Portland Place School
Advice to GCSE Business Studies Students
In Summer 2017, you will be taking the following exams:

Unit 1: Introduction to Small Business

This is a 45 minute **multiple choice exam** testing the following topics:
1.1: Spotting a Business Opportunity
1.2: Showing Enterprise
1.3: Putting a Business Idea into Practice
1.4: Making a Start-Up Effective
1.5: The Economic Context

Unit 3: Building a Business

This is a 90 minute **written exam** testing the following topics:
3.1: Marketing
3.2: Meeting Customer Needs
3.3: Effective Financial Management
3.4: Effective People Management
3.5: The Wider World Affecting Business

Follow the link below for past papers and mark schemes:
http://qualifications.pearson.com/en/support/support-topics/exams/past-papers.html?Qualification-Family=GCSE&Qualification-Subject=Business%20(2009)&Status=Pearson-UK:Status%2FLive&Specification-Code=Pearson-UK:Specification-Code%2F2BS01&Specification-Code=Pearson-UK:Specification-Code%2F2bs01

You can either self-mark your past paper practice or you can bring it to school for me to mark. Remember, practice makes perfect.

Happy Revising!
Miss Bridge
Lead Teacher of Business

Unit 1: Introduction to Small Business
Key Words List and Revision Checklist

Content	In Class	At Home	Revised
Topic 1.1 Spotting a Business Opportunity			
Businesses			
Understanding Customer Needs			
Market Mapping			
Competition			
Added Value			
Franchising			
Topic 1.2 Showing Enterprise			
What is Enterprise			
Thinking Creatively			
Questions to be Asked			
Invention and Innovation			
Taking a Calculated Risk			
Important Enterprise Skills			
Topic 1.3 Putting a Business Idea into Practice			
Objectives when setting up			
The qualities shown by entrepreneurs			
Estimating Revenues, Costs and Profits			
Forecasting Cash Flows			
The Business Plan			
Obtaining Finance			
Topic 1.4 Making the Start-Up Effective			
Customer Focus and the Marketing Mix			
The Importance of Limited Liability			
Start-up Legal and Tax Issues			
Customer Satisfaction			
Recruiting, Training and Motivating Staff			
Topic 1.5 The Economic Context			
Demand and Supply			
The Impact of Interest Rates			
The Impact of Exchange Rates			
The Impact of the Business Cycle			
Business Decisions and Stakeholder			

Topic 1.1 Spotting a Business Opportunity	
Key Word	**Definition**
Supplier	A business which sells (or supplies) products to another business
Customer	Any person or organisation which buys or is supplied with a product by a business
Consumer	The person who ultimately uses (or consumes) a product
Markets	Where buyers and seller meet to exchange goods and services
Customer Needs	The wants and desires of buyers of a product or the customers of a business
Market Research	The process of gaining information about customers, competitors and market trends through collecting primary and secondary data
Primary (or field) research	The gathering of new information, called primary data, which has not been collected before
Survey	Research involving asking questions of people or organisations
Respondents	Those who provide data for a survey usually by answering questions in a questionnaire or interview
Questionnaire	A list of questions to be answered by respondents, designed to gather information about consumers' tastes
Focus Group	In market research, a group of people brought together to answer questions and discuss a product, brand or issue
Secondary (or desk) research	The process of gathering secondary data, which is information that has already been gathered such as sales records, government statistics, newspaper articles or reports from market groups
Qualitative Data	Information about opinions, judgements and attitudes
Quantitative Data	Data that can be expressed as numbers and can be statistically analysed
Market Segment	Part of a market that contains a group of buyers with similar buying habits, such as age or income
Price Sensitive	When the price is very important in the decision about whether or not to buy
Market Map (or Perceptual Map or Positioning Map)	A diagram that shows the range of possible positions for two features of a product such as low to high price and low to high quality
Gap in the Market	Occurs when no business is currently serving the needs of customers of a particular product/service
Product Range	A group of similar products made by a business, like a number of different soap powders
Brand	A named product which customers see as being different from other products and which they can associate or identify with
Brand Image	The idea/impression/image that customers have in their minds about the brand
Added Value	The increased worth that a business creates for a product ; it is the difference between what a business pays its suppliers and

	the price that it is able to charge for the product/service
Unique Selling Point	A characteristic of a product that makes it different from other similar products being sold in the market such as design, quality or image
Franchise	The right given by one business to another to sell goods or services using its name
Franchises	A business that agrees to manufacture, distribute or provide a branded product, under licence by a franchisor
Franchisor	The business that gives franchisees the right to sell its product, in return for a fixed sum of money or a royalty payment
Topic 1.2 Showing Enterprise	
Key Word	**Definition**
Entrepreneur	A person who owns and runs their own business and takes risks
Enterprises	Another word for businesses
Enterprise	A willingness by an individual or a business to take risks, show initiative and undertake new ventures
Risk	The change of damage or loss occurring as a result of making a decision
Goods	Physical, tangible products, like a car, a pair of scissors or a TV
Services	Non-physical, intangible products like a taxi journey, a haircut or a TV programme
Thinking Creatively (or creative thinking)	Coming up with new and unique ideas
Competitive Advantage	An advantage a business has that enables it to perform better than its rivals in the market and which is both distinctive and defensible
Deliberate Creativity	The intentional creation of new ideas through recognised and accepted techniques
Lateral Thinking	Thinking differently to try and find new and unexpected ideas
Blue Skies Thinking	A technique of creative thinking where participants are encourage to think of as many ideas as possible about an issue or a problem
Invention	The discovery of new processes and potential new products, typically after a period of research
Innovation	The process of transforming inventions into products that can be sold to customers
Patent	Right of ownership of material of an invention or process when it is registered with the government
Copyright	Legal ownership of material such as books, music and films which prevents these being copied by others
Trademarks	The symbol, sign or other features of a product or business that can be protected by law
Calculated Risk	The probability of a negative event occurring
Downsides	The disadvantages of a course of actions, including what can go wrong
Upsides	The advantages of a course of action, including what can go right

Driven	In business, being very motivated
Mindmap	Is a diagram that is used to record words and ideas connected to a central word or idea
Topic 1.3 Putting a Business Idea into Practice	
Key Word	**Definition**
Financial Objectives	Targets expressed in money terms such as making a profit, earning income or building wealth
Revenues or Sales Revenue or Turnover or Sales Turnover	The amount of income received from selling goods or services over a period of time
Fixed Costs	Costs which do not vary with the output produced eg rent
Total Costs	All the costs of a business; it is equal to fixed costs plus variable costs
Variable Costs	Costs which change directly with the number of products made by a business such as the cost of buying raw materials
Cash	Notes, coins and money in the bank
Cash Flow	The flow of cash into and out of a business
Inflow	The cash flowing into a business eg its receipts
Outflow	The cash flowing out of a business, its payments
Net Cash Flow	The receipts of a business minus its payments
Insolvency	When a business can no longer pay its debt
Cash Flow Forecast	A prediction of how cash will flow through a business in a period of time in future
Opening Balance	The amount of money in a business at the start of a month
Closing Balance	The sum of cash that flows into a business over time
Business Plan	A plan for the development of a business giving forecasts of items such as sales, costs and cash flow
Long-term Finance	Sources of money for businesses that are borrowed or invested typically for more than a year
Short-term Finance	Sources of money for businesses that may have to be repaid either immediately or fairly quickly, such as an overdraft, usually within a year
Share	A part ownership in a business for example a shareholder owning 25% of the shares of a business owns a quarter of the business
Personal Savings	Money that has been set aside and not spent by individuals and households
Share Capital	The monetary value of a company which belongs to its shareholders; for example, if five people invest £10,ooo into a business, the share capital will be £50,000
Shareholders	The owners of a company
Venture Capitalist	An individual or company which buys shares in what they hope will be a fast growing company with a long-term view of selling the shares as a profit
Loan	Borrowing a sum of money which has to be repaid with interest over a period of time, such as 1-5 years

