabilities, it may be beneficial to change the business structure to a limited company.

Some owners find they can increase their business opportunities by becoming a limited company as it may give the impression that they are larger or more established than they are. Some large organisations will only contract with limited companies.

Partnerships, such as the John Lewis Partnership (JLP), may have many employees. Keep an open mind when exploring types of business and their features – not all estate agencies are private limited companies, just as not all accountants, dentists or solicitors are partnerships.

JLP is particularly interesting because it operates as a cooperative, although not in the formal sense like the examples listed in Table 1.1. Cooperatives contribute significant annual revenue (£37 billion) to the UK's **economy** and are owned by nearly 15 million people. The word cooperative suggests working together, sharing aims and objectives, which can be implemented in different ways and reward those who cooperate in the business differently.

**Liability**

To protect the business against the risk of being sued or held legally responsible, anyone owning or running a business should insure against such **liability**.

There are multiple insurance companies offering such cover and, as with any insurance (for example, car or house insurance), they offer it at different rates and with different terms and conditions. Insurance for liability includes Public Liability Insurance and Directors' and Officers' Insurance (D & O).

Depending on the ownership, size and type of business, the cover will also vary. You will explore this further throughout this unit.

**Unlimited liability**

Some businesses (as suggested in Table 1.1) are owned by sole traders or partnerships. If the owners share the business responsibilities equally, they are responsible not just for the profits but also the losses, such as debts and claims against the business. This means that all owners are responsible for any shortfall of money if the business has insufficient funds. This could mean all savings and possessions including car, house, etc are at risk.

**Limited liability**

Where liability is limited, this means there is a limit (or cap) placed upon the amount that can be claimed. This type of liability might seem to be the obvious choice, but setting up in business is relatively easy and the risks attached can be overlooked, especially without the benefit of knowledge gained through studying.

Just as some insurance companies specialise in house, car or travel insurance, others specialise in business insurance and insurance for different types of businesses.

## II PAUSE POINT



After comparing with a peer, add an extra column or comments to your research from the Getting started activity.

Highlight gaps and conflicting results.

What worked well? What would you change and why?

### Purposes

Most businesses supply products or services, or occasionally both. For example some businesses, such as dentists, provide a service and also sell a small range of products such as toothpaste, floss, toothbrushes, etc. Halfords provide products such as car and bicycle parts and they also provide a service whereby they fit windscreen wipers or bicycle tyres.

You could argue that all businesses are providing a service when selling or making their products.

### Difference between for profit and not-for-profit businesses

As mentioned earlier, not all businesses measure success by profit. Dr Turnbull, MD of Care and Share Associates (CASA) said: 'Profit is not wrong – but it is our belief that a reasonable and sustainable profit is best generated by delivering a quality service, not by cutting costs, corners and ultimately, quality.' This does not suggest that profit seeking businesses are more likely to cut corners and compromise quality, although you could possibly identify some examples where you believe that is true.

Some examples of large profitable businesses include utility companies such as British Gas and major retailers such as JLP, Next and Marks and Spencer. Profits can and do fluctuate year on year. Some of the UK's most profitable companies include Burberry and the telecommunications giant Vodafone.

Information on the performance of the top 100 businesses measured by shares on the stock market are listed in the **FTSE 100**. You will explore shareholding a little later in this unit.

Examples of smaller businesses making a profit in 2014–15 are PeopleTree: ethical clothing; Levi Root's: Reggae, Reggae Sauce; Mad Marc's Sublime Science: making science fun.

### Discussion

Compare your growing lists of businesses to identify which provide products, which provide services and which provide both. Discuss what proportion of each (products and services) they are likely to offer.

### Key term

**FTSE** – the Financial Times Stock Exchange.

### Link

In *Unit 6: Principles of Management* you will explore in detail what is meant by quality and in *Unit 14: Investigating Customer Service* you will explore how to find out whether or not you are providing a quality service. How you calculate business profit will be explained in *Unit 3: Personal and Business Finance*.

### Case study

#### Care in crisis



With people living longer, changes in the way they live, the recession and reduced public funding and strains on the NHS, social care provision is experiencing a

negative impact alongside claims that elderly people are being put at risk. A group of caring individuals formed a cooperative to help redress this problem, starting on a small scale locally and expanding over the last 10 years. They called the business CASA, an acronym for Care and Share Associates and grew to employ more than 850 staff by 2014. Shares in CASA are held by an Employee Ownership Trust, an Employee Benefit Trust, and individual employees.

