CIE 9707 AS LEVEL BUSINESS STUDIES NOTES

Last Minute Revision to achieve A's

Made specifically for the cie syllabus by me its sure to help you prevent sleepless nights for A in Business Studies

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Business Studies

Business and Its Environment

Enterprise

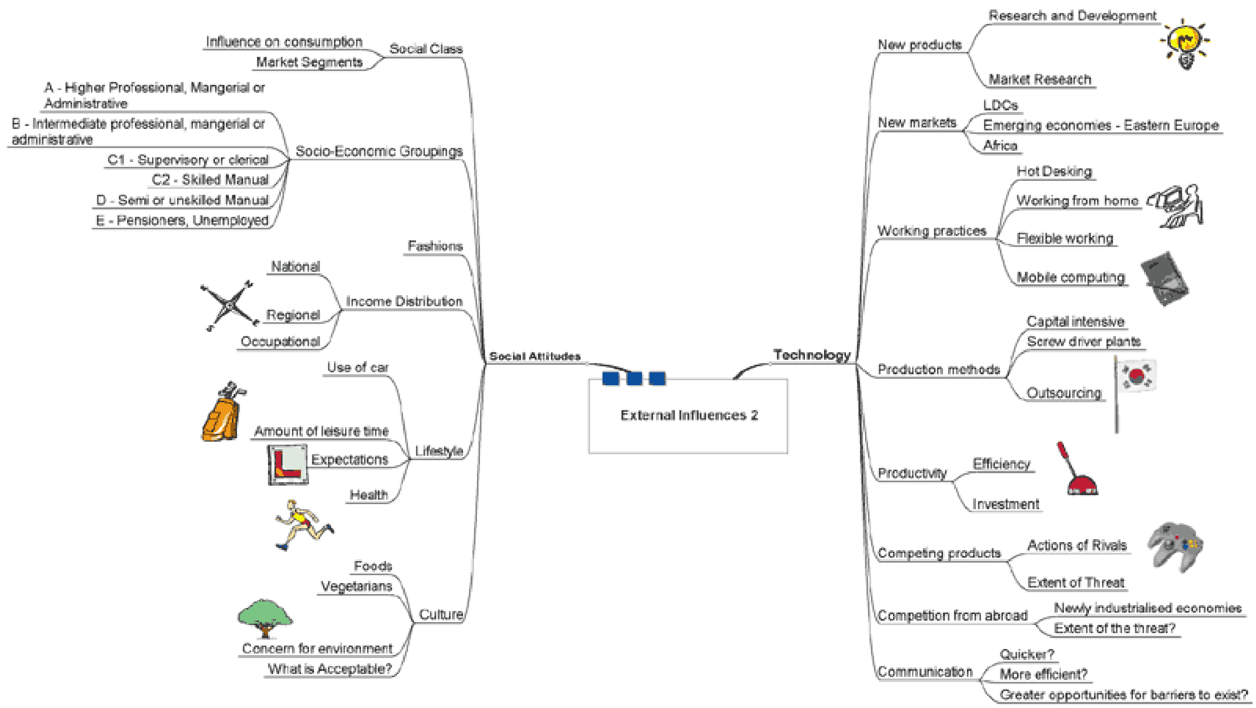
- Problem of Choice, Scarcity and therefore opportunity cost- Economic Problem
- Business Activity identifies the needs of consumers or other firms through the use of land labor and capital and enterprise
- Adding Value is to widen the difference between the costs of production and the revenue- this difference is known as **added value**

Business Environment is Dynamic

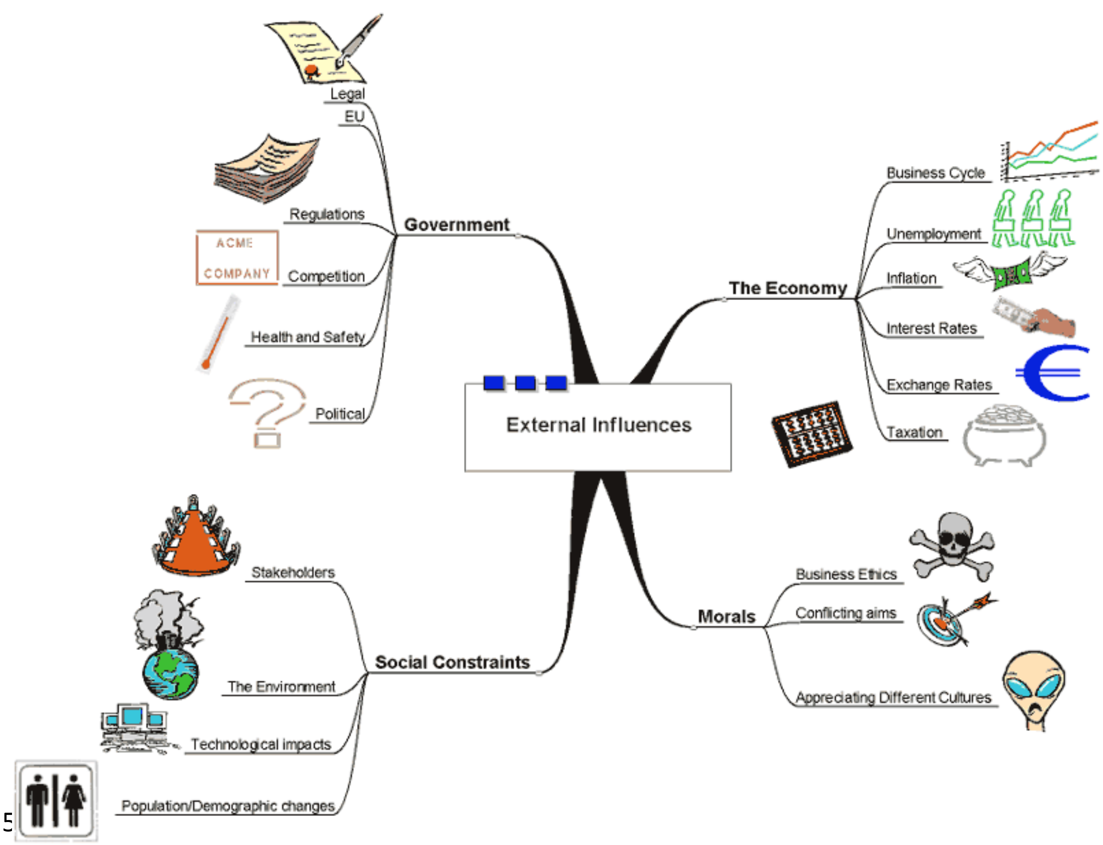
- Meaning of Business Environment

Environment of a business means the external forces influencing the business decisions. They can be forces of **economic**, **social**, **political** and **technological** factors. These factors are outside the control of the business. The business can do little to change them.

- Technological – Which aspects does Technology affect
    - Communication – Use of IT for communication, email video conf. etc.
    - Product Technology – CAD , CAM , new technology , new products new demands
    - Costs of Production – Larger fixed costs, lower variable cost greater labor productivity.
    - Human Resources – Redundancies , Increase employment deskilling and multi-skilling , more small firm , flatter organization charts , shortage of IT personnel and acceptance
    - Market– Range and Variety of products , E-shopping , new products , ability to compete, distribution , higher incomes, leisure-time , health , fitness, method of payment
- Technology – the negative effects
    - Need for data protection
    - Need for computer use protection
    - Cost – cost is falling but goods become obsolete very soon
    - Need for reliability
    - Human Relations – takes jobs or requires retraining again , annoying
    - Health – Many Health problems
    - Employment
    - Management – Becoming computer literate, now younger mngrs preferred , delegation
    - Investment
    - Technological Literacy – People comfortable with tech have an edge, promoted etc.



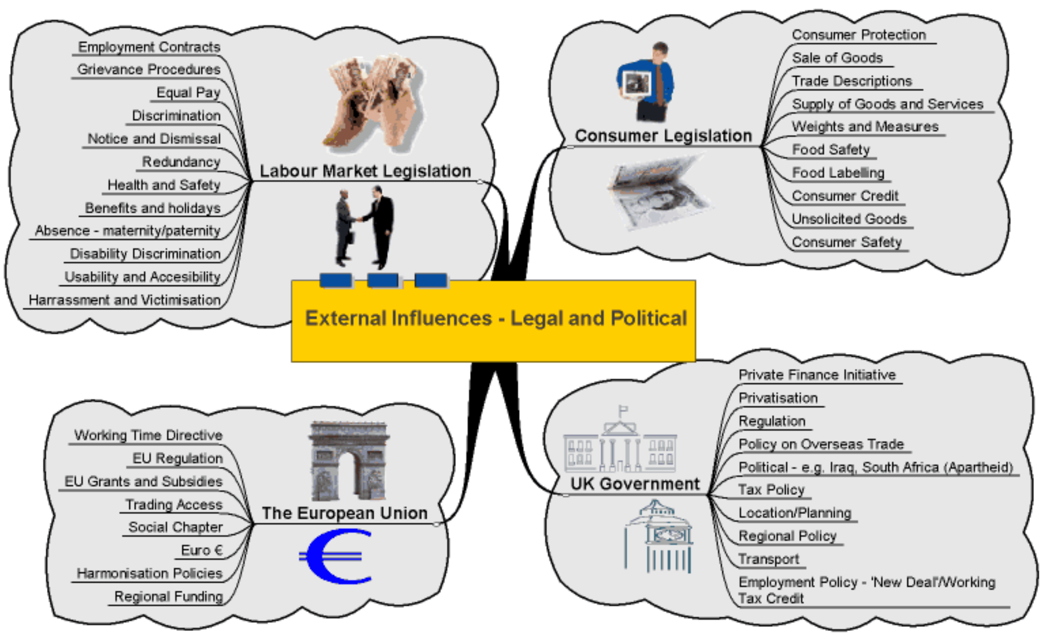
- Economic -(expand on the references above)