Security (or collateral)	Assets owned by a business which are used to guarantee repayments of a loan; if the business fails to pay off the loan, the lender can sell what has been offered as a security, eg their home, car
Mortgage	A loan where property is used as security
Dividend	A share of the profits of a company received by shareholders who own shares
Retained Profit	Profit which is kept back in the business and used to pay for investment in the business
Leasing	Renting equipment or premises
Overdraft	Borrowing money from a bank by drawing more money than is actually in a current account. Interest is charged on the amount overdrawn
Topic 1.4 Making the Start-Up Effective	
Key Word	**Definition**
Marketing Mix	The combination of factors which help the business to take into account customer needs when selling a product – usually summarised as the 4Ps, which are price, product, place and promotion
Price	The amount of money customers have to give up to acquire a product
Product	A good or service produced by a business or organisation and made available to customers for consumption
Promotion	Communication between the business and customer, making the customer aware that the product is for sale, telling or explaining to them what is the product, making the customers aware of how the product will meet the customers' needs and persuading them to buy it for the first time or again
Place	The way in which a product is distributed – how it gets from the producer to the customer
Sole Trader (or sole proprietor)	The only owner of a business which has unlimited liability
Unlimited Liability	A legal obligation on the owner of a business to settle (pay off) all debts of the business. In law, there is no distinction between what the business owes and owns and what the business owner owes and owns
Limited Liability	When shareholders of a company are not personally liable for the debts of the company; the most they can lose is the value of their investment in the shares of the company
Companies	Businesses whose shareholders have limited liability
Records	Evidence of what has happened in the past; records could be kept in paper form or computer files
HM Revenue & Customs (HMR&C)	The government authorities in the UK responsible for collecting tax
VAT (Value Added Tax)	A tax on the value of sales; it is paid by businesses to government

Income Tax	A tax on the value of income earned by workers; this includes sole traders who have to pay income tax on their net earnings
National Insurance Contributions (NICs)	A tax on the earnings of workers; Employers' National Insurance Contributions are paid by employers on the wages of their workers; employees and sole traders have to pay NICs on their earnings
Corporation Tax	A tax on the profits of limited companies
Customer Service	The experience that a customer gets when dealing with a business and the extent to which that experience meets and exceeds customer needs and expectations
Customer Satisfaction	A measure of how much products meet customers' expectations
Repeat Purchase (or repeat business)	Orders or sales that occur from customers who have bought the product or service in the past
Job Applicant	A person who shows they would like to be considered for appointment to a particular job with a business
Job Description	Document that describes the duties of a worker and his or her status in the organisation
Person Specification	A profile of the type of person needed for a job – their skills and qualities
Application Form	Document to be filled in with personal details
Curriculum Vitae	A brief list of the main details about a person, including name, address, qualifications and experience
Motivation	In work, the desire to complete a task and meet the needs of the business consistently
Topic 1.5 The Economic Context	
Key Word	**Definition**
Commodities	Raw materials such as cola, oil, copper, iron ore, wheat and soya
Commodity Markets	Where buyers and sellers meet to exchange commodities – often these are international, organised markets, for example The London Metal Exchange and the New York Mercantile Exchange
Demand	The amount consumers are willing and able to buy at any given price
Supply	The amount sellers are willing to offer for sale at any given price
Shortage	When the demand for a good or service is greater than the supply. When a shortage exists, prices tend to rise
Surplus	When the demand of a good or service is less than the available suppl. When a surplus exists, prices will tend to fall
Good Markers	The market for everyday products such as clothes, food, petrol, going to the cinema, a DVD etc
Interest Rates	The percentage reward or payment over a period of time that is given to savers or paid by borrowers on savings or loans
Bank of England	The central bank for the UK. Its role is to monitor the banking system and to be a banker to the banks. It is responsible for setting interest rates in the UK
Variable Interest Rates	Interest rates that can change over the lifetime of a loan depending on what is happening to other interest rates in the

	economy
Fixed Interest Rates	Interest rates that stay the same over an agreed period of a loan
Exchange Rate	The exchange rate is the price of buying a foreign currency. It tells you how much of the foreign currency you will get for every pound or how many pounds you have to give up to acquire a foreign currency
Export	An export is the sale of a good or service to a foreign buyer that leads to a flow of money into the UK. The foreign buyer will have to change their currency into pounds to complete the purchase
Import	An import is the purchase of a good or service from a foreign business that leads to a flow of money out of the UK. The UK buyer will have to change pounds into the seller's currency to make the currency
Economic Cycle	The amount of buying and selling that takes place in a period of time
The Economy	The economic activity carried out by people and businesses in a country
Economic Growth	Rises in the rate of economic activity in an economy. It is measured by calculating the value of sales in an economy over a period of time.
Business Cycle	Fluctuations in the level of economic activity over a period of time. Most economies experience times when economic acidity is rising and others when economic activity is slowing
Recession	A situation when the level of economic growth is negative for two successive quarters
Stakeholder	An individual or a group which has an interest in and is affected by the activities of a business; stakeholders have an interest in how the business operates and whether or not it is successful.

Unit 3: Building a Business
Key Words and Revision Checklist

Content	In Class	At Home	Revised
Topic 3.1 Marketing			
Marketing			
Product Trial and Repeat Purchase			
Product Life Cycle			
Branding and Differentiation			
Building a Successful Marketing Mix			
Topic 3.2 Meeting Customer Needs			
Design and Research Development			
Cost-effective Operations and Competitiveness			
Effective Customer Service			
Meeting Consumer Protection Laws			
Topic 3.3 Effective Financial Management			
How to Improve Cash Flow			
How to improve Profit			
Break-Even Charts and Break-Even Analysis			
Financing Growth			
Topic 3.4 Effective People Management			
Organisational Structure			
Motivation Theory			
Communication			
Remuneration			
Topic 3.5 The Wider World Affecting Business			
Ethics in Business			
Environmental Issues			
Economic Issues affecting International Trade			
The Impact of Government and the EU			

Topic 3.1 Marketing

Key Word	Definition
Marketing	The management process that is responsible for anticipating, identifying and satisfying customer needs profitably.
Market Research	The process of gaining information about customers, competitors and market trends through collecting primary and secondary data.
Primary Data	Data that has been collected for a specific purpose through direct investigation such as observation, surveys and experiments.
Secondary Data	Information that already exists such as accounts and sales records, government statistics, newspaper and internet articles and reports from advertising agencies.
Quantitative Data	Data that can be expressed as numbers and can be statistically analysed.
Qualitative Data	Data about opinions, judgements and attitudes.
Survey	Research involving asking questions of people or organisations.
Respondents	Those who provide data for a survey usually by answering questions.
Market Segment	Part of a market that contains a group of buyers with similar buying habits.
Sample	A small group out of the total population that is selected to take part in a survey.
Questionnaires	A list of questions to be answered by respondents, designed to give information about consumers' tastes.
Product Trial	When consumers buy a good for the first time and assess whether or not they want to buy it again.
Public Relations	Promotion of a positive image about a product or business through giving information about the product to the general public, other businesses or to the press.
Viral Marketing	Getting individuals to spread a message about a product through their social networks like Facebook or their group of friends.
Penetration Pricing	Setting an initial low price for a new product so that it is attractive to customers. The price is likely to be raise later as the product gains market share.
Trade Buyers	Buyers of goods, which then sell these goods onto consumers, or other buyers, they include supermarket chains and wholesalers.
Wholesalers	Businesses which buy in bulk from a manufacturer or other supplier and then sell the stock on in smaller quantities to retailers.
Retailers	Businesses which specialise in selling goods in small quantities to the consumer.
Customer Loyalty	The willingness of buyers to make repeat purchases of a product or from a business.