CASA is an employee-owned social enterprise with a clear purpose. Their primary concern is providing care for older people, the disabled (including children)

and those with learning difficulties. CASA's Managing Director explains their successful business is due to:

'Engaged employee owners provide the highest quality care and we also have low staff turnover, making the business more successful. Profits are then reinvested in staff and growth ... and shared amongst the workforce.'

Because the business does not have any external shareholders, the business can focus on delivering its aims for social care. One employee testimonial states:

'Because we are the owners it's easier to see that we can have a brilliant future if we manage it correctly and really get involved.'

### Check your knowledge

- 1 Which sector and type of ownership is this business?
- 2 What do you think are the aims and objectives of this business?
- 3 What is CASA's innovative approach to this business?
- 4 What are the most important assets of this business?
- 5 List the priorities for the Managing Director (MD). Can you put them in order of importance?

## II PAUSE POINT

Hint

Extend

Why is profit not the most important goal for this business?

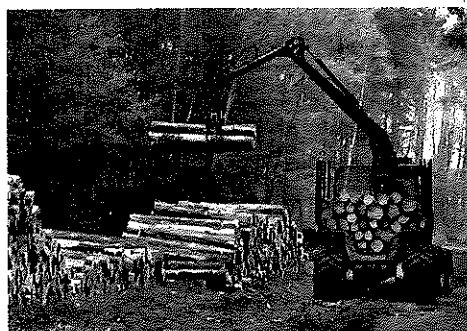
Without referring to the case study, list all the reasons that profit is not the main aim. What non-financial rewards do employees receive from their involvement with this business?

### Tip

There are also case studies featured in the 10,000 small business brochure from Goldman Sachs. Finance information about limited companies can be explored through Companies House, the Stock Exchange and the Financial Times while private sector small business quarterly economic data is collated by the British Chamber of Commerce.

### Sectors

Businesses operate in different sectors according to the nature of their business and the product or service they provide. These sectors are known as primary, secondary, tertiary and quaternary and are the four stages of the journey from sourcing a material to being ready for the customer.



Primary



Secondary



Tertiary



Quaternary

► Business sectors from primary to quaternary

These terms also relate to the positioning of the business in relation to the customers' requirements. Every sector and every type of business services customers.

### Primary

Let's take an example of a customer such as a builder who requires the roof trusses for a house – the builder relies on the primary sector to source the raw materials and on the secondary sector to prepare those materials from their raw state so that they can form the frame for a roof.

### Secondary

The secondary sector processes the raw materials produced by the primary sector so that they can be sold on. For example, farmed vegetables, mined diamonds or coal, felled wood and caught fish, all need to be prepared or manufactured in some way by the secondary sector so that they are fit for sale.

### Tertiary

This sector provides the supporting services which store and distribute the goods which have been manufactured. It also provides insurances against, for example, damage or possibly late delivery. Businesses often rely on advertising to promote their products – another service provided by the tertiary sector.

The tertiary sector also sells skills support such as training for staff, for example for people who clean and pack vegetables to sell in shops and supermarkets. Types of tertiary businesses include services such as travel and tourism, entertainment, education and training, and transport.

### Quaternary

Together with the tertiary sector, employees working in the quaternary sector currently account for approximately 75 per cent of the UK workforce. This sector also provides support services and can appear to overlap the tertiary sector. Examples include the communications infrastructure for day to day operations, such as telephoning and emailing.

The quaternary sector could be seen as the beginning and the future of every business as this sector includes the research and development stage. Therefore this fourth (quaternary) sector relies on information from the other sectors to test existing products and methods, and to develop new ways of sourcing and producing new products or approaches.

## Scope of business activities

### Local

The scope of a business means the range covered by that business. Earlier you looked at the features of businesses and suggested that some business types are more likely to offer their services locally, for example mobile hairdressers, plumbers and gardeners. A local business is usually one which is owned locally and serves just the local area, such as an independent village shop or perhaps a pub which is owned by local residents. There are, of course, exceptions and you could probably identify some. Some local businesses, such as your local council office, are part of a much bigger organisation although they provide a service to the local area.

### National

You probably use businesses which operate nationally fairly frequently and possibly have not considered this before. Some could appear to be a local business (especially if you are served by the same staff) but the business might be a **franchise**.

#### Link

Unit 14: Investigating Customer Service.

#### Discussion

As a group, name as many businesses as you can in each sector. Use the list you created at the beginning.

You may know some franchised businesses in your area, for example Dunkin' Donuts, Harvey's Furniture Store, Kwik Fit and possibly one of the most well known, McDonald's.