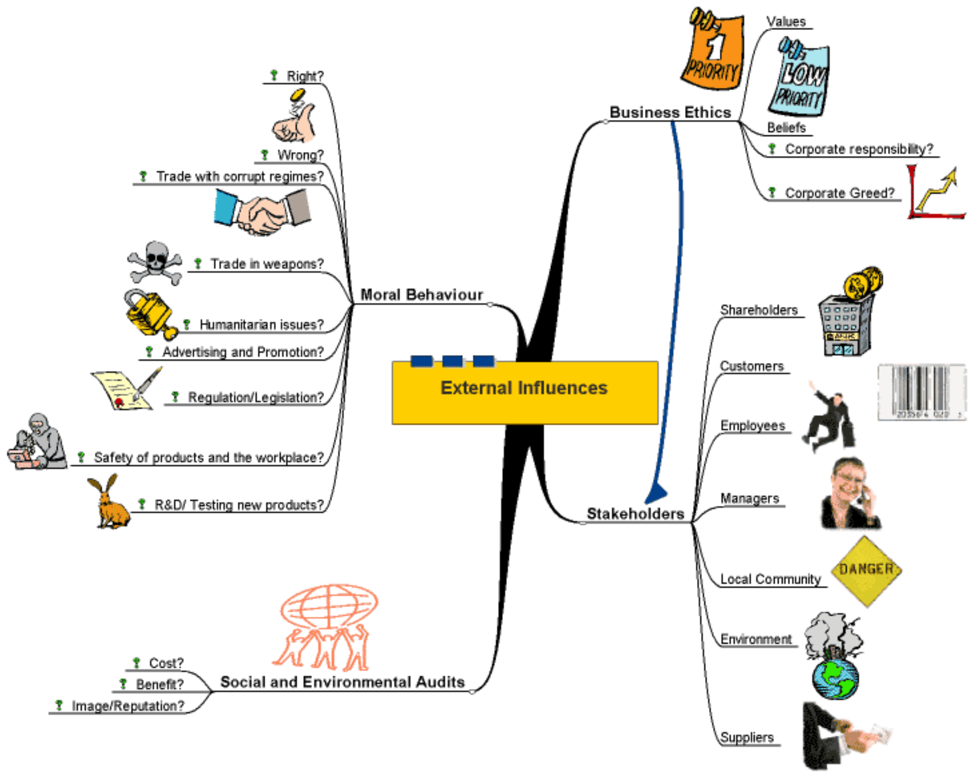
- L egal , Governm ent
    1. E mployme nt Practices – pass laws to control
        - R ecruitme nt , Employm ent contracts and

termination of employment
- Health and Safety at Work – add to costs(workers- feel job security, less absent)
- Minimum Wage Legislation
- Trade Union Rights

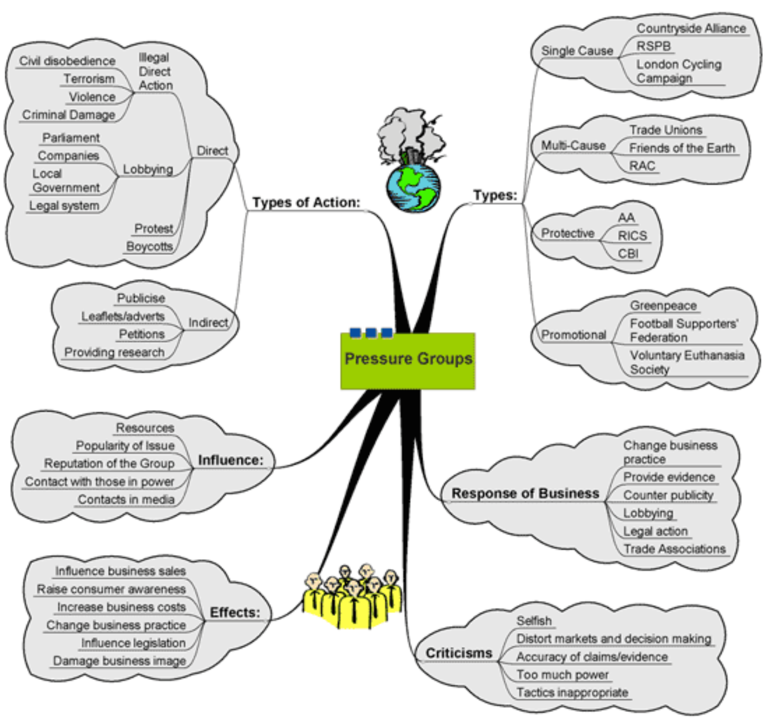
2. Consumer Rights
    - Sale of Goods Act
    - Trade Descriptions Act
    - Consumer Protection Act
3. Business Competition
    - Laws that control monopolies and make mergers impossible
    - Limit or outlaw uncompetitive practices
    - Tax and Subsidy



- Environmental and Ethical Issues
    1. Negative Externalities
    2. Positive Externalities
    3. Goods which are unacceptable to our moral



- Pressure Groups- how they work
    1. Media Coverage
    2. Influencing Consumer Behavior
    3. Lobbying Of Government



Entrepreneur – ability to take risks and control a business making all the decisions on how land labor and capital are all employed.

Business Structure

- Sole Traders , Partnership
- Public and Private Limited Companies ,
- Franchisee(separate firms one bought rights from other) ,
- Joint Venture(different firms working together in one dept),
- Co-operatives ,
- Holding Companies (one firm with many businesses under different names),
- Public Corporation

Size of Business

Measuring:

1. No. of Employees
2. Sales Turnover
3. Capital Employed
4. Market Capitalization
5. Market Share

Small business

Advantages to the Owner

- There is a relatively small amount of capital needed to start the businesses.
- These businesses are good for those people who have experience in a field but do not have an adequate amount of resources.
- Small businesses give the owner the freedom to choose the way the want to work, e.g. the office hours, when to take breaks during the day or when to take a day off.
- The entrepreneur has complete right over the profit. He does not have to share it with other,
- Entrepreneurs own business motivates him to work harder as he takes all the profits and is responsible for all the loss incurred by the company.

Disadvantages to the Owner

- Small businesses do not have economies of scale, the ability to cut costs by increasing production. Therefore, their costs might be significantly higher than the other larger businesses.
- It is often very difficult to raise the capital needed for startups or expansion. Even if the capital is available, there will be high cost e.g. high interest rates from the banks.
- Due to limited product range offered by the small businesses, they can go bankrupt if there is a decrease in the demand of the only products they offer. .
- It is often very difficult for small businesses to find suitably premises for rent. The rents might be initially very high.

Advantages to the Economy

- They provide employment to a very large number of people.
- They act as competitors to larger firms which will help improve efficiency and lower prices
- Small firms might come up with very innovative ideas -huge advantages for the economy.
- Most businesses start with being small. Therefore there is an enormous chance that small businesses of today might become the market leaders of tomorrow and provide greater benefits to the economy.

Disadvantages of Small Businesses

- In order to make small business startup a success, the government often has to interfere which is against the principles of free market and trade liberalization.

Government Policies to Help Small Businesses

- The governments should offer lower amount of corporate taxes for small businesses.
- Loans should be provided to these businesses which are free of interest or at very small rates.
- Grants should be given to small businesses for operating in underdeveloped areas of the country with high unemployment etc.
- The government should provide them satisfactory level of training so that the owners and employees could work more efficiently to make the business a success.

Business may grow internally

- Through retained profits
- Lower average costs and economies of scale

Business Objectives

Aims are the long term targets of the business which is usually represented through a mission statement. Usually descriptive

A mission statement should detail these aims and provide an overall purpose

Guided by the Aim the corporate, departmental and individual objectives are formed. Objectives or goals are medium to long-term targets that provide direction to the firm. They tend to have numbers and are therefore measurable and more specific than aims e.g. Objective=increase total sales 10% in year.