Repeat Purchase	When a customer buys a product more than once.
Product Life Cycle	The stages through which a product passes from its development to being withdrawn from sale. The phases are research and development, launching the product, growth, maturity, saturation and decline.
Research and Development	The process of scientific and technological research and then development of the findings of that research before a product is launched.
Extension Strategy	Method used to increase the life of a product and prevent it from falling into decline.
Product Portfolio	The combination or range of products that a business sells.
Product Portfolio Analysis	Investigation of the combination of products sold by a business.
Boston Matrix	A model that analyses a product portfolio according to the growth rate of the whole market and the relative market of a product within that market. A product is placed in one of four categories- star, cash cow, problem child or dog.
Stars	High market share, high market growth (Growth part of Product Life Cycle)
Cash Cow	High market share, low market growth (Maturity part of the Product Life Cycle)
Problem Child	Low market share, high market growth (Launch part of the Product Life Cycle)
Dog	Low market share, low market growth (Decline part of the Product Life Cycle)
Brand	A named product which consumers see as being different from other products and which they can associate and identify with.
Generic Product	A product made by a number of different businesses in which customers see very little or no difference between the product of one business compared to the product of another business.
Own Brand	A product that is sold under the brand name of a supermarket chain or other retailer rather than under the name of the business which manufactures the product.
Product Differentiation	Making one product different from another in some way, for instance through the quality of a product, its design, packaging or advertising.
Premium Price	A price which is above the average for products of a particular type.
Marketing Mix	A combination of factors which help a business to take into account customer needs when selling a product, usually summarised as the 4 P's price, product, place, promotion.

Topic 3.2 Meeting Customer Needs

Key Word	Definition
Design Mix	The range of variables that contributes to successful design. They are appearance, function and cost.
Stocks	Materials that a business holds. Some could be materials waiting to

	used in the production process and some could be finished stock waiting to be delivered to customers.
Maximum Stock Level	The highest amount of stock to be kept by a business.
Re-Order Level	The amount of stock held by a business at which an order for new stock is placed with suppliers.
Buffer stock level (minimum stock level)	The lowest amount of stock to be kept by a business (using the just in case model of stock control).
Just in Time (JiT)	Stock management system where stocks are only delivered when they are needed by the production system and so no stocks are kept by the business.
Quality	Achieving a minimum standard for a product or service or a production process which meets customers needs.
Quality Control	Ensuring that a product or service meets minimum standards often through testing of sample products once they have been made.
Quality Assurance	Ensuring that quality is produced and delivered at every stage of the production process often through making quality the responsibility of every worker.
Productivity	The amount (volume) of output that is obtained from each employee. Productivity = Total output ÷ number of workers
Customer Service	The experience that a customer gets when dealing with a business and the extent to which that experience meets and exceeds customer needs and expectations.
Innovation	The process of transforming inventions into products that can be sold to customers.
Sale of Goods Legislation	Gives consumers rights to compensation if a product they buy is not of merchantable quality, not as described or not fit for purpose.
Trades Descriptions Legislation	Makes businesses liable for prosecution and fines if products are sold in a misleading way.

Topic 3.3 Effective Financial Management

Key Word	Definition
Cash Flow	The flow of cash into and out of a business.
Financial Management	Deliberately changing monetary variable like cash flows to achieve financial objectives such as improved cash flows.
De-stocking	Reducing the levels of stock in a business.
Trade Credit	Where a supplier gives a customer a period of time to pay a bill or invoice for goods or services once they have been delivered.
Profit	Occurs when the revenues of the business are greater than the costs over a period of time.
Revenues	The amount of money received from selling goods or services over a period of time.
Break Even Point	The level of output where total revenues are equal to total costs.

	This is where neither a profit nor loss is being made.
Total Revenues	The revenue earned by a business from the sale of a given quantity of products. It is equal to quantity sold x selling price.
Total Costs	All the costs of a business. It is equal to fixed costs + variable costs.
Fixed Costs	Costs that do not vary with the amount produced such as rent, business rates, advertising costs, administration costs and salaries.
Variable Costs	Costs that change directly with the number of products made by business such as the costs of buying raw materials.
Break-Even Charts	A graph which shows total revenues and total costs allowing the break-even point to be drawn.
Margin of Safety	The amount of output between the actual level of output where profit is being made and the break even level of output. If the margin of safety is zero, then production is at or below the break even level.
Financing a Business	How a business obtains money and other financial resources to start up, expand and if necessary pay off losses it has made.
Internal Sources of Finance	Finance that is obtained within the business such as retained profit or the sale of assets.
External Sources of Finance	Finance that is obtained from outside the business such as bank loans and cash from the issue of new shares.
Retained Profit	Profit that is kept back in the business and used to pay for investment in the business.
Share Capital	The monetary value of a business that belongs to the business owners. In a company this would be the value of their shares.
Share	A part ownership in the business for example a shareholder owning 25% of the business owns a quarter of the business.
Overdraft	Borrowing money from a bank by drawing more money than is actually in a current account. Interest is charged on the amount overdrawn.
Bonds	A long-term loan where typically interest is paid at regular intervals like a year and the loan is all repaid at the end of the life of the bond. Bonds are traded on the stock market.

Topic 3.4 Effective People Management

Key Word	Definition
Organisation	The way in which a business is structured for it to achieve its objectives.
Organisation Chart	A diagram that shows the internal structure of an organisation.
Hierarchy	Structure of different levels or authority in a business organisation, one on tip of the other.
Line Manager	Employee who is responsible of overseeing the work of others further down the hierarchy of an organisation.
Function	Task or jobs organisation by function means that a business is organised according to tasks that have to be completed such as production or finance.