The government defines a franchise as 'the owner of an established business format (the franchiser) grants to another person (the franchisee) the right to distribute products or perform services using that system' and a fee is paid to the franchiser according to the terms of their agreement.

### International

International businesses do business transactions that take place across national borders. Since the birth of the internet, international business has been provided with worldwide opportunities to sell products and services. Since the first email was sent in the early 1970s and the internet became widely available from 1990, the world appears to have become smaller and certainly more accessible.

## Measuring the size of a business

So far, this unit has referred to businesses of different sizes as small or large. To accurately quantify the size of a business, strict definitions exist and these are outlined in Table 1.2.

► **Table 1.2:** Defining a business by size

Size type	Number of employees/staff
Micro	Up to 9
Small	10–49
Medium	50–249
<b>The above are all known as SMEs (Small and Medium Enterprises)</b>	
Large	More than 250

### Link

The contribution these businesses make to the economy is calculated in turnover, which you will learn about in *Unit 3: Personal and Business Finance*.

The UK parliament publishes reports on the contribution businesses have made to the economy. According to the data supplied by BIS in its Business Population Estimates (2014) there were 4.9 million businesses in 2013, which increased to 5.2 million in 2014. More than 99 per cent were SMEs and employed almost 14.5 million people, contributing to almost half of the UK economy. The number of micro businesses also rose slightly to 5 million.

## Reasons for success

Earlier, the concept that not every business measures success by the amount of profit made was introduced. There are different reasons for success depending on the type of business (profit or non-profit) and its aims and objectives, which you will explore shortly.

### Profit seeking business

Businesses seeking to make a profit are motivated by various reasons. For example, to pay the bills for everyday living, have money for extras and realise some aspirations such as owning your own home, buying a nice car, having holidays, etc.

As businesses get larger they generate more responsibility. For example, a growing business might employ additional staff, pay for premises and develop products or services to expand on its market share so the business can continue to grow. Managing the profits becomes more complex and specialised.

Just because a business grows it does not automatically follow that it becomes more profitable. This is because its costs might increase and the interest rates paid on loans

### Link

You will learn more about profit in *Unit 3: Personal and Business Finance*.



or investments could fluctuate. Sometimes businesses call on the services of other sectors, for example for specialist financial advice from a consultancy service (perhaps on running the business more efficiently to make more profit and reduce costs).

### Discussion

Discuss with another learner, or as a small group, what sector these types of service come under. Explore which businesses made a profit last year and which are declining and compare with your peers. You can probably name several businesses which have gone bankrupt over recent years during the recession and explore some reasons.

## Non-profit seeking business

### Discussion

Why run a non-profit (or not-for-profit) business? Before you read on, think why you might and share your ideas with a peer, colleague, friend or member of your family. Refer back to your list based on Table 1.1 – it should be growing as you work through this unit.

The primary goal of these businesses is not to make substantial profits but enough to continue the business. Therefore they also need to keep a very close eye on their finances to ensure that what they spend does not exceed the income they receive, known as **revenue**.

Revenue is not necessarily gained from selling a product or service but could come from successful bids for funding or grants, donations from members of the public or perhaps lottery funding. Examples include:

- ▶ donations for The Royal National Lifeboat Institution (The RNLI)
- ▶ lottery funding for causes such as sports and the arts
- ▶ cultural heritage groups, such as those celebrating the 70th anniversary of the end of the Second World War.

## Aims and objectives

Every business needs aims and objectives – just as every lesson you attend has aims defining the purpose and outcome of the lesson and objectives which identify how to achieve the aim. You will look at some examples later. Although these aims and objectives might be less formal in a micro business, every business must have a purpose and outcome. You will have your own aims and objectives and a plan of some sort identifying how you are going to get there.

### Clarity of vision

Just as your plan will change and a tutor's plan can change, so will the aims and objectives of a business. These changes are influenced by **market forces**, for example customers' needs. Market forces help a business to focus on its direction and how it can continue to operate. In other words, they are designed to provide clarity of vision – without this it is unlikely that the business will succeed.

Think about an experience you have had with a business where you have been confused about its purpose or got the impression that the business had no direction. For example, think about whether it would make business sense to set up a market stall selling sportswear and other unrelated products, for example toiletries.

### Key term

**Revenue** – the income received by a business for selling its products and services.

### Research

Businesses including community groups can apply for lottery funding grants for a variety of causes. Research the application process and think about what type of business would be likely to apply.

### Tip

Create a plan for successfully completing this unit. Identify your aims and objectives and timeframes.

### Key term

**Market forces** – factors created by the economy for the demand and availability of products and services which influence costs.