A **strategy** is a medium to long-term plan on **how to achieve** these objectives

Tactics are short-term and show **how** the firm will be able to achieve the planned strategy. In any org objectives provide:

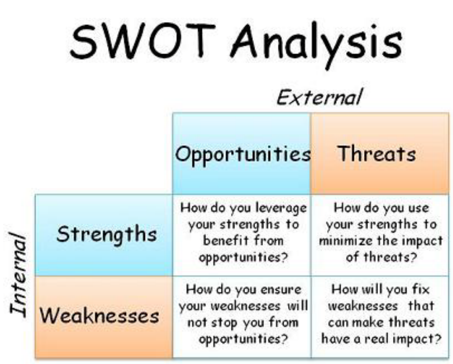
- Direction
- Unity and motivational force
- Yardstick for measuring past performance
- Aid control and future operation

Corporate Objectives (Primary Objectives)

- Maximizing Profit
- Growth
- Survival
- Increasing Market Share
- Social Ethical and Environmental Consideration
- Maximizing Sales
- Concentrating on core activities
- Corporate Responsibility(when a firm accepts its moral obligations to stakeholders other than investors it is accepting corporate responsibility)

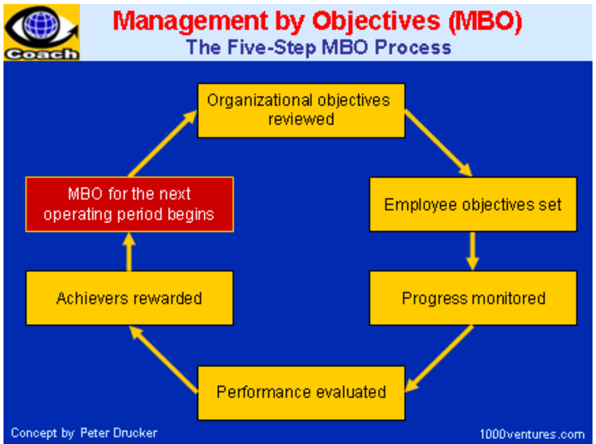
It is important to know how the objectives of a firm may change over a period of time dependent on circumstances

SWOT Analysis



This is carried out when either newly formed or existing businesses are trying to find opportunities and their current position in the market

MBO – Reviewing the company's primary objectives and strategic plans, the tactical plans and secondary objectives can then be reviewed.



Factors affecting corporate objectives

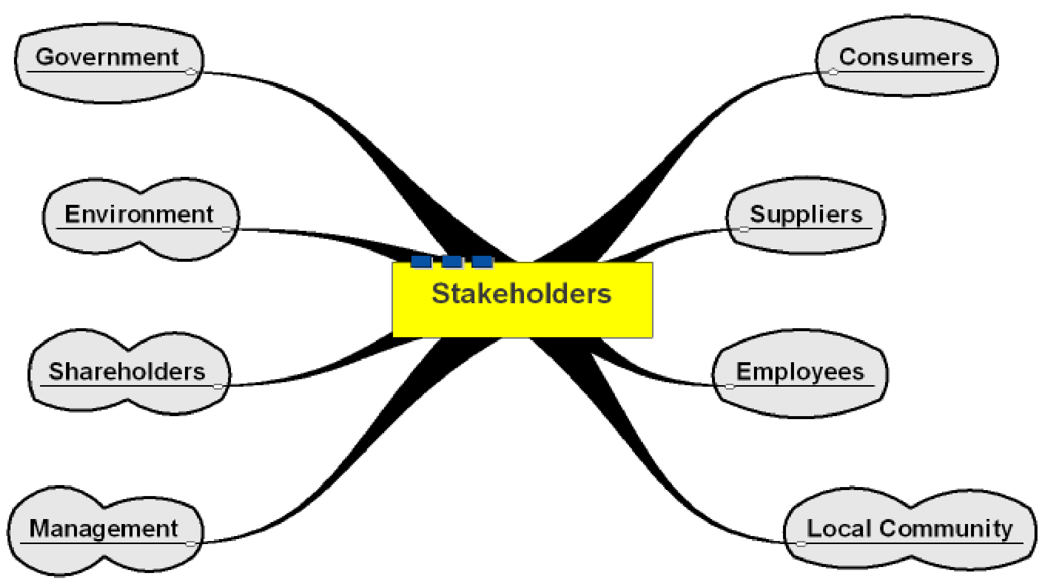
- Corporate Culture
- Size and form of business
- Public or Private Sector
- Years business ha s been operating

Stakeholders in a Business

These include all people who have an interest in the success of a business someway or the other.

Rights - what an individual or a group of individuals might reasonably expect to get from a business. (Note the term 'reasonably').

Responsibilities - The obligations that a business has to different groups or individuals who come into contact with the business. What a business would be reasonably expected to provide to these groups or individuals.



What they want

e.g.

- Shareholders want good and regular returns, as well as a say.
- Managers want responsibility, rewards, lack of interference
- Employees want secure and well paying jobs, interesting jobs
- Customers want service, price and quality
- Suppliers want secure, regular and profitable orders
- Governments want growth of economy and reduced inflation

- The community wants a thriving business, causing no problems

Conflicts

<u>Employees and Owners</u>

- Employees want higher wagers, owners aren't prepared to pay
- Working conditions
- Working practice changes, employees adverse to change
- Redundancy? machines

<u>Owners and Managers</u>

- Managers may pursue their own goals, only satisfactory profit
- Divorce of ownership and control
- Owners want more profit

<u>Customers and Business</u>

- Price increase by business
- Quality
- Delivery time
- After sales service

<u>Suppliers and Managers</u>

- Late payments

<u>Owners and the Community</u>

- Quality of life threatened by the business

People in Organizations

Management and Leadership

Functions of management

Management operates through various functions, often classified as planning, organizing, leading/directing, and controlling/monitoring.

- **Planning**: Deciding what needs to happen in the future (today, next week, next month, next year, over the next 5 years, etc.) and generating plans for action.
- **Organizing**: (Implementation) making optimum use of the resources required to enable the successful carrying out of plans.
- **Staffing**: Job analyzing, recruitment, and hiring individuals for appropriate jobs.
- **Leading/Directing**: Determining what needs to be done in a situation and getting people to do it.
- **Controlling/Monitoring**: Checking progress against plans, which may need modification based on feedback.

  (POSLC), (POLC)

Mintzbergs roles of management:

The Ten Management Roles

1. The ten roles explored in this theory have extensive explanations which are briefly developed here:
   Figurehead: All social, inspiration, legal and ceremonial obligations. In this light, the manager is seen as a symbol of status and authority.
2. Leader: Duties are at the heart of the manager-subordinate relationship and include structuring and motivating subordinates, overseeing their progress, promoting and encouraging their development, and balancing effectiveness.
3. Liaison: Describes the information and communication obligations of a manager. One must network and engage in information exchange to gain access to knowledge bases.
4. Monitor: Duties include assessing internal operations, a department's success and the problems and opportunities which may arise. All the information gained in this capacity must be stored and maintained.
5. Disseminator: Highlights factual or value based external views into the organisation and to subordinates. This requires both filtering and delegation skills.
6. Spokesman: Serves in a PR capacity by informing and lobbying others to keep key stakeholders updated about the operations of the organisation.

7. Entrepreneur: Roles encourage managers to create improvement projects and work to delegate, empower and supervise teams in the development process.
8. Disturbance handler: A generalist role that takes charge when an organisation is unexpectedly upset or transformed and requires calming and support.
9. Resource Allocator: Describes the responsibility of allocating and overseeing financial, material and personnel resources.
10. Negotiator: Is a specific task which is integral for the spokesman, figurehead and resource allocator roles.

As a secondary filtering, Mintzberg distinguishes these roles by their responsibilities towards information. Interpersonal roles, categorised as the figurehead, leader and liaison, provide information. Informational roles link all managerial work together by processing information. These roles include the monitor, the disseminator and the spokesperson. All the remaining roles are decisional, in that they use information and make decisions on how information is delivered to secondary parties.

Generalist and specialist management

The core of Mitnzberg's Ten Managerial Roles is that managers need to be both organisational generalists and specialists. This is due to three reasons:

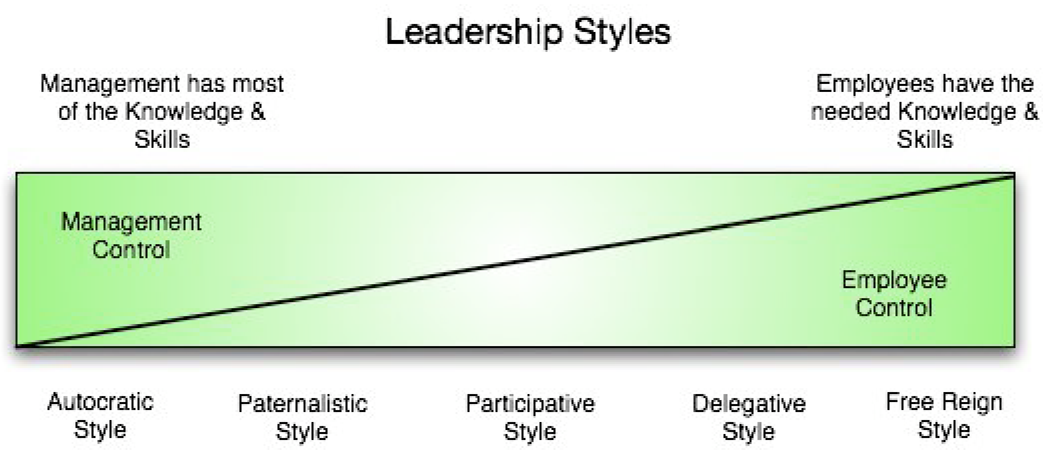
1. External frustrations including operational imperfections and environmental pressures.
2. Authority disputes which upset even basic routines.
3. The expected fallibility of the individual and human, manager.

Mintzberg's summary statement may be that the role of a manager is quite varied and contradictory in its demands, and that it is therefore not always the lack of managerial prowess, but the complexity of individual situations demanding a variety of roles, which troubles today's manager.