Authority	The right what to decide what to do in a situation and take command of it. To be able to make decisions without referring to anyone else.
Subordinate	Workers in the hierarchy who work under the control of a more senior worker.
Chain of Command	The oath or chain down which orders or commands or passed. In a company this goes from the board of directors down to other workers in the organisation.
Delayering	Removing layers of management and workers in a hierarchy so that there are fewer workers in the chain of command.
Empowerment	Giving more responsibility to workers further down the chain of command and the hierarchy.
Downsizing	When a business employees fewer workers to produce the same amount through increases in productivity which can be achieved through delayering.
Span of Control	The number of people who report directly to another worker in an organisation.
Delegation	Passing down of authority for work to another worker down the hierarchy of the organisation.
Centralisation	Type of business organisation where decisions are made at the centre or core of the organisation and then passed down the chain of command.
Decentralisation	The type of business organisation where decision-making is pushed down the hierarchy and away from the centre of the organisation.
Motivation	The desire to complete a task.
Maslow's Hierarchy of Needs	Placing needs in an order of importance, starting with basic (physiological) needs; safety needs; security needs; love and belonging needs; self esteem needs; self actualisation needs.
Communication	Messages between a sender and a receiver through a medium such as letter or an email.
Feedback	Response to a message by receiver to a sender.
Internal Communication	Communication within the business or organisation.
External Communication	Communication between the business and an outside individual or organisation like a customer, supplier or a tax inspector.
Channel of Communication	The path taken by message such as horizontal communication, vertical communication or the grapevine communication.
Formal Channels of Communication	Channels of communication that are recognised or approved by the business and by employee representatives such as trade unions.
Informal Communication (through the grapevine)	Communication through channels that are not formally recognised by the business.
Barrier to Communication	Factors which stop effective communication from taking place e.g insufficient or excessive communication.
Payment Systems	Methods of organising the payment of workers such as piece rates

	or salaries.
Manual/blue collar workers	Workers who do mainly physical work like an assembly line worker.
Wages	Tend to be paid to manual workers for working a fixed number of hours per week plus overtime.
Overtime	Time worked over and above the basic working week.
Basic Pay	Pay earned for working the basic working week.
Non-manual/white collar workers	Workers who do non-physical work like an office work or teacher.
Salary	Pay usually of non-manual workers expressed as a yearly figure but paid monthly.
Commission	Payment system usually operated for sales staff where their earnings are determined by how much they sell.
Bonus	Addition to the basic wage or salary for instance for achieving a target.
Part-time Workers	Employees who work for only a fraction of the working week.
Full time Workers	Employees who work the whole of the working week.
Temporary Workers	Workers who have no permanent contract of employment with a business and so tend to work only for a short period of time for an employer.
Freelance Workers	Workers who tend to be self employed and do particular pieces of work for a business as a supplier.
Fringe Benefits	Payments in kind over an above the wage or salary such as a company car or employee discount.

Topic 3.5 The Wider World Affecting Business

Key Word	Definition
Business Ethics	Ideas about what is morally correct or not, applied in a business situation.
Pressure Group	Are organisations that support causes such as workers' rights, the environment, animal welfare and world poverty e.g Greenpeace, RSPCA and OXFAM. They try to get businesses to change what they are doing.
Supply Chain	The processes that are involved in the route taken by a product from the raw materials needed to create it right through to the final product.
Developed Countries	Countries with a relatively high income per person.
Developing Countries	Countries with a lower income per person than developed countries.
Import	The purchase of a good or service from a foreign business that leads to a flow of money out of the UK. The UK buyer will have to change £ into the sellers currency to make the transaction.
Export	The sale of a good or service to a foreign buyer that leads to a flow

	of money into the UK. The foreign buyer will have to change their currency into £ to complete the purchase.
Protectionist Policies	Measures designed to reduce foreign products coming into the country but give an advantage to domestic firms to sell products at home or export products.
Tariffs/Custom Duties	Taxes put on goods imported into a country that make them more expensive for buyers.
Quotas	Limits on the physical number of goods that can be imported over a period of time.
Export Subsidies	Measures that reduce the price of good sold abroad by helping domestic businesses to reduce the cost of production. This would enable them to reduce the prices of their goods abroad, therefore making them more competitive in the foreign market.
Minimum Wage	The lowest payment per hour, day or week that can be given to a worker for their work.

UNIT 3.1 MARKETING

MARKETING AND MARKET RESEARCH

Marketing is getting people to buy your products.
It is important because it gets you customers and sales therefore revenue and profit.

Different businesses focus on different aspects of the marketing mix (4Ps)EG

- PRODUCT - iPod
- PROMOTION - L'Oreal
- PRICE - Ryanair
- PLACE - ASOS

Market research is getting information about the customers, the market and competitors.
Use it to help you make decisions

Primary research is first hand research.
Secondary research is research that has already been carried out by other people.

Qualitative research is in depth and get's peoples opinion or information about their behaviour or attitudes.
Quantitative research is when large quantities of data are collected that can be statistically analysed.

Socio-economic groups are a way to split customers up based ón their social class eg.AB are professionals and managers.

PRODUCT TRIAL AND REPEAT PURCHASE

Businesses try and get us to buy their products. They don't want us to just buy them once and then be really disappointed and never buy them again. They want repeat purchases – more sales and more profit.

Businesses with new products want three stages

- Distribution –somewhere or people to sell their goods
- Product trial – people buy it for the first time
- Repeat purchase – people buying again and again

Hard to get people to try new things especially if they are expensive or technical or if people are brand loyal or they are locked in.
People sometimes just don't want to take a risk.

Ways to get a product trial – free samples, advertising, image, penetration pricing – convince people to take the risk on a new product.

To get a repeat purchase

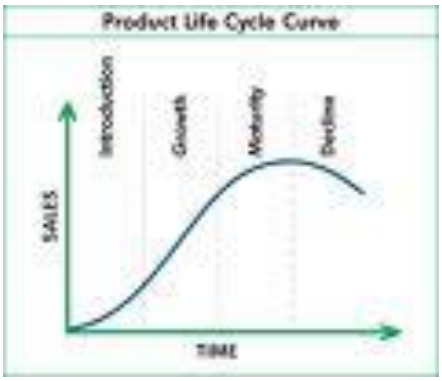
- Product must be at least as good as expected
- The brand image must match the image that people have of themselves
- The product must seem like value for money

Customer or brand loyalty is when people are repeatedly decide to purchase a particular product or brand and feel strongly motivated to do so.

THE PRODUCT LIFE CYCLE

Products are expected to 'live' for different lengths of time but they all go through these stages more or less.

- **Introduction** – expensive research, no sales, high costs
- **Growth** – product starting to get known, sales increasing, need advertising
- **Maturity** – sales stop increasing, competitors come in, need to reinforce brand image and get repeat sales, very competitive
- **Decline** – sales decrease, then product is withdrawn



Not all products follow this pattern.

Important for businesses to know them so they can plan their marketing and their cash flow.

- Introduction – lots of cash outflow to develop and launch new product but no inflows ☹
- Growth – cash flow improves- more money coming in ☺
- Maturity – cash flow is positive – less money going out ☺
- Decline – cash flow may start to become negative again ☹

Extension strategy – an attempt to prolong the life of a product and prevent it from declining. Extension strategies like new flavours or packaging or uses can save products temporarily from decline. Could also reduce price, encourage to use more or improve the product.

BUILDING A SUCESSFUL MARKETING MIX

The marketing mix – how a business persuades customers to buy it products/services Product, place price promotions

To be successful a product must have the right marketing mix

The right product at the right price promoted in the right way and sold in the right place

Product – keep close to your customer to find out what they want from the product

Price Makers – strong brand and such a quality product that they can charge a high price for it

Price Takers – less strong brands follow the prices that competitors charge – usually lower – weaker brands

Promotion – anything a business does to persuade their customers to buy their product
Advertising – long term to build brand image or short term to boost sales
Sales promotions to boost sales – these can sometimes damage the brand image

Place – how the product gets form producer to customer

- Direct – sell on internet straight from producer to customer
- Modern - Retail sell to a Superstore and customers buy from there
- Traditional – Producer sells to wholesaler who sells to shops and customers buy from there

Also have to decide which shops to be sold in

Hard for new products to succeed because people get used to the goods that they buy.

Public Image – how a business is perceived by the general public

THE BOSTON MATRIX

Product portfolio analysis – if businesses sell lots of different products they have a product portfolio. They need to decide which products to focus on and spend money on.