### **Innovative products or processes**

Innovative products, or creative ways to go about a process, can lead to business success. Examples include Mad Marc's idea to enthuse children in science, child innovators of the Crikey Bikey harness and Rob Law's Trunki.

Having a great idea for an innovative product or idea is a good start. But your perception of a great product or idea may not be someone else's. What makes good business sense is to be creative – employers are always looking for employees who can think for themselves and propose more efficient ways to manage a process or identify innovative products or services.



► How do you think the innovative idea of the Crikey Bikey helped it become a success?

## **Stakeholders and their influence**

Every business has stakeholders. You may have heard the term used before but you will now learn what it actually means and look at who the various stakeholders in a business are.

### **Stakeholders**

There are two types of stakeholders, internal and external. In other words, those within the business, such as its employees, and those outside the business, including customers and anyone else with an interest in the business. They all have a stake in the business.

#### **Internal**

The internal stakeholders include:

- managers (decision makers and bosses)
- employees (reporting to managers)
- owners (overall responsibility for the business).

Therefore every sector has internal stakeholders although, for example, a sole trader will not have managers and employees.

#### **External**

Businesses also have external stakeholders. Without them they wouldn't have a business. These stakeholders are described below.

#### **Suppliers**

Suppliers supply raw materials (considered earlier in this unit). Examples include bricks supplied to builders, electricity to light our homes and streets, fabric to manufacture our clothes, etc.

**Lenders**

These are stakeholders who lend money or possibly services to the business, such as start up business loans. These loans are available through banks and other sources such as government loans. Other loans might include a mortgage for the business premises for those owners who don't want to rent premises.

**Competitors**

Anyone who is in competition with a business is also referred to as a stakeholder. In order to operate a successful business, you will need to know who your competitors are and what they are offering. This enables a business owner to be better informed about the choices they can make and whether a change of direction is required, or if an opportunity is arising due to a gap in the market. One such example is the supermarket chain Lidl UK. They identified a need for competitively priced food that does not compromise on taste, as claimed by their adverts.

**Debtors**

Every business has debtors, although this does not mean all businesses run without making a profit. A debtor is any person or organisation which owes money to the business. The financial crisis in Greece may well have made you familiar with the term debtor in relation to a country which owes money. If you have been given a period of time to pay for a product or service you have received, you are a debtor of that business.

**Creditors**

Just as every business has its debtors, it will also have creditors. Creditors are those to whom money is owed, and this may be an individual or another business. If you take the example of raw materials supplied to a business, the supplier becomes a creditor of the business until they have paid for the materials.

**Customers**

Businesses have both internal and external customers. Everyone can relate to being an external customer whether enquiring about or purchasing a product or service such as an item of clothing, a train ticket or a haircut. You are also a customer when you receive a service for which no money changes hands, such as hospital treatment or careers advice. The last point is especially interesting because, while an external customer might not be required to pay for a service, payment for that service will still come from somewhere, such as government funding. Basically, an external customer is someone who brings revenue into the business.

Internal customers include anyone directly related to the business. They include employees of a business whether they are physically present in that business or are representatives of the organisation. For example, historically, the majority of sales personnel travelled around promoting and selling their company's wares for the majority of their time. This type of customer has changed significantly over the last few years due to developments in technology that reduce the need for travel, for example email and the internet.

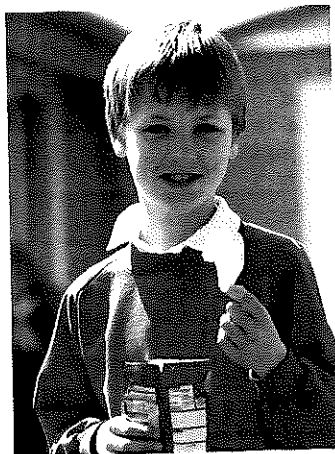
Internal customers also include employees working in different departments and those working at different sites. They also include suppliers who are crucial to the operation of the business. A successful business relies on everyone working together harmoniously, therefore it is important you recognise that we are all customers of each other. In other words, we become a team, relying on each other's knowledge, strengths and expertise. Having this philosophy leads to greater job satisfaction as everyone has a stake in the business.

**Link**

Debtors and creditors will be covered in more detail in *Unit 3: Personal and Business Finance*, along with financial terms such as deficit.

## Case study

### 'Bring me back'



Walkers Crisps Ltd, owned by PepsiCo, is one of Britain's biggest brands and strives to retain its popularity in a highly competitive market.