Category	Role	Activity
Informational	Monitor	Seek and receive information, scan papers and reports, maintain interpersonal contacts
	Disseminator	Forward information to others, send memos, make phone calls
	Spokesperson	Represent the unit to outsiders in speeches and reports
Interpersonal	Figurehead	Perform ceremonial and symbolic duties, receive visitors
	Leader	Direct and motivate subordinates, train, advise and influence
	Liaison	Maintain information links in and beyond the organisation
Decisional	Entrepreneur	Initiate new projects, spot opportunities, identify areas of business development
	Disturbance handler	Take corrective action during crises, resolve conflicts amongst staff, adapt to external changes
	Resource allocator	Decide who gets resources, schedule, budget, set priorities
	Negotiator	Represent department during negotiations with unions, suppliers, and generally defend interests

Styles of Leadership

1. Autocratic – Leaders take all decisions, gives little information to staff, supervises closely, one way communication, workers have limited info about business e.g. **I want both of you to. . .**
2. Democratic (participative) – Participation is encouraged, two-way communication, allows workers to give feedback e.g. **Lets work together to solve this. . .**
3. Paternalistic- Managers do what they think is the best for workers, some consultation - but final decision by managers, managers want workers happy
4. Laissez-faire – Managers delegate virtually all authority and decision making powers, very broad criteria of limits for staff e.g. **you two take care of the problem while I go. . .**



A good leader uses all three styles, depending on what forces are involved between the followers, the leader, and the situation. Some examples include:

- Using an authoritarian style on a new employee who is just learning the job. The leader is competent and a good coach. The employee is motivated to learn a new skill. The situation is a new environment for the employee.
- Using a participative style with a team of workers who know their job. The leader knows the problem, but does not have all the information. The employees know their jobs and want to become part of the team.
- Using a delegative style with a worker who knows more about the job than you. You cannot do everything! The employee needs to take ownership of her job. Also, the situation might call for you to be at other places, doing other things.
- Using all three: Telling your employees that a procedure is not working correctly and a new one must be established (authoritarian). Asking for their ideas and input on creating a new procedure (participative). Delegating tasks in order to implement the new procedure (delegative).

Forces that influence the style to be used included:
- How much time is available?
- Are relationships based on respect and trust or on disrespect?
- Who has the information - you, your employees, or both?
- How well your employees are trained and how well you know the task.

- o Internal conflicts.
- o Stress levels.
- o Type of task. Is it structured, unstructured, complicated, or simple?
- o Laws or established procedures such as OSHA or training plans.

Leadership Roles in a business

- Directors – elected by shareholders , head of a department , responsible for delegation, meeting and setting objectives in department
- Managers – individual responsible for people resources or decision making, have authority in hierarchy , lead motivate and discipline staff
- Supervisors – appointed by management to watch over the work of others , help staff objectives in corporative spirit
- Worker Representatives – elected by workers as trade union officials , worker councils , to discuss areas of common concern with managers

Mc Gregors Leadership Styles
Theory X

In this theory management assumes employees are inherently lazy and will avoid work if they can.
Because of this workers need to be closely supervised and comprehensive systems of controls developed.
A hierarchical structure is needed with a narrow span of control at each level.
According to this theory employees will show little ambition without an enticing incentive program and will avoid responsibility whenever they can.

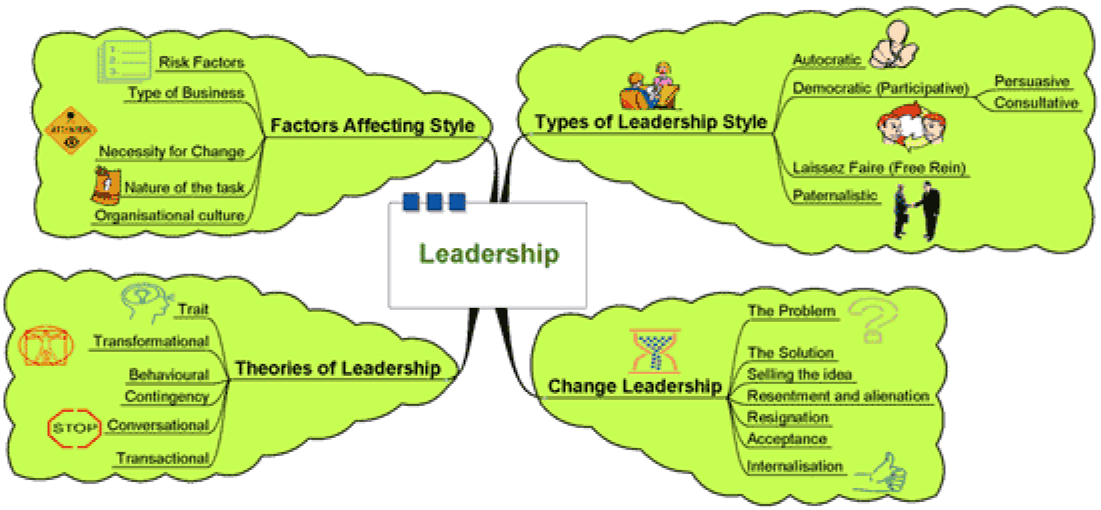
According to McGregor, most managers (in the 1960s) tended to subscribe to Theory X, in that they took a rather pessimistic view of their employees.
A Theory X manager believes that his or her employees do not really want to work, that they would rather avoid responsibility and that it is the manager's job to structure the work and energize the employee.
The result of this line of thought is that Theory X managers naturally adopt a more authoritarian style of **leadership** and training based on the threat of punishment

Theory Y

In this theory management assumes employees are ambitious, self-motivated, and anxious to accept greater responsibility, and exercise self-control and self-direction.
It is believed that employees enjoy their mental and physical work activities.
It is also believed that employees have the desire to be imaginative and creative in their jobs if they are given a chance.
There is an opportunity for greater productivity by giving employees the freedom to be their best.

A Theory Y manager believes that, given the right conditions, most people will want to do well at work and that there is a pool of unused creativity in the workforce.
They believe that the satisfaction of doing a good job is a strong motivation in itself.
A Theory Y manager will try to remove the barriers that prevent workers from fully actualizing their potential.

In general this gave the false impression that Theory X managers were the bad guys and that Theory Y managers are the best.



Emotional Intelligence

Emotional intelligence – 2 aspects
This is the essential premise of EQ: to be successful requires the effective awareness, control and management of one's own emotions, and those of other people. EQ embraces two aspects of intelligence:

- Understanding yourself, your goals, intentions, responses, behaviour and all.
- Understanding others, and their feelings.

Emotional intelligence - the five domains
Goleman identified the five 'domains' of EQ as:

1. Knowing your emotions.
2. Managing your own emotions.
3. Motivating yourself.
4. Recognising and understanding other people's emotions.
5. Managing relationships, i.e., managing the emotions of others.

- **Goleman's framework of emotional intelligence**
  Goleman developed a framework to explain emotional intelligence in terms of five elements:

Personal competence

- self-awareness
- self-regulation,
- self-motivation

Social competence:

- social awareness
- social skills

1. Self-awareness: examining how your emotions affect your performance; using your values to guide decision-making; self-assessment - looking at your strengths and weaknesses and learning from your experiences; and being self-confident and certain about your capabilities, values and goals.
2. Self-regulation: controlling your temper; controlling your stress by being more positive and action-centered; retaining composure and the ability to think clearly under pressure; handling impulses well; and nurturing trustworthiness and self-restraint.

3. Self - Motivation: enjoying challenge and stimulation; seeking out achievement; commitment; ability to take the initiative; optimism; and being guided by personal preferences in choosing goals.

4. Social Awareness: the ability to see other people's points of view; behaving openly and honestly; avoiding the tendency to stereotype others; and being culturally aware.

5. Social skills: the use of influencing skills such as persuasion; good communication with others, including employees; listening skills; negotiation; co-operation; dispute resolution; ability to inspire and lead others; capacity to initiate and manage change; and ability to deal with others' emotions - particularly group emotions.

Goleman claims that people who demonstrate these characteristics are more likely to be successful in senior management, citing research from various sources that suggests senior managers with a higher emotional intelligence rating perform better than those without. He gives several anecdotal case studies to illustrate ways in which emotional intelligence can make a real impact in the workplace.

Goleman believes that emotional intelligence can be developed over a period of time and he developed an Emotional Competence Inventory. The ECI reduces the original five components of emotional intelligence to four:

Maslow' theory is also relevant to Emotional Intelligence. Self-actualizers naturally have stronger EQ. People struggling to meet lower order needs - and arguably even middle order needs such as esteem needs - tend to have lower EQ than self-actualisers. The original 5 stage Hierarchy of Needs explains that all needs other than self-actualization are deficiency drivers, which suggest, in other words, some EQ development potential or weakness.

Motivation

It is required to have motivation in a business as it increases worker productivity, efficiency, economies of scale, less absenteeism and labor turnover, more response, positive effect on stakeholders.

Motivation Theories

Summary of theories:

Needs based theories, that people are motivated to do things in order to rectify something missing, fulfil a need.