The Boston Matrix is a tool to help businesses decide which of their products to invest money in.

It shows how well products are doing in their markets.
Businesses need to have profits making money today but also some lined up for the future.
The Boston Matrix looks at how much of the market the product has (market share) and if the market is growing or declining (market growth).

Rising Stars
High market share
High market growth
Get lots of sales
But have to have lots of money spent on them too
Keep and build stars – they may become cash cows in the future

Problem Children
Low market share
High growth
Need lots of money spent on them if they are going to become stars - if not dogs
Frustrating because they have potential but are successful

Cash Cows
High market share
Low market growth
Get lots of sales and big profits
They generate more money than is invested in them
Profits used to fund problem children or stars

Dogs
Low market share
Low growth
May have been cash cows or problem children before
Businesses don't want them
Very low sales
They have no future

A business puts all of their products in to these categories to help them decide which to invest in and which to get rid of.
Keep Cash Cows and some Rising Stars and some Problem Children. Get rid of Dogs.

Problems with the Boston Matrix
Markets can change though a product can be moved from being dogs maybe by extension strategies.
Also having high market share doesn't always mean you make lots of profit.

BRANDING AND DIFFERENTIATION

Brands and logos help a business to create an image that people recognise, remember and associate with certain qualities eg. quality or service or value.

Logo – a picture or symbol or picture that represents a business

Brand – a product with a unique character

Branding can give products and identity and distinguish it from the competition.
It might make people choose that product over another - hopefully it can you become the first choice.
Brands help make purchasing decisions easier.

Branding can add value to your product.
Brand loyalty is when consumers buy the product on a regular basis.
Brands can be for big or small businesses and they can stand for any characteristic.

- Family branding – all under the same name – e.g EasyHotels, EasyJet, EasyBus etc.
- Line Brandingdistingusihed form competitor products e.g Wrigley's Extra, Orbit Spearmint, Juicy Fruit
- Own label – retailers use their name rather than the producers e.g Sainsbury's Be Good To Yourself
- Global brands – sold in lots of countries e.g Coca-Cola

Advantages of a strong brand
- Encourages customer loyalty = repeat purchases and recommendations
- Can charge higher prices
- Retailers want them on their shelves

Disadvantages of a strong brand
- High costs of promotion to gain brand
- Bad events can affect reputation
- Have to register them to protect them

Differentiation – making a product seem distinct from its competitors

Product differentiation makes customers feel that there is a good range of products to choose from even if products are only very slightly different.
You can differentiate by brand, logo, name, quality, content, packaging or design.

USP – a key feature which not other product has

Unit 3.2 - Meeting Customer Needs

Cost effective operations

Businesses have to keep their costs down to stay competitive
Costs include:

- Materials
- Direct costs
- Labour
- Fixed costs

How to control costs:

- Careful organising of supplies
- Negotiations
- Good management
- High productivity

Productivity – efficieny, measured by output per worker per hour
How to improve productivity

- **Automation** – processes carried out by machinery rather than people
- Motivation
- Innovation – coming up with suggestions for improvement

Effective customer service

Effective customer service:

- Understands what the customer wants
- Is practical and cost effective
- Is based on a genuine wish to help
- Is offered at the right time, in the right way and at the right price

Efficient service:

- Gets products to you when you want them
- In good conditions
- And if something goes wrong then it is sorted out asap

You get what you pay for – customer service must meet expectations
Bad service damages you reputation and loses you customers through word of mouth – much easier to spread the news now through the internet and media
It is easier for businesses to get repeat purchases than new customer (expensive advertising and marketing)

Managing Stock

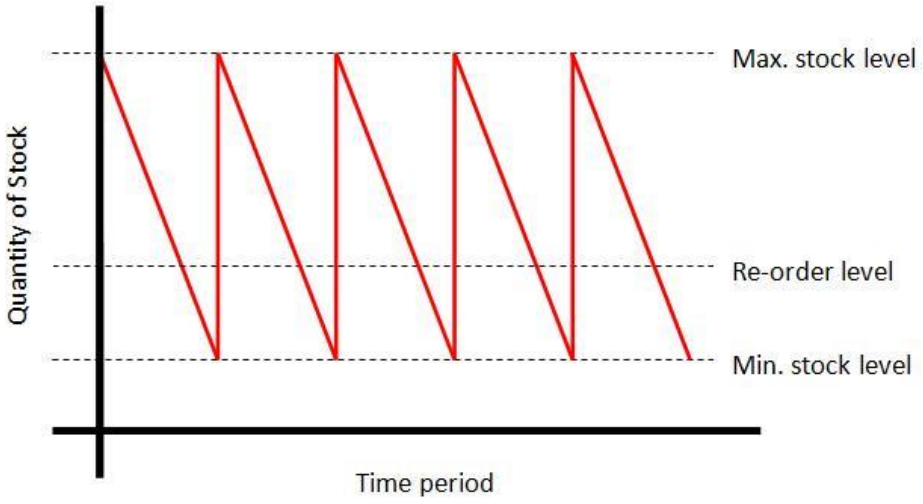
Stock – items held by a firm for use or sale e.g components for manufacturing or sellable products for a retailer

Retailers – business that sell goods to the public

The right level of stock depends on:

- The level of demand for your product
- The right level of buffer stock
- How often you need to order from your supplier

Buffer stock – the minimum stock level held at all times to avoid running out



Just in time - Getting stock in and doing everything at the very last minute to minise waste and stock holding.

Advantages of JIT:

- Cuts storage costs
- Fresher produce
- Less capital tied up in stock

Disadvantages of JIT:

- Greater risk of running out of stock
- Lose bulk buying discounts
- Mistakes can cause bigger problems

Meeting customer needs

Customer expectations – what consumers expect they are going to receive for the service they have paid for. Clever companies aim to provide even more than was expected

To meet customer needs you should:

- Keep close to the customer
- Be efficient and reliable
- Provide great design

Design and R&D

Patent – registering a new way of making something so that no one can copy the idea for 20 years
The design mix – economic manufacture, function, aesthetics
Aesthetics – appeal to the sense sucah as products that look smell or feel good
Product differentiation – making your product different from competitors
Research and development- scientific research to improve products or processes

Managing Quality

Warranty – the guarantee by the producer that it will repair any faults in a product for a specific period of time – usually one
Quality control – putting measures in place to check that the customer receives and acceptable level of quality
Quality control:

- Inspectors sample products
- 100% inspection
- Feedback system

Problems with quality control:

- Feels like an 'add on' to the job
- Trys to put a lid on problems rather than solve them
- Staff not involved

Quality culture – quality is fundamental to everyone's attitude to work – everyone thinks about quality all the time
Problems with quality culture:

- Difficult to do

To get a quality culture you need:

- Training
- Rewards
- Ethos
- Recruitment

Culture – the accepted attitudes and practices of staff at the workplace 'the way we do things around here'
Quality assurance – giving employees specific jobs to do for quality – sort of in between quality culture and quality control

Consumer Protection

Consumers might need protection because

Monopolies might abuse their position and take advantage of customers

When businesses are being very competitive they might let their standards slip to get lower prices

Business owners sometimes get greedy and cut costs to get more profits

Sales of Goods Act

- Goods must be fit for purpose
- Consumers have the right to get their money back or have the product repaired

Trade Descriptions Act

- Can't make false or misleading statements
- Can't mislabel goods
- Criminal penalties (maybe jail!)