Having an innovative idea does not mean that existing ideas or products are obsolete. For example, the UK consumption of

crisps, snacks and nuts has risen significantly and generates revenue of almost £129 million. Therefore it appears that there is still room for expansion into the snack industry.

Walkers' innovation lies not just in how it expands its product range, such as its 'Do us a flavour' campaign in the mid-2000s, but, more recently, by asking the public to vote for their favourite flavours previously removed from its range. Walkers' process of deciding how to expand its range is also innovative and it does this very well by seeking **stakeholder feedback**. For example, in an earlier campaign, Walkers received more than a million votes from stakeholders for flavour ideas. The campaign got people talking about Walkers, both online and in daily conversations, subsequently raising their profile. The company promised a large monetary reward and a percentage of all future sales, with the winning announcement exposed to media coverage.

To ensure success, Walkers produced a focussed campaign. It is likely that some of their aims were:

- to remain a popular snack brand with the public
- to find out the nation's favourite flavours
- to increase sales through daily public interest
- to resurrect a previously tried and tested recipe.

The benefits to stakeholders of this campaign included:

- extended flavours to the product range
- a significant financial reward for the stakeholder selected as winner and their moment of fame in the media
- a sense of belonging and involvement with Walkers.

Walkers Crisps has also been investing heavily in research and development and, during the mid-2000s, it reduced the salt content of its products following trends towards healthier living. Further extensions to their range include the Market Deli range, in 2014, to stay ahead in a highly competitive market. Despite being owned by an American company, PepsiCo, crisps are considered a traditionally British snack food; sales have increased due to the recession as people stay at home more rather than socialising in public places.

### Check your knowledge

- 1 What are the business features of Walkers Crisps?
- 2 Who are Walkers Crisps' stakeholders?
- 3 How would you describe the relationship Walkers Crisps has with its stakeholders?
- 4 What innovative approaches are Walkers Crisps using?
- 5 What factors influenced Walkers Crisps to try such innovative ideas?

### Key term

**Stakeholder feedback** – surveying stakeholders for ideas, compliments, suggestions and complaints.

## II PAUSE POINT

Hint

Extend

Which aspects of this case study did you find most interesting and why? What new information have you learned?

Identify a different type of business and explore how they involve stakeholders to develop their product range.

Consider other reasons for the success of these businesses based on factual information.

**Theory into practice**

Reflect on your experiences, either at work (paid or voluntary) or perhaps in your place of study or at home. Identify a single process you want to change, perhaps to make it simpler, quicker or more interesting. Examples could be getting up in the morning, or commuting. Write down the existing process and the changes you propose, thinking about the reasons why, just as Walkers Crisps justified their reasons for change. Explain your ideas to a peer and ask for feedback. Review your idea in light of their comments. Make further changes and try again. Compare the previous way and the new process to identify which works best and why.

**Tip**

You will need to justify your findings just as you will in your assignment. Personal opinion or hearsay is not enough!

**Government agencies and departments**

Other external stakeholders include government agencies and departments, which may be local, national or international. Some examples of government departments have been mentioned already in this unit, such as the Department for Business, Innovation and Skills. Other examples of agencies and departments are outlined in Table 1.3.

► **Table 1.3:** Examples of government agencies and departments

Local	National	International
County Councils	Department for Education	Foreign and Commonwealth Office
City/Borough/District Councils	Department for Work and Pensions	URENCO
Parish Councils	Department for Transport	
	Ministry of Justice	

Local government includes your local council. In some areas there are two councils, for example in Leicestershire, where they have a county council and a city council. Each of these councils are responsible for services which affect the whole county, such as education, roads, planning, fire and safety, etc.

London boroughs each have a council and the metropolitan area has another. District councils are responsible for the detail of how, for example, rubbish collections are organised and how the council tax is structured. You may have a parish or community council which deals with very local matters such as allotments and street lighting. Each has a stake in the business and the community, for example to ensure houses are not built on farmland unless permission is granted.

Each government department works with a number of agencies. If you take the example of the Department for Education, a national department working with nine agencies (including Ofsted), they have a stake in your education and provide the funding for your schooling and possibly your education still.

An example of international government is the Foreign and Commonwealth Office. It is responsible for: promoting the UK; working with other countries to seek ways to increase our economy; reporting on global developments and travel; informing policy.

Government has a stake in businesses and also informs and legislates how businesses must operate. Government rules and regulations are constantly changing and businesses can find it difficult to keep up to date.

**Link**

You will learn more about business legislation throughout your course and particularly in *Unit 23: The English Legal System*.