- **Maslow: 'Pyramid or hierarchy of needs':** People have multiple needs, loosely classifiable as physiological, psychological, growth and transcendent needs. As one need is satisfied, then another (higher) need becomes apparent.
- **Issues:** concerns have been raised with the small sample size used in the original study, and other academics have argued that his result cannot be replicated. Also, this model doesn't allow for feeling two different needs simultaneously (e.g. needing shelter *and* food), nor for individual differences in prioritisation of needs.
- **In a sentence:** There are different types of needs

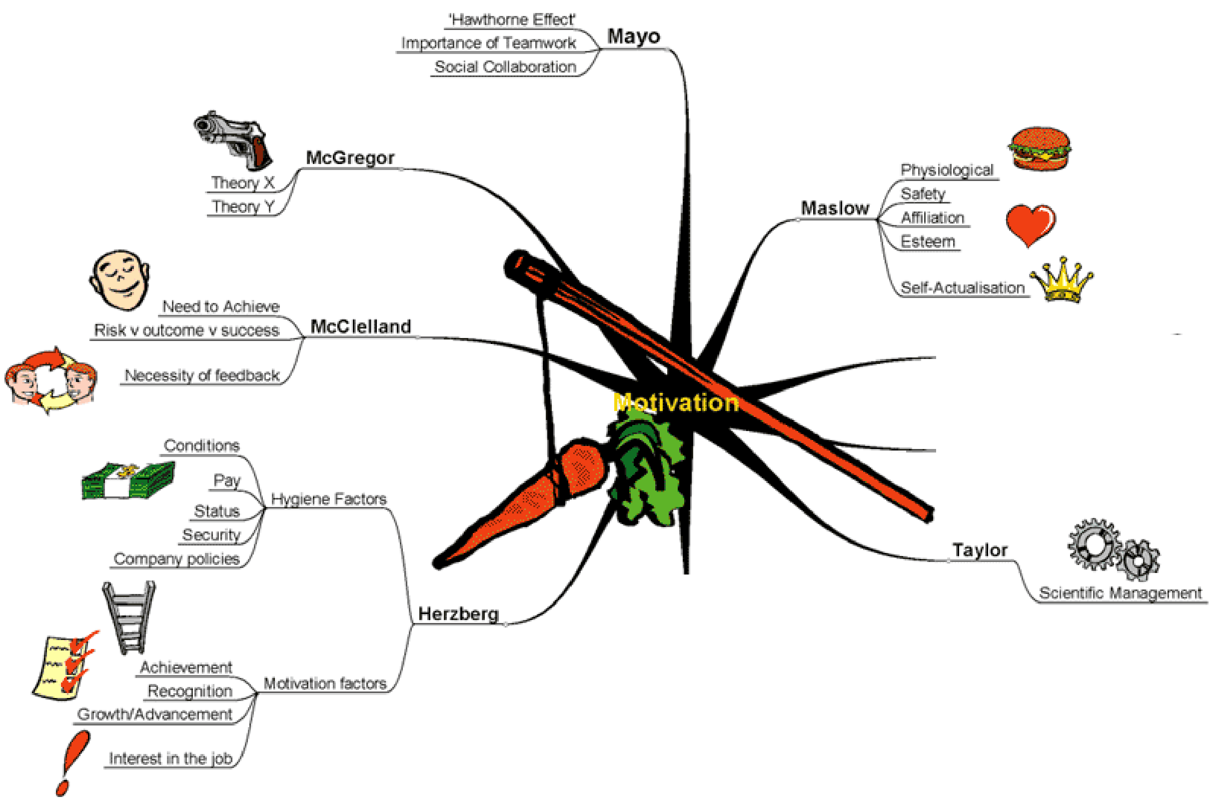
- **Herzberg: 'Two Factor theory':** Some needs are not motivators, but only de-motivate if not fulfilled (hygiene factors) – e.g. pay, working conditions, relationship with boss. Other needs can motivate (motivating factors) – e.g. intrinsic motivation of doing a good job, reward recognition and growth.
- Issues: Whilst this theory has been corroborated, many believe that satisfaction and dissatisfaction are on the same scale, not two as Herzberg proposes. Again, Herzberg does not make allowance for individual differences, whilst we can plainly see that different people are motivated differently.
- **In a sentence:** Some need fulfilment does not motivate

- **McClelland: 'Theory of needs':** Everyone has a different balance of three fundamental needs: power, achievement and affiliation. People with different needs have different strategies for success in organisations, and thus it is useful to know what type of person you are working with if you seek to motivate them (as one size will not fit all).
- **Issues:** McClelland used a well-validated scoring system to test his subjects and his results have been corroborated by other researchers. Crucially he also allows for individual difference to a much larger degree than Maslow or Herzberg.
- **In a sentence:** Different people have different needs

Outcome-based theories

- **Vroom: 'expectancy theory':** Motivation for a given act depends on the desirability of the expected outcome of a situation, whether you believe you can affect the success of the situation and whether you believe the success of the situation is linked to the desired outcome.
- **In a sentence:** People only do things when they believe that their action will lead to need fulfilment

- **Theory X / Theory Y:** Theory Y suggests that people are fundamentally born well (conversely in theory X: evil) and are thus naturally motivated (conversely: lazy) and thus my role in an organisation is to nurture and support them (conversely: cajole and punish them). Theory Y and Theory X



McClelland proposes that each of us have three fundamental needs that exist in different balances. These affect both how we are motivated and how we attempt to motivate others.

N-ach: Need for achievement:
Seeks achievement, attainment of goals and advancement. Strong need for feedback, sense of accomplishment and progress

N-affil: Need for affiliation:
Need for friendships, interaction and to be liked.

N-pow: Need for power
Authority motivated needs to influence and make an impact. Strong need to lead and to increase personal status and prestige.

Motivation in Practice

Financial Motivators:

- Salary – Annual sum paid on monthly basis and is fixed
- Time Rates- workers get paid for how long they work
- Piece Rates – Rate is fixed on the production of each unit
- Commission – Salesperson is paid a proportion of the sales made
- Bonuses – Extra cash given for workers that work overtime or that overwork
- Performance related pay(PRP)- Reward staff for above average performance , used where output is not measurable and through regular target setting and objective establishment
- Profit Sharing - pays employees a proportion of profits

Non-financial Motivators:

- Training – giving workers training motivates them
- Induction –introducing the people to whom they work closely and to the organization structure
- Opportunities for promotion – theses opportunities give workers anticipation
- Job-redesign – changing the kind of job done
- Team working – more interesting , better human relations
- Job Enlargement– Increase scope of job by broadening or deepening tasks taken
- Job enrichment – Increases accountability and responsibility to a worker
- Participation – each member of work group is included and given attention; not feel alienated
- Job Rotation – Encouraging a worker to do more than one task by switching from one job to another
- Fringe Benefits – non-monetary forms of reward , like cars houses etc
- Quality Circles – voluntary groups of workers that meet regularly to discuss work-related prob.
- Empowerment and delegation – passing down of authority ,decentralization

As you can see most of these factors tries to fit in with the theories one way or the other like meeting up to the ‘hygiene’ and ‘non-hygiene’ factors

Human Resource Management

Purpose – The central purpose of HRM is to recruit, train and utilize a business's personnel in the most productive manner to assist the organization in the achievement of its objectives

Role:

- Planning the workforce
- Recruiting and selecting staff
- Appraising , training and developing staff at every stage
- Measuring and monitoring staff performance
- Involving all managers in the development of the staff
- Informing of dismissals and redundancies

Planning –

Number of staff required in future will depend upon

- Demand for product
- Productivity
- Objectives of Business
- Changes in laws regarding worker rights
- Predicted labor turnover and absenteeism rate

Skills of staff required depend upon:

- Pace of technological change
- Need for flexible or multi-skilled staff

Then it is important to decide whether this labor is full time, part time, temporary or permanent, varies from situation to situation.

Recruitment and Selection

This involves

1. Job analysis – assesses what skills will be required via the current occupant
2. Job description – provides complete picture of job : title , required tasks , responsibilities , place in hierarchical structure , working conditions and how job will be assessed
3. Job evaluation – compares the relative value of different jobs , used in disputes about pay , purely about job not person who does it
4. Persons specification - describes the profile of the person required to do it , minimum qualifications , experience
5. Job advertisement- Reflects the requirements of the job and personal qualities looked for , distributed

Method of recruitment

Internal

Adv: Career development for employees, shorter induction period
Disadv. : Limited no. of applicants, creates another vacancy
External

Adv: the firm may benefit from employee experience in other firms
Disadv: Time, expense and less certainty of successful recruitment
Selection:

Testing:

- Psychological tests
- Intelligence Tests
- Attainment Tests
- Aptitude Tests

Interviews

Appointment: New employees must be given a contract within 13 weeks of appointment; include terms and conditions and length of notice due

Training:

- Induction – aim is to decrease time for worker to reach full working speed by familiarizing the organization , people , objectives , safety issues etc to worker , remove all anxiety
- On-the-Job – instruction at place of work
- Off-the-job-instruction away from place of work, e.g. specialist training centre

Measuring Staff performance

- Labor turnover
- Absenteeism
- Labor Productivity
- Waste Levels
- Health and Safety records

Employment Contract: The contract imposes responsibilities on both the firm – to provide the conditions of employment laid down - and the employee **–** he or she must work the hours specified to the standards expected in the contract

Disciplinary Procedures – Very important for HR managers to carry out disciplinary action on employees and keep them under the MBO, failure to follow could result in dismissal

Dismissal and Redundancy

There are 3 ways to terminate employment

- Retirement
- Resignation
- Dismissal

Fair Dismissal

- Illegalities
- Incapable of doing work
- Negative attitude
- Gross misconduct
- Harassment and destruction of property

Unfair Dismissal

- Pregnancy
- Racism
- Union member etc

Redundancy – this is not the same as dismissal, it occurs when the job is no longer required, perhaps because of a fall in demand or a change in technology

Employee Welfare – HR dept offer counseling and other services to staff, helps in motivation of worker

Staff training: The purpose of staff development/training as a means of securing required skills and motivating the workforce

Marketing

What is Marketing

Definition: Marketing is the process of researching into and identifying consumer needs and employing appropriate price, product, place and promotion **strategies** in order to satisfy these needs profitably.