Consumer Credit Act

- Must have clear credit terms

The Weights and Measures Act

- Weights and volumes on packages must be accurate

The Food Safety Act

- Must prevent consumers getting ill from food sold publically

Businesses often find it hard to remember and understand all the laws

- Too many rules and paper work
- Restrict creativity
- Many laws don't affect all firms but still have to be adhered to

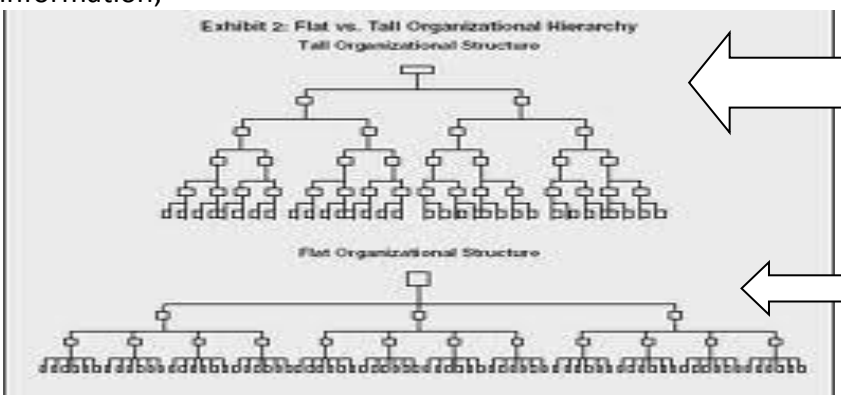
However laws are good because:

- They let businesses know what is acceptable and what is not
- It is important that consumers are protected

Unit 3.4 – Effective People Management

Organisation structure

All the stakeholders of a business need to know who is in charge and what they are responsible for. This is often shown in an organisation chart showing the following information;



Tall structure – small spans of control and many layers in the

Flat structure – large spans of control and fewer layers in the hierarchy

- Chain of command – The way instructions and information are passed up and down and the hierarchy.
- Hierarchy – The relationship between the different levels within the organisation
- Centralised organisation – A firm where most decisions are made by the senior managers at Head Office
- De-centralised organisation – When responsibility for decision-making is delegated away from Head Office
- Delegation – Providing staff on lower levels of the hierarchy with the responsibility to make decisions
- Span of Control – The number of staff who one manager is responsible for

Tall structures

Advantages	Disadvantages
Lots of opportunities for staff to achieve promotion	Rigid, inflexible system
Lines of authority are clear so standards are maintained	Too many layers of management are expensive
Managers have more time to supervise and check work	Staff are far too remote from management

Flat structures

Advantages	Disadvantages
Fewer managers needed so saves money	Managers have more staff to manage and so less time
Managers must delegate and so give staff responsibility	Workers may not want to / have skills to be delegated to
Increased motivation as staff feel involved	Too wide span of control can lead to over work / stress
Faster, clearer communication between top and bottom	Fewer promotion opportunities for staff

Centralised organisations

These are often large, traditional businesses with relatively low-skilled staff and routine operations: Advantages include

- Decisions are made with an overview of the whole company in mind
- Decision making is usually much quicker
- Customers receive identical standards/service wherever they come in to contact with the company

Drawbacks include:

- Not being able to respond to local needs
- Lack of control means local managers don't feel valued
- Loss of ideas and creativity from lower down the company

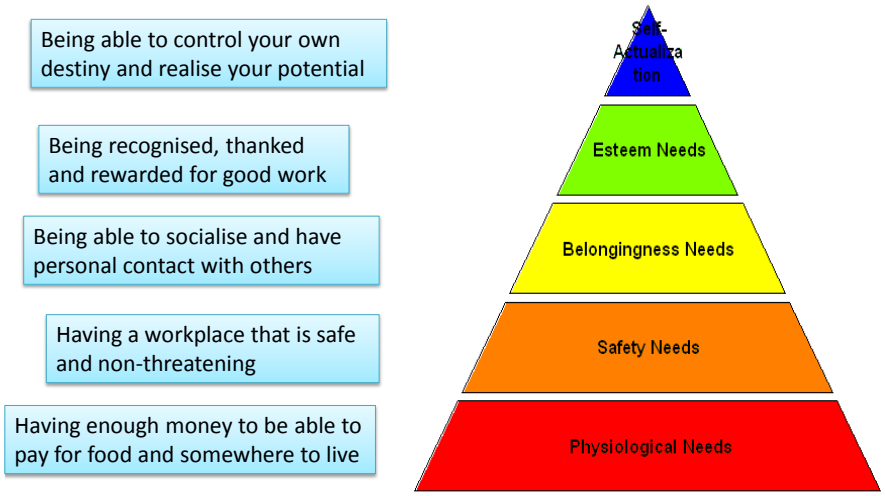
Motivation

Providing financial motivation (i.e. ways of incentivising workers to do something involving money) is one way of achieving good results for a business. These methods include;
Financial Methods

- Piece rate – paying workers based upon the amount they actually produce
- Commission – paying workers a percentage of the value of each sale they make
- Bonuses (or performance related pay) – Giving workers a set amount of cash if they achieve pre-agreed targets
- Perks/fringe benefits – including things like free life assurance, health care and company cars

It is vital that you understand the theory of Abraham Maslow. He believed that there were different levels of needs that all workers have. He said that until you have achieved the lower levels there is no point in managers meeting the higher levels.

Maslow's Theory



Maslow felt that financial methods cannot be used alone and that they would only provide the very basic form of motivation at the bottom level of his hierarchy. He preferred using non-financial methods such as;
Praise, training to develop their skills, opportunities for progression/promotion, feeling part of a team etc.
The benefits of motivated staff include;

- Increased productivity (i.e. the amount each worker provides on average)
- Better quality as each worker will make less mistakes, suggest good ideas etc.
- Lower levels of staff absence
- Lower levels of staff turnover so lower recruitment and training costs

Point to consider – Motivation must come from within each worker and so will vary over time and between different situations. Express your own ideas about which particular methods of motivating staff will be most effective in the specific circumstances you are being asked about in the question and explain the reasons for your choice(s).

Communication

Communication – the passing of information from one person or group to another
Good communication is vital for all businesses as they have to communicate with their;

- Suppliers
- Customers
- Staff etc.

There are many different methods of business communication used including;

- Telephones
- E-mail
- Fax
- Letters

Presentations
Team-briefings
Instant messaging

Podcasts
One-on-one meetings

You will again need to recommend which one is best in a particular situation and explain why. Try and link this explanation to the following;

- One-way or two-way method – i.e. do you want feedback to allow checking of understanding, passing on of ideas?
- Written, pictorial or verbal – Will dictate how much and what type of feedback you get
- Formal or informal – is a record required of what was said, does anyone need to refer back, should every single worker be told exactly the same thing?