## Communities

Just as government operates locally, nationally and internationally, so do our communities. You may know of examples where a community has influenced a new or existing business. For example, members of a community may become involved in the operation of a business such as a training centre or a post office, working in partnership with communities.

## Pressure groups

Communities can take on small and large projects and put considerable pressure on whether a business proposition will succeed or fail. For example, a farmer who proposed to sell some of his land to a developer for a crematorium but met with opposition.



- ▶ Community demonstrators expressing their views about crematorium proposals

Another example is where communities nationally have placed pressure upon the government to reconsider their plans for the high speed railway (HS2). Longstanding pressure groups exist on a larger and longer-standing scale, such as:

- ▶ animal rights activists
- ▶ Amnesty International
- ▶ Greenpeace
- ▶ Christian Aid.

### Key term

**Regulator** – external body acting as supervisor to ensure businesses comply with relevant legislation.

## Interest groups

These groups include members with an interest in a business or specific businesses who strive for a common cause. They look to influence the business or factors such as policy or **regulators**. These include:

- ▶ trade unions
- ▶ chambers of commerce
- ▶ professional associations such as those representing:
  - accountants
  - doctors
  - lawyers
  - architects.

## The influence of stakeholders on business success

Stakeholders can influence business success. The London Stock Exchange is where public limited companies (plcs) offer shares in the company. This raises funding for the business by selling off parts of it as shares. Shareholders are looking for value for money; in business terms this is called **shareholder value**.

As you probably know, the value of these shares can go down as well as up and therefore shareholders are keen to ensure their investment is worthwhile. This can create a tension between those who run the business and those who simply have an interest in it. Shareholders vote on proposals for the way the business is run, which depends on majority votes.

Customers are also stakeholders and should be considered as long-term assets. Customers who feel valued and receive a good service are more likely to remain loyal. Strong customer service, such as that provided by M&S, Waitrose and JLP, enables **customer retention**.

Surprisingly, some businesses are constantly chasing new business and overlook the power of using their existing customer base by retaining their customers. Some businesses make assumptions that if a customer has just purchased a product or service they may not purchase again for a while, if at all. You can probably give examples of businesses who promote special offers to 'brand new customers only'.

### Discussion

In a small group, discuss how often you have relied on 'word of mouth' as justification for using a business. Explore the impact of the message existing customers receive when they can't get the best offers. Find examples of businesses which encourage retention of existing customers and those which don't, and what stops these customers from taking their custom elsewhere.

## Employee involvement

As employees are stakeholders of the business they contribute to the success of the business, whether it is as a direct or indirect result of their actions.

Some businesses have employee contribution schemes, such as JLP, Waitrose, Brompton Bikes and Dyson. In a similar way, your place of study will seek feedback from its employees as well as its students. Suggestions and recommendations can indirectly impact on the success of a business by initiating ideas.

In the early 20th century, a shop assistant in a major department store in New York suggested to a customer that they visit their main competitor when they could not supply the item sought. Despite opposition from the management, the sales in this store increased as a direct result and, subsequently, other stores followed the example.

## Corporate social responsibility

Often shortened to CSR, corporate social responsibility means the contribution that a business has committed to make to society and the environment. To deliver such a commitment, employees are encouraged to volunteer in a community project and work with community groups. The business might allocate the equivalent of one day a year to such an activity. Several major businesses are known for this strategy.

### Key term

#### Shareholder value -

the benefits received by shareholders relative to the number of shares they hold in a business.

### Discussion

Discuss with another learner, or in a small group, the percentage of your business you would need to retain to ensure overall control. Discuss how a shareholder might bring value to the business.

### Key term

#### Customer retention -

customers who remain loyal to specific brands and businesses.

### Reflect

Some businesses also offer incentives for making suggestions, sometimes through a short survey. Can you think about a time when you have seen this in practice?

### Tip

Read about the Marine Management Organisation's (MMO) strategy for undertaking their commitment. You can find this at <https://www.gov.uk/government/publications/corporate-social-responsibility-strategy>. What other volunteering examples can you find?

As consumers, we are probably made more aware of our responsibilities to society and environment than ever before. There are businesses which alert public interest, such as the nuclear industry, and others which may be of particular interest to you, such as endangered species. It is probably unlikely that you can avoid daily media interest about local or global examples of poverty or waste or damage to the environment. British-owned, international business URENCO (Uranium Enrichment Company) has a CSR strategy which includes its policy for engaging with stakeholders.