Marketing Objectives

- Marketing objectives should reflect the aims of the whole organisation and they should attempt to aid the achievement of these,
- Determined by senior managers
- Be realistic motivating , achievable , measurable and clearly communicated to all in the organisation

What are they?

- To increase market share – increasing sales; improve product, lower price , increase distribution and promotion
- To increase brand loyalty – customers keep buying; advertising , coupons
- To increase awareness - more chance of buying ; advertising , sponsorship , public relationships – increasing involvement with local or national activities
- Increase average weight of purchase(AWOP)
- To develop a Unique Selling Point(USP) –advertising campaigns that make unique propositions to the customer convince them to switch brands , **any aspect of a product that differentiates it from similar products** – manufacture has added value , e.g. Head & Shoulders: "You get rid of dandruff"

Supply and Demand: (use eco knowledge)

Market Features

- Location
- Size
- Share
- Competitors
- Growth

How markets may differ:

- Consumer(Market oriented) or product oriented
- National , regional and international markets

Difference between product and consumer orientation.

- **Product –** developing a product and then finding a market for it
  - Usually run by great technology and good quality
- **Consumer –**when businesses identify review and analyse consumer needs
  - Decrease response time to market change , anticipate market change , new launches more successful , better at beating competition , but lost status for engineers

Market Share and Growth

Measuring Market Share and problems - An accurate measure of market share is dependent on several factors:

- A satisfactory definition of the market. This would answer questions such as which products to include, which geographical areas, which means of distribution?
- - The availability of reliable, up-to-date information
- - Agreement on which measures of share are most relevant. For example, should market share be calculated on the basis of sales revenues, profits, units produced or some other measure that competitors in the market generally recognise as valid?
- In reality, market shares are calculated in a myriad of ways. However, most tend to be based on one or both of the following:
    - Sale revenues
    - Sales volumes (units)

Implications of changes in market share

The most important factor to emerge from the PIMS data is the link between **profitability** and **relative market share**. PIMS found (and continues to find) a link between market share and the return a business makes on its investment. The higher the market share - the higher the return on investment. This is probably as a result of **economies of scale**. Economies of scale due to increasing market share are particularly evident in purchasing and the utilization of fixed assets.

Industrial and Consumer Markets

Classification of products

Consumer Markets

Consumer markets are the markets for products and services bought by individuals for their own or family use. Goods bought in consumer markets can be categorised in several ways:

- **Fast-moving consumer goods** (“FMCG's”): high volume, low unit value, fast repurchase e.g.: Ready meals; Baked Beans; Newspaper
- **Consumer durables**: low volume but high unit value. further divided into:
    - ***White goods*** (e.g. fridge-freezers; cookers; dishwashers; microwaves)
    - ***Brown goods*** (e.g. DVD players; games consoles; personal computers)
- **Soft goods:** similar to consumer durables, except that they wear out more quickly ; shorter replacement cycle e.g. clothes, shoes
- **Services** (e.g. hairdressing, dentists, childcare)

Industrial Markets

Industrial markets involve the sale of goods between businesses. These are goods that are not aimed directly at consumers. Industrial markets include

- **Selling finished goods** – e.g. office furniture, computer systems
- **Selling raw materials or components** e.g. steel, coal, gas, timber
- **Selling services to businesses** e.g. waste disposal, security, accounting & legal services

Industrial markets often require a slightly different marketing strategy and mix. In particular, a business may have to focus on a relatively small number of potential buyers (e.g. the IT Director responsible for ordering computer equipment in a multinational group). Whereas consumer marketing tends to be aimed at the mass market (in some cases, many millions of potential customers), industrial marketing tends to be focused.

Product Differentiation and Unique Selling Point

Niche versus mass marketing and Segmentation Methods

Market Segmentation – is when firms may try and target groups of consumers with similar needs. They can do this by breaking up the market into smaller groups with similar characteristics. E.g. by age, sex, class.

Niche marketing versus mass marketing – former is when firms target a tiny segment of a market and latter is opposite.

Advantages:

- Avoid competition in the short run
- More able to focus on the needs of the computer
- First into the market tends to develop the most brand loyalty
- Consumers are planning to pay a premium price for a more exclusive product
- Small firms are able to thrive in market that are dominated by larger firms

Disadvantages

- Larger firms with economies of scale may follow
- The small firm cannot spread its risk , if the one product fails then the firm fails
- Smaller markets are subject to larger swings in consumer spending
- Small market niches do not allow economies of scale to be achieved

Portfolio Analysis Classifies products according to two dimensions:

- Market growth
- Market share

Organizations aim to have a **"balanced portfolio"** ideally with cash cows where they can reap the profits and stars that will grow into **cash cows**. These tools can be used to analyze the portfolio of products a business offers Businesses need to ensure that they have sufficient new products coming onto the market for the future. New products are funded by profits from products in the maturity phase of the Product Life Cycle (PLC)/ cash cows.

Market Research

Purpose: To determine customer characteristics wants and needs and narrow the gap between the producer and the consumer and therefore increase the chance of successful promotion

There are two types of research:

- Primary – basically field research where firm gathers the information itself
- Secondary – desk research where firm collects documents of already existing data

Sources of Information

Secondary:

- Government Publication
- Local libraries and local govt offices
- Trade Organizations
- Market Intelligence Reports

Primary:

- Quantitative – no. of consumers who might buy and in what quantities
    - Observation
    - Test marketing
    - Consumer Surveys
- Qualitative – why consumers will or will not buy
    - Interviews with individual consumers , often by psychologists

Sampling

- Random – each person has an equal chance of being selected
    - Advantage: bias may not be introduced
    - Disadvantage: sample size must be fairly large if it is to represent the population
- Stratified – ensures that the sample contains characteristics in the same proportion as the popn.
    - Advantage: in theory ,sample should represent the population at large
    - Disadvantage: in reality , such a sample can never really represent the population and thus be misleading

- Quota – takes people according to different proportion s that certain consumer groups make out of whole survey popn.
    - Advantages: quick easy and representative of whole population
    - Disadvantages : Bias is still possible as it is not random

A wide variety of information used to support marketing decisions can be obtained from market research. A selection of such uses are summarised below:

Information about the market

• Analysis of the market potential for existing products (e.g. market size, growth, changing sales trends)
• Forecasting future demand for existing products
• Assessing the potential for new products
• Study of market trends
• Analysis of competitor behaviour and performance
• Analysis of market shares

Information about Products

• Likely customer acceptance (or rejection) of new products
• Comparison of existing products in the market (e.g. price, features, costs, distribution)
• Forecasting new uses for existing products
• Technologies that may threaten existing products
• New product development

Information about Pricing in the Market

• Estimates and testing of price elasticity
• Analysis of revenues, margins and profits
• Customer perceptions of "just or fair" pricing
• Competitor pricing strategies

Information about Promotion in the Market

• Effectiveness of advertising
• Effectiveness of sales force (personal selling)
• Extent and effectiveness of sales promotional activities
• Competitor promotional strategies

Information about Distribution in the Market

• Use and effectiveness of distribution channels
• Opportunities to sell direct
• Cost of transporting and warehousing products
• Level and quality of after-sales service

Marketing Mix

4P's

- Product
- Price
- Promotion
- Place

4C's

- Customer Solution(Consumer)
- Cost to Customer
- Communication with customer
- Convenience to customer

The Four Cs model is more consumer-oriented and attempts to better fit the movement from mass marketing to niche marketing.

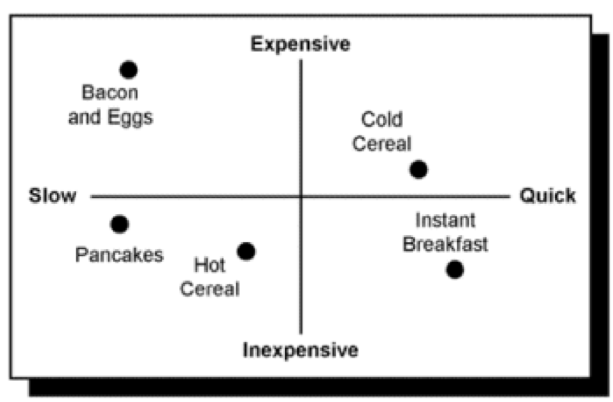
- Product => **Consumer** solution
  - shifting the focus to satisfying the consumer needs. By defining offerings as individual capabilities that when combined and focused to a specific industry, creates a custom solution rather than pigeon-holing a customer into a product.
- Pricing =>**Cost** to customer
  - reflecting the total cost of ownership. Many factors affect Cost, including but not limited to the customer's cost to change or implement the new product or service and the customer's cost for not selecting a competitor's product or service.
- Place=> **Convenience** to customer
  - With the rise of internet and hybrid models of purchasing, Place is becoming less relevant. Convenience takes into account the ease of buying the product, finding the product, finding information about the product, and several other factors.
- Promotion => **Communication** with customer
  - this represents a broader focus than simply Promotions. Communications can include advertising, public relations, personal selling, viral advertising, and any form of communication between the firm and the consumer.