Barriers to communication – many things can get in the way of good communication;

- Unclear explanations
- Communication not received or properly understood
- Wrong method of communication chosen
- Too many layers/levels between sender and receiver distort the message (Chinese Whispers)

MOST OF THESE BARRIERS CAN BE HELPED THROUGH TWO-WAY COMMUNICATION ALLOWING FEEDBACK

Remuneration

Remuneration means being paid to perform your job. Most workers are paid either a **wage** or a **salary**

Wages	Salaries
Usually either a **time-rate** (getting £6 per hour worked) or a **piece-rate** (getting a certain amount for each job done/product created)	Usually a fixed amount described as £10,000 per annum (year)
Usually for casual or lower-level workers	Usually for managerial or professional workers
Often paid in cash (although becoming rarer)	Paid monthly into a bank account
Overtime worked is paid (either at hourly rate or by producing more products (piece rate)	Not usually paid any extra for working overtime

Piece rates

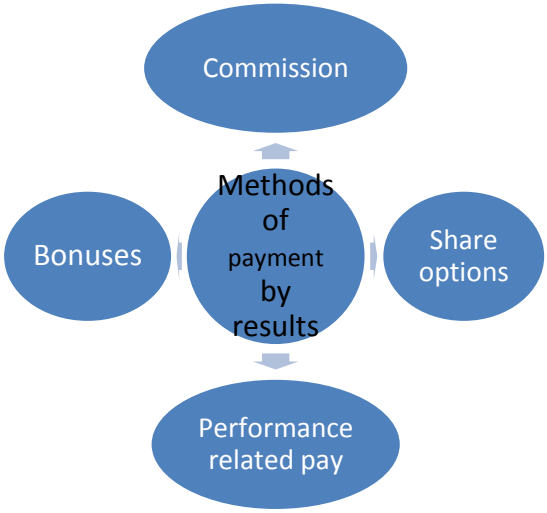
Advantages	Disadvantages
People can work at their own pace and not feel under pressure; this doesn't cost the firm any more	Quality may suffer as workers are incentivised to produce as quickly as possible, rather than to as high a standard as they can
Workers have an incentive to complete tasks quickly	Increased quality control costs for the company

Fairer system for workers as those who work hard get paid the most. Hard work is rewarded	May be difficult to predict how much will be produced so the firm might find it difficult to manage production
	Workers may lose money for any items which do not meet the quality standard

Freelance and temporary workers

When workers are not employed under a contract and so are free to leave as they want. The company can decide they are not needed and can terminate their contracts. Can apply to those with few skills or very high skill levels. (i.e. temporary staff to stack supermarket shelves at Christmas or IT specialists who have very scarce skills)

- Useful for seasonal industries (i.e. workers in tourism)
- Helps with work which has large peaks and troughs
- Used when specialist skills are needed for a particular project or length of time
- Much more flexibility for the firm
- Often a more expensive way of employing staff on a day-to-day basis
- Workers have no long-term commitment to the company and so may not work as hard



Unit 3.3 – Effective Financial Management

How to Improve Cash Flow

There are two main ways of improving your cash flow. **Remember cash-flow is the movement of money in and out of the company over a period of time.**

Most businesses will find that during certain months or times of the year their outgoings are more than the inflows of cash. One simple way to deal with this is to plan cash-flow forecasts in advance to predict and so avoid this. Firms can then ensure they have a positive closing balance at the end of every month.

Often banks will offer an overdraft to firms so that they can run a negative bank balance for a few months at a time.

Increasing the cash inflows;

- Stop allowing customers to have credit – means they have to pay in cash and so may reduce sales
- Hold a 'sale' – will mean you get more cash in quickly but your profit will suffer
- Arrange a loan to provide extra funding (from bank or friends/relatives)
- Give your customers a discount for settling their debts earlier
- Ask customers to pay a deposit to reserve your services ahead of them using them

Reducing cash outflows;

- Reduce the level of stock you order – will customers be disappointed?
- Ask your suppliers to give you credit – i.e. you buy now and pay later for your stock
- Negotiate discounts with your suppliers – maybe for ordering all your stock from them?
- Find other ways to reduce costs – reduce staff hours, cheaper premises

Remember – Cash-Flow is different from Profit. **PROFIT IS A CALCULATION. CASH REFERS TO THE AMOUNT OF MONEY THE FIRM PHYSICALLY HAS AT ANY POINT.**

IMPROVING PROFITS

Profit is calculated as follows; **Profit = Revenue – Total Costs**

There are four main ways to improve profit;

1. **Reduce Costs** – Will definitely increase profits, provided your cost-cutting doesn't reduce your income.
2. **Increase the number of products sold** – provided you sell the products for the same or higher value
3. **Raise the selling price** – however, this might reduce the number of products you can sell
4. **Expand your business** – this will often require a large investment and so be expensive

For top answers in the exam you will need to make a suggestion as to how to achieve one or more of the following **AND** discuss the good and bad points of your suggestion.
i.e. "I would suggest that Easyjet should cut their costs by reducing the number of cabin crew staff that they employ. This means that their operating costs would be reduced and so profit should be increased although they have to be careful that they don't lose passengers to other airlines because their customers feel that they are not properly looked after."

Reduce workforce
- De-layer (ie sack managers)
- Automate (replace workers with machines)

Reduce wages
- Unhappy workers
- Higher labour turnover

Contract out work
- Means paying a company to provide services
- Allows you to control spending

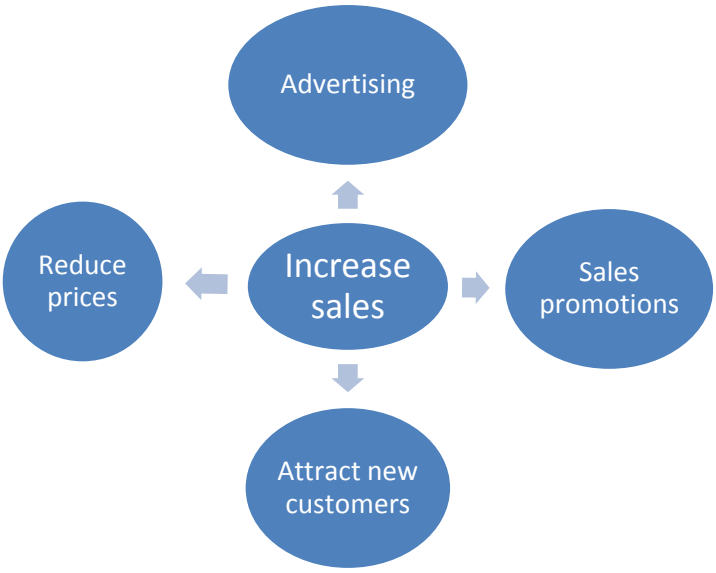
Price Rises

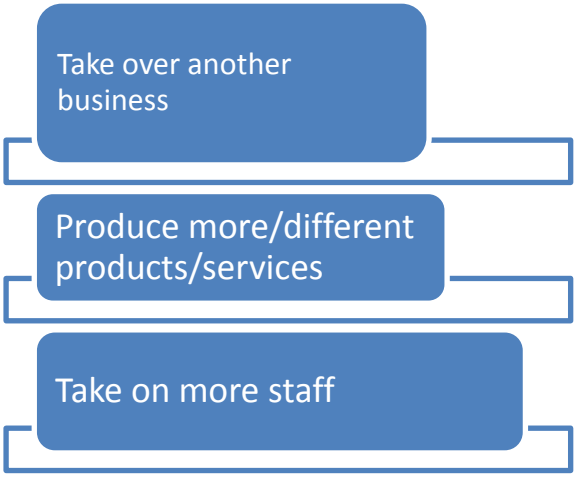
Competitor's prices?

Value for Money

Affordability?

Ways of Expanding a Business





BREAK EVEN

You need to know the difference between Fixed and Variable costs;

- **Fixed Costs** – Costs which remain the same no matter how many products are sold.
- **Variable Costs** – Costs which go up and down in line with the number of products sold

i.e. The cost of renting a shop is **Fixed** as it is not related to how many products a shop sells. The cost of buying the products which are sold to the public is **Variable** as it doubles when you double the number of products sold.