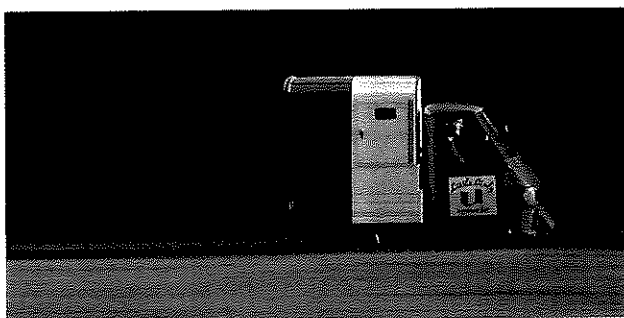
Interest groups influence and support CSR strategies. One such example is the Banyan Tree Resorts which endeavours to protect the environment by investing in research projects and educating visitors to their resorts. They have invested in a team of specialists led by a Group Director of Conservation to deliver their aim.

### Research

Look up URENCO's CSR strategy on their website. Then find some other examples from other international businesses. What are the differences and similarities? Why do you think this is?

## Case study

### Little Italy



Little Italy started as a business in a small Vespa van with an old 1960s 'pull lever' espresso machine at a village railway station in 2004. It provided hot drinks and freshly baked breakfast snacks to commuters. Norwegian born Cathrine stood outside the station daily in snow, sleet, wind and rain.

After a year of being exposed to the elements, Little Italy Espresso Bar moved inside the newly refurbished station and, from humble beginnings, they now have

four branches on the Chiltern line and a permanent coffee shop in the heart of the village where it all began.

Their culture is simple: fun, fast and friendly with a belief that you can't be successful by just making good coffee – it's all about the people. The Norwegian-born couple like to lead from the front and also involve customers in publishing their free magazine, created in house by staff. Local businesses and customers feature throughout.

### Check your knowledge

- 1 What are the features of this business that make it so successful?
- 2 In which sector does this business belong?
- 3 What do you think are the aims and objectives of Little Italy?
- 4 How important are their stakeholders to the success of the business?
- 5 List all of Little Italy's stakeholders.

## II PAUSE POINT

### Hint

Which aspects of this case study were difficult? Which were the easiest?

### Extend

Identify another similar case study, for example another local business. Ask yourself the same questions.

Compare your responses to those you gave to the questions about Little Italy. Are there any similarities? Differences?



## Effective business communications

Without effective business communications, a business is unlikely to succeed. So far in this unit, you have learned about a variety of businesses from different sectors and of different sizes. Since the latter part of the 20th century, people have relied on the introduction and development of digital communications and, as you will explore shortly, these require a different approach towards how to communicate with the diverse audiences with which businesses need to engage.

While English is widely spoken around the globe, it is too easy to assume that everyone understands exactly what we mean. For example, a simple message shown in the first column in Table 1.4 might be clear, but the same message written in slang (second column) could be difficult for a UK resident to interpret, let alone an overseas customer. The interpretation shown in the third column might be clear, but is it appropriate in a business context?

The example in Table 1.4 shows possible differences in dialect in just a small part of the UK. Consider how many other differences there are in the way people speak because of geographical diversity alone.

► **Table 1.4:** Examples of how a message could be misinterpreted

Intended message	Slang version	A more friendly tone
Good afternoon	Awright geeezzaa! Hiya	Hiya
Could you supply us with 2000 barrels of oil for next Tuesday to arrive at Tilbury by 5pm?	We wan' ter buy 2000 barrels ov oil an' need i' next Tuesday at Tilbury docks by '5.	We want to buy 2000 barrels of oil and need it next Tuesday at Tilbury docks by 5.
Please confirm the cost per barrel in dollars.	Can yew tell us da cost in dollars?	Can you tell us the cost in dollars?
Regards	Ta. Sorted mate.	Ta

Although the message might be understood, the way in which it is conveyed might be not be received so well. It is important to use the right language for the right audience to get the right result. Everyone uses different ways of speaking depending on who they are communicating with and the method they are using to convey the message.

### Theory into practice

Your supervisor asks you to order more stock as it is running low unexpectedly soon. Several customers have gone elsewhere and your supervisor is concerned about the impact on sales targets. Before you place the order, do you know who to order from and what you need to order? Consider the following.

- 1 What do you need to know to ensure you order the right amount of stock?
- 2 What communication method will you choose to ensure the order gets through?
- 3 How will you know if the order:
  - has arrived
  - can be serviced
  - will be delivered on time
  - is the price expected?
- 4 What else do you need to know about?

### Reflect

What information would you rely on to undertake this task and what should you have been given automatically?

What should the business have in place to avoid unnecessary panic, mistakes or delays?