The Four Cs model has been criticized for simply being nothing more than the Four Ps with different points of emphasis.[In particular, the Four Cs inclusion of customers in the marketing mix is criticized, since customers are a *target* of marketing, while the other elements of the marketing mix are *tactics.* The Four Cs also excludes numerous strategies for product development, distribution, and pricing, while assuming that consumers want two-way communications with companies.

Product

- Product is the general term to describe the nature of what is being sold(tangible or intangible)
- The brand is the distinguishing name or symbol that is used to differentiate one manufacturer's products from another
  - E.G. mobile phone networks Is product but Vodafone is brand

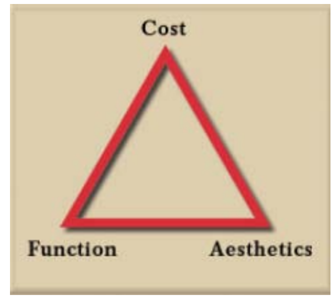
Before a new product is introduced market mapping and product positioning is done to fine out the empty gaps where firm can carry niche marketing



Factors firms should consider when designing a product:

- How customer will use the product
- Commercial Viability
- Reliability
- Convenience and efficiency
- Aesthetics

While researching they will decide whether it will be market oriented or product oriented



Product Testing: A product may be tested accordingly placing it in this triangle, different markets and consumers will affect the required position

Market Testing: This is the final stage where the product is tested in test markets and consumer panels before it is launched

Pricing Strategies

Price refers to how much consumers are charged for a product there are different strategies for different types of products:

<u>New products</u>
Price skimming: Price is initially high due to type of product (usually electrical, luxury, innovative)
Price penetration: Price starts at a lower price to gain market share

<u>Pricing strategies for existing products</u>
Price leader – dominant firms in the market are able to set the price for the rest of the market
Price taker – these firms accept the price that the price leaders set
Predator – predatory pricing is where businesses undercut competitors to drive them out of the market and gain market share

<u>Methods</u>
Cost based – businesses work out how much products will cost to make, they then add a profit margin on to this to calculate price
Contribution – Prices are calculated by looking at how much they contribute to variable costs
Discriminatory – Where businesses can charge different prices to different consumers for the same product e.g. peak and off peak travel
Competition Based – going rate pricing- match pricing to competitors, destroyer pricing- extremely low prices to drive competitor out of business

<u>Tactics</u>
Loss leader – Businesses have products priced at a low level where they will make a profit, this encourages customers into the business where they will buy additional products
Psychological – Where businesses use prices such as £9.99 as they seem to be cheaper

Promotion

Promotion is the way of communicating what the product is to the consumers it aims to persuade customers to buy the product

- Above the line promotion – Advertising that uses independent media
- Below the line promotion – Sponsorship, Public Relations, Direct Mail, Special offers

<u>Advertising</u> - Advertising can be done using a variety of media including: TV – local, national, sky, digital, Radio – local, national, Press – newspapers, magazines, local, national, specialist press

Type of advertising media is dependent on:
- Cost
- Target audience

- **Sponsorship** -Individuals, events or teams are sponsored by organisations to increase company recognition and sales Businesses often choose individuals / teams / events that have a similar target audience E.g. David Beckham and police sunglasses, 3 day event and land rover
- **Sales Promotions** - These are ways to boost sales e.g. BOGOF – buy one get one free, 20% extra free. These are used to boost short term sales; coupons.
- **Public Relations** - Where businesses have contact with the media to send out specific messages about the firm / its product. This is free advertising, Sometimes public relations can backfire for a business.
- **Personal Selling -**This is where a product is being promoted in a face-to-face situation The product is promoted by a salesperson whose aim is to increase sales of the product
- **Direct Mail**-This is where mail shots are sent directly to customers, As customer profiling techniques become more sophisticated mail shots are increasingly targeted

Packaging should be eye catching, protective, convenient, informative and environmentally friendly

Place – channels of distribution

Place refers to physical location and channels of distribution

Channels of distribution

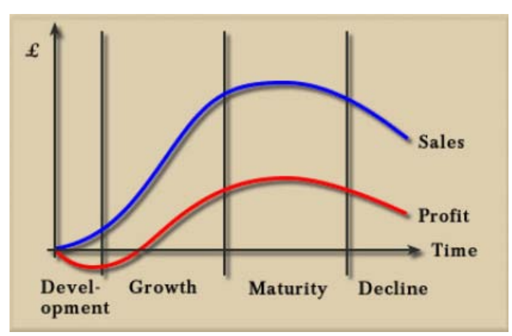
How a product gets from the producer to the consumer
There are four main channels of distribution:

1. Producer – consumer – this is generally used for small businesses e.g. farm shop
2. Producer – Wholesaler – Consumer – Here the wholesaler acts as an intermediary for the producer and is able to carry a number of different producers products e.g. furniture
3. Producer – Wholesaler – Retailer – Consumer- This is common for clothes
4. Producer – Retailer – Consumer – this is often used for electrical products

Each link in the chain of distribution adds costs onto the final product and makes it more expensive for the end consumer
Wholesalers and retailers can provide important functions for producers especially as they grow larger
DBy using wholesalers and retailers businesses can lose control over the promotion of their products

Product life cycle

All factors are dependent on the product cycle and what stage a good is in. Different stages will lead to different marketing mix decisions



Extensions Strategies

1. New markets for existing products
2. New uses for existing products
3. More frequent use
4. Increase the product range

Operations and project management

The Nature of Operations

- Consists of both product and services which are developed from land , labour and capital from an idea to final service /product

Difference between effectiveness, efficiency and productivity

- The primary difference: Efficiency - productivity metric and Effectiveness - quality metric, Efficiency refers to quantity or speed, effectiveness refers to quality.
- Efficiency refers to doing things in a right manner. Scientifically, it is defined as the output to input ratio and focuses on getting the maximum output with minimum resources. Effectiveness, on the other hand, refers to doing the right things. It constantly measures if the actual output meets the desired output.
  Since efficiency is all about focusing on the process, importance is given to the “means” of doing things whereas effectiveness focuses on achieving the “end” goal

Measuring Efficiency; Productivity

Productivity - Ratio of the output to any of the firms input (note: read efficiency above).If a firm becomes more productive it becomes more efficient, since productivity is an efficiency measure

Labour Productivity: Total Output per qty of labour
Capital Productivity: Total Output per qty or value of capital employed

Value Added –is also dependant on the operations process and operations decisions because if the costs are reduced it could widen the gap between revenue and thus increase the *value added*

Capital versus labour intensity

- **Capital-intensive** processes are those that require a relatively high level of capital investment compared to the labour cost.
- These processes are more likely to be highly automated and to be used to produce on a large scale.
- Capital-intensive production is more likely to be associated with flow production but any kind of production might require expensive equipment.
- Capital is a long-term investment for most businesses, and the costs of financing, maintaining and depreciating this equipment represent a substantial overhead.
- In order to maximise efficiency, firms want their capital investment to be fully utilised (see notes on capacity utilisation).
- In a capital-intensive process, it can be costly and time-consuming to increase or decrease the scale of production.

Labour-intensive

- Labour-intensive processes are those that require a relatively high level of labour compared to capital investment.
- These processes are more likely to be used to produce individual or personalised products, or to produce on a small scale
- The costs of labour are: wages and other benefits, recruitment, training and so on.
- Some flexibility in capacity may be available by use of overtime and temporary staff, or by laying-off workers.
- Long-term growth depends on being able to recruit sufficient suitable staff.
- Labour intensive processes are more likely to be seen in Job production and in smaller-scale enterprises.

Operations Planning

Operation decisions (production method) are affected by size of market, availability of resources and technology.

Flexibility: the need to adapt to new methods of working and new products is increasingly important in today's world. This is to be considered with regard to:

- Volume
- Delivery time
- Specification

Operation Flexibility

- **Product/service:** ability to change quickly to the amount of product (vol), changes in mix , incorporate changes and to develop and produce newly developed product(spec.)
- **Process technology:** ability to respond rapidly to different production set-ups(changeover) , vary the routing or sequence(scheduling) and
  - **Innovation flexibility :** ability to define and implement new tech in production process with minimal disruption

Operations Methods

- **Traditional**
  - **Job –** a single product is made from start to finish , small firms, ship building , skill level is high but less mechanisation so high flexibility but decrease efficiency(labour intensive)
    - **Adv:** suit customer needs , varied task; more motivation , organisation simple
    - **Disadv:**high skilled labour cost, wide range of capital regd, time consuming
  - **Batch-** work on a group of products is completed before next stage begins, , every unit must go through a stage before whole batch reach next stage , e.g. food production, less flexibility and adaptability
    - **Adv:** ample flexibility, labour cost decrease, faster, economies
    - of scale
    - **Disadv:** less motivation , money is tied up, high level of unfinished stocks,

- **Flow -** continuous process of large scale production of identical products, highly mechanised
  - **Adv:**economies of scale , highly automated , less labour and high productivity
  - **Disadv:** Setup costs high , standardised product, low motivation, efficient

- **Modern**
  - **Mass customisation –** combines latest technology with multiskilled labour forces to used production lines to make varied products , allows drifting from mass marketing
    - **Adv:** Low unit costs with ability to produce a range of different goods
    - **Disadv:**reqr expensive redesign of products to achieve compatibility
  - **Cell –** form of flow production where e system is divided into cells , each having a team leader , like a matrix form of organisation to promote motivation
  - **Lean**
  - **Just-in-time**