When you add together the Fixed and Variable Costs you get Total Costs (Fixed Costs + Variable Costs = Total Costs)

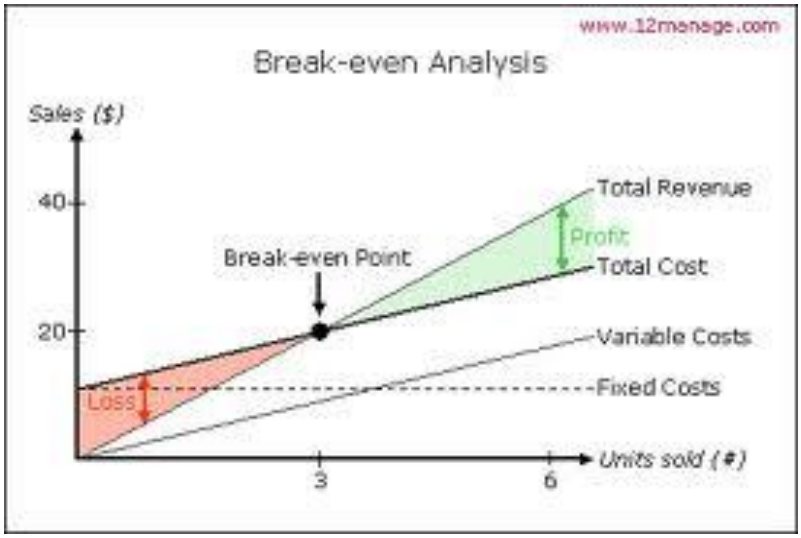
Break- Even means that a firm's Total Costs are equal to its Total Revenue (i.e. its income)

You can work out how many products you need to sell in order to break even (i.e. not make a loss) by;

1. Drawing up a table showing the Costs and Revenues – when these are the same that's Break-Even!

No. products sold	Fixed Costs	Variable Costs	Total Costs	Total Revenue	Profit/Loss or Brea-even
0	£10	£0 (products sold x variable cost of one product)	£10 (Fixed + Variable Costs)	£0 (no. products sold x selling price)	£10 Loss
1	£10	£5	£15	£7.50	£7.50 Loss
2	£10	£10	£20	£15	£5 Loss
3	£10	£15	£25	£22.50	£2.50 Loss
4	£10	£20	£30	£30	£0 (Break even)

2. Plot each of the lines on a graph – where the Total Cost and Total Revenue lines meet is the Break Even point



How to use Break-even charts

- See how much profit or loss will be made at each level of sales
- See what would happen to profit / loss if they increase selling price (or if their Fixed or Variable Costs go up or down)
- See how many fewer products they could afford to sell and still break even (called the Margin of Safety)

FINANCING GROWTH

This means getting the money to increase the size of the business. There are two main sources;

Internal Sources (Money obtained from inside the business)

	Advantages	Disadvantages
Profit - Using money made in previous years to fund growth	Doesn't need to be re-paid; Company is not in debt	Can't be given to the owner/shareholders
Sale of assets – selling things the firm owns to raise cash	Doesn't need to be re-paid; Company is not in debt	Company can't use the asset any more and may need to lease (i.e. rent) it in future
Personal funds –	The business itself is not	Owners may not have (or be willing)

owners putting their own money in	placed into a lot of debt	personal funds to put into the business

External Sources (Those from outside the business)

	Advantages	**Disadvantages**
Share Capital – selling part of the company (shares of it) to other investors	Doesn't need to be re-paid Can raise large amounts of money New owners may have good, new ideas	The owners may lose control of some of the decisions / the company The new owners must be paid a share of the profit
Loans – Borrowing money (usually from a bank)	Often the only source available The rate of interest charged may be lower if the loan is 'secured' against an asset	The loan itself must be repaid Interest will also be charged on the debt Banks won't lend if they don't think the firm can re-pay
Flotation on stock market – turning a private limited company into a public limited	Can create vast amounts of money for the company to use Does not need to be repaid	Cannot control who buys and sells the shares Lose control of decision making Have to make certain decisions & info public

Exam tip – You need to be able to suggest which of the above methods will be most suitable for a **specific** business. i.e. If asked which method a small hairdresser might make to be able to open another salon you might suggest Personal Funds but explain that it depends on whether the owner actually has enough money available and is willing to risk it. You wouldn't suggest a flotation as the company is too small for investors to want to try and buy stock in it.

3.5 Revision – The Wider World

Ethics

Businesses have to follow legislation but some things are not illegal but ethically wrong

ETHICS – a set of moral principles

ETHICAL – doing the morally right thing

LEGISLATION – laws passed by Parliament

Business must consider how they behave towards...

- Suppliers
- Employees
- Competitors
- Environment
- Local community

Pressure groups try to influence how businesses behave with regards to a certain cause – eg being environmentally friendly.

SOCIALLY RESPONSIBLE – acting in a way that shows care and concern for all member of society

PRESSURE GROUP – a group with a common interest or goal who work collectively to further that goal

FAIRTRADE – a group that support standards for importing goods from developing countries

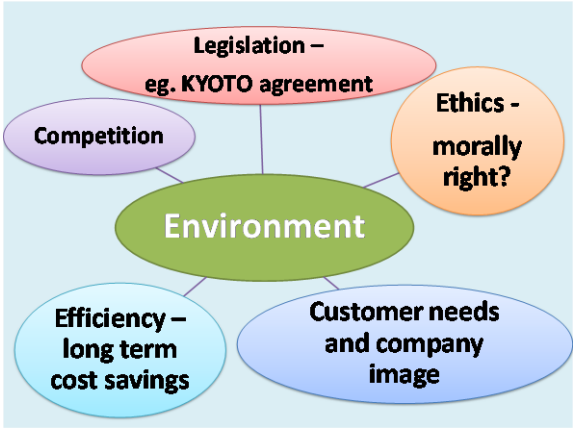
Ethics vs.Profits

Ethical behaviour may cost the business more

But they might lead to more revenue if customers will pay more or it positively affects reputation

Environment

- Short term and long term effects on the environment
  - CO2 and Global warming
  - Traffic congestion
  - Noise pollution
  - Air pollution
  - Water pollution
  - Recycling
  - Depletion of resources



Economic Issues Affecting Trade

- Pay rates and working conditions vary in different countries
- Land costs
- Petrol costs
- Reducing unit costs – staying competitive

Import protection

Quotas

- The US can only import 10,000 Japanese cars per year

Why?

- Protect US car manufacturers and therefore jobs)

BUT

- Less competition (higher prices poorer quality?)
- Less choice

QUOTA – limits the amount of imports form foreign countries to protect home producers

Export subsidy

- Governments subsidise (give money to) producers who export their goods

WHY?

- Helps them to compete

BUT

- Costs governments money
- Might not be the best thing for farmers to be doing

SUBSIDY – government pay home producers to help them compete with foreign businesses

The Government and the EU

- Interest rates
- Regulations
- The minimum wage
- Health and Safety
- Maternity and Paternity rights
- Taxation
- Corporation tax
- VAT
- Income tax

INTEREST RATES – the charge for borrowing money and the reward for saving.

DISCRIMINATION – where one person or group of people is unfairly treated due to their gender, age, religion, race, disability, weight, height or sexual orientation

RISK ASSESSMENT – the process of identifying potential risks and steps that will be made to minimise them

TAX – a financial charge set by the government – used to finance public services