### Tip

Businesses should have clear procedures which guide employees on how to do their job. These procedures can help the way in which colleagues communicate with customers because, where confusion arises, stress levels are also likely to increase. Poor communication may also affect the business leading to under or over ordering, possibly losing potential revenue and damaging their reputation.

## Appropriate presentation and delivery of information to a given audience

You may have been asked to give a presentation to your tutors and classmates in school or college. If you have a part-time job, consider how often you have been required to give a presentation to colleagues or managers. In this situation, it is possible you would be told what format is required.

However, if you have been asked by a family member to explain something to them or describe an idea, the way you present it to them is likely to be very different. In a business context, you may be required to produce a written report, presentation of slides or use a flip chart and pens to explain a concept. It is highly unlikely that any of these methods will be needed with family or close friends where you are communicating on a more **informal** basis. Yet people tend to associate a presentation with an electronic output.

### Key terms

**Informal** – less business-like, friendlier and could also mean ad hoc. Informal can refer to information given verbally.

**Formal** – business-like, factual, technical and professional, providing a record. It can refer to writing, such as formal written feedback.

### Written presentations

In business, presentations take place almost continually. Reports can be **formal**, for example those which deal with business matters relating to finance or policy, such as government reports. A finance department (which may comprise just one or two people in a SME) will routinely produce a set of written monthly accounts as a formal report.

While electronic software is probably used to produce the financial accounts and the report, an explanation of what the figures actually mean will be more appropriate than providing lots of graphs or colourful slides. This means that the accounts need to be explained in a different format so that others can understand them clearly. This could be informal, for example by using a flip chart, or talking others through the information. Informal reports can also describe progress on a project or idea. In this case, the language will reflect a less formal and less business-like approach.

With all written presentations it is important that the information provided is accurate and presented in an appropriate format.

Table 1.5 gives some examples of ways to communicate in business.

► **Table 1.5:** Examples of ways to communicate in business

	Method							
	Video-conference call	Fax	Letter	Telephone call	Text message	Email	Slide presentation	Written report
Chase order		✓		✓		✓		
Apologise to customer	✓		✓	✓				
Negotiate price		✓		✓		✓		
Make a complaint		✓	✓	✓		✓		
Chase payment		✓		✓		✓		
Arrange meeting				✓		✓		
Book accommodation		✓		✓		✓		
Check a delivery		✓		✓	✓	✓		
Meeting notes								✓
Sales performance							✓	✓
Customer quotation			✓			✓		

Video conferencing may be used to present some reports, especially where employees are unable to attend one site or always work cross-site. Faxes are used infrequently these days but do still exist, especially overseas or in remote locations where internet connection is less reliable.

### Oral presentations

Presentations are often accompanied by a speaker, where professional presenting software is used. This is because each slide should only provide a headline account, with the detail explained by the presenter. Presentations are especially useful when communicating to larger audiences or when giving a series of presentations. They may be accompanied by speaker notes.

It is important to consider the purpose of communicating and whether the language used needs to be adapted to different audiences. For example, technical language is understood by a specialist, such as a mechanical engineer or IT technician, but it needs to be adapted if you are proposing changes to a network system to non-expert users of that system.

### Importance of communication to aid business success

Social media can be a great way of promoting a small business and getting it known across a wider community (like Little Italy promoting its services to customers through its website and newsletter). Regardless of business size, social media is being used more widely each year and those dominating business communications include LinkedIn, Instagram, Facebook and Twitter. Government offices also rely on social media. Although there are reservations about using social media, it can reap rewards if it is used responsibly.

Social networks which develop through the use of social media become virtual communities, spanning diverse geographical locations and ignoring political boundaries. Less obvious examples of virtual communities include those initiated by inventor James Dyson and Brompton Bikes.

These virtual communities can thrive on common interests and develop fresh ideas, extend knowledge and be useful for business owners who are considering ways to expand or even start up a business. Virtual communities can make or break a business and word can travel fast. Sites such as TripAdvisor use virtual communities for gathering reviews from customers on their experiences.

Some businesses, such as Microsoft, use discussion boards to generate ongoing interaction whether to promote a product or service, or to report or solve problems. Sites such as Educator Network evolved to bring tutors together across the globe to share their teaching and training ideas and challenges. They have helped to provide innovative ways to teach 'hard to learn' topics and better understand cultural diversity.

### Case study

#### Manufacturing in the West Midlands

West Midlands businesses have boosted profits with a little help from the virtual world.

Manufacturing businesses in the West Midlands now have the chance to try out and test new product prototypes and ideas through virtual simulation technology.