The costs of production

- Classification of costs – the economists' view: Fixed; Variable; Marginal
- the producers' view: Direct and Indirect

Location

Organizations have a number of different location decision where to locate their business

- When they start up
- Relocation
- Expansion

Location

- Choice of location has direct effect on operational costs , ability to generate a sales and service, hard to undo
- Location factors can be divided into
  - Supply factors – concerned with operating costs of location
  - Demand factors - mainly affect customer service and revenues
- Qualitative Factors
  - Working environment
  - Ease of access for staff/suppliers
  - Quality of the infrastructure - bandwidth, roads, rail links, etc.
  - Nearness to ports for import/export
  - Quality of labour supplies
  - Health and safety considerations
  - Opportunities for expansion - planning?
  - Ease with which Planning consent can be achieved
  - Legislation - employment and tax laws especially
  - Possible external economies of scale
  - The competition
- Quantitative Factors

    - Cost
        - Fixed Costs
            - Site costs
            - Availability of grants/subsidies
            - Cost of loans associated with set up
            - Cost of utilities - gas, water, electricity
            - Cost of hiring fixed salaried staff
            - Cost/availability of technology
        - Variable Costs
            - Nearness to market
            - Cost of raw materials
            - Cost of sourcing supplies
            - Transportation costs
                - Bulk increasing
                - Bulk reducing
            - Nearness to a supply of skilled/unskilled labour
- International Location
    - Ease of access to international markets
    - Possible language/cultural issues
    - Political stability of the location
    - Economic stability of the location
    - Perceptions about the amount of 'red tape' associated with the country
    - Existence of trade barriers and non tariff barriers

Relocation

Factors to consider before relocating:

- Access to and nearness to markets
- Availability of labor
- Infrastructure
- Sources of raw materials
- Government policy
- Cost of relocation
    - Recruiting and training staff
    - Duplicated property costs
    - Cost of physical transfer
    - Intangible

Why not to relocate:

- Development of external economies of scale in current location
- Region developed specialist skills and experience
- Skilled recruits of labour
- Specialist suppliers nearby

Businesses will use a number of methods to analyze the best location:

Break even analysis
They will calculate costs and revenues to see how many units they need to break even. If fixed costs e.g. rent are lower in one location than another will reduce break even output. If variable costs e.g. wages are lower in one location than another will reduce break even output the greater the margin of safety at a particular location the lower the risk

Investment Appraisal Techniques
Businesses can use investment appraisal techniques such as payback, ARR and NPV to see which location is best. Businesses usually select the option with the quickest payback, the highest ARR and the highest NPV

Scale of Operation

The decision to expand the scale of operation has the costs of land. Building equipment, staff required. A firm's scale is dependent on the demand, objectives and its aims.

Economies and diseconomies of scale

Economies of scale are advantages that arise for a firm because of its larger size, or scale of operation. These advantages translate into lower unit costs (or improved **productive efficiency**), although some economies of scale are not so easy to quantify.

In the correct sense of the term, **economies and diseconomies of scale** relate to advantages and disadvantages of an ***increase*** in the firm's productive capacity – such as moving to a larger factory or installing completely new technology. Do not confuse these terms with **capacity utilisation**, which is the degree to which the ***current*** scale of operations is actually being used.

Internal Economies of Scale

- **Purchasing** –able to *bulk buy* raw materials(discount) or product for resale in larger quantities , able to cut out wholesalers by buying direct from producers, and transport costs per unit may also be reduced. make very specific demands to exactly match their needs.
- **Technical** – it may be cost-effective to invest in more advanced production machinery, IT and software when operating on a larger scale.
- **Managerial** – larger firms can afford to have specialist managers for different functions within a business – such as Marketing, Finance and Human Resources. Furthermore, they may be able to pay the higher salaries required to attract the best people, leading to better planning and decision making.
- **Marketing** – more options available; TV and national media, which would not be cost-effective for smaller producers.. Larger firms might find it easier to gain publicity for new launches simply because of their existing reputation.
- **Financial** – there is a wider range of finance options available to larger firms, such as the stock market, bonds and other kinds of bank lending. Furthermore, a larger firm is likely to be perceived by banks as a lower risk and the cost of borrowing is likely to be lower.

- **Risk bearing** – a larger firm can be safer from the risk of failure if it has a more diversified product range. A larger firm may have greater resilience in the case of a downturn in its market because of larger reserves and greater scope to make cutbacks.

External economies of scale

External economies of scale arise from firms in related industries operating in a concentrated geographical area; suppliers of services and raw materials to all these firms can do so more efficiently. Infrastructure such as roads and sophisticated telecommunications are easier to justify.

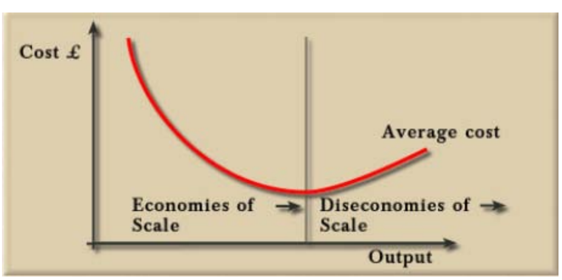
There is also likely to be a growing local pool of skilled labour as other local firms in the industry also train workers. This gives a larger and more flexible labour market in the area.

Diseconomies of scale

These are inefficiencies that can creep in when a firm operates on a larger scale (do not confuse with high capacity utilisation). The main diseconomies of scale are:

- **Lack of motivation** – in larger firms, workers can feel that they are not appreciated or valued as individuals - see **Mayo** and **Herzberg**. It can be more difficult for managers in larger firms to develop the right kind of relationship with workers. If motivation falls, productivity may fall leading to inefficiencies.
- **Poor communication** – it can be easier for smaller firms to communicate with all staff in a personal way. In larger firms, there is likely to be greater use written of notes rather than by explaining personally. Messages can remain unread or misunderstood and staffs are not properly informed.
- **Co-ordination** – a very large business takes a lot of organising, leading to an increase in meetings and planning to ensure that all staff knows what they are supposed to be doing. New layers of management may be required, adding to costs and creating further links in the chain of communication.

Evaluation – is bigger better than smaller?



Many firms strive to grow at least partly because of the economies of scale they could enjoy. Another reason is that they may be able to enjoy market power, with more control over suppliers and customers. Still another reason is the perceived success of the business simply because of its growth

Diseconomies of scale do not **have to** happen as a business becomes larger. Effective management and organisation can minimise these effects and help to ensure that the benefits of increased size outweigh any disadvantages. In an exam question, consider what you have learned about management approaches to organisational structure and motivation to show how a firm could overcome diseconomies of scale:

- MBO
- Decentralisation
- Reduce diversification

Smaller firms are not necessarily at a disadvantage in all markets. In some markets, economies of scale are not available or not compelling enough for large firms to dominate. This is often the case with small local businesses, such as hairdressers and plumbers. Furthermore, small businesses can succeed simply by identifying a **niche market** and by serving it really well. Smaller firms can be more flexible and may be able to adapt quickly to changes in their markets or in the economy.

Capacity Utilisation

Major Factor in determining operational efficiency of a business

$$Capacity\ Utilisation = \frac{Current\ Output}{Maximum\ Capacity} \times 100$$

Work Study – involves improving labor efficiency by means of what Taylor said by

- Method study- find most efficient method
- Work measurement – to record output levels using various methods and arrive at a target time

Inventory Management

Purpose, benefits and costs

Inventory is a list for goods and materials, or those goods and materials themselves, held available in stock by a business. The stocks here include

- **Raw materials** - materials and components scheduled for use in making a product.
- **Work in process, WIP** - materials and components that have begun their transformation to finished goods.
- **Finished goods** - goods ready for sale to customers.

Purpose: why does inventory need to be managed because if not many problems would arise:

- Insufficient stocks to sudden changes in demand
- Out-of-date stocks would be held if efficient stock rotation system is not used , e.g. computers
- Stock wastage might occur
- High stock levels resulting in high storage costs and opp. Costs
- Poor stock purchasing leads to late deliveries and low discounts

Costs of holding stocks

1. Opportunity costs – higher level of stocks , more capital used and greater these costs
2. Storage Costs- Stocks have to be stored in warehouses requiring unique special conditions
3. Insurance and Security Costs
4. Administration Costs
5. Risk of wastage and obsolescence

High stocks result in high opp. Cost, low stocks result in reduced sales

Benefits of holding stocks

1. Time - time lags present in the supply chain, from supplier to user at every stage, requires the use of certain amount of inventory in this "lead time"
2. Uncertainty - Inventories are maintained as buffers to meet uncertainties in demand, supply and movements of goods.
3. Economies of scale - Ideal condition of "one unit at a time at a place where user needs it, when he needs it" principle tends to incur lots of costs in terms of logistics. So bulk buying, movement and storing brings in economies of scale,

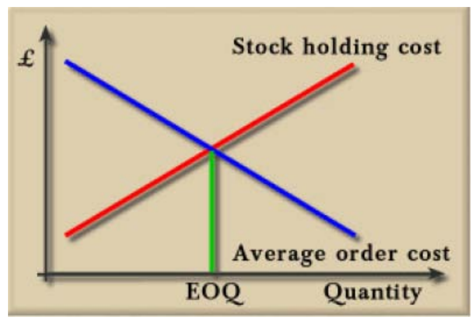
Managing Inventory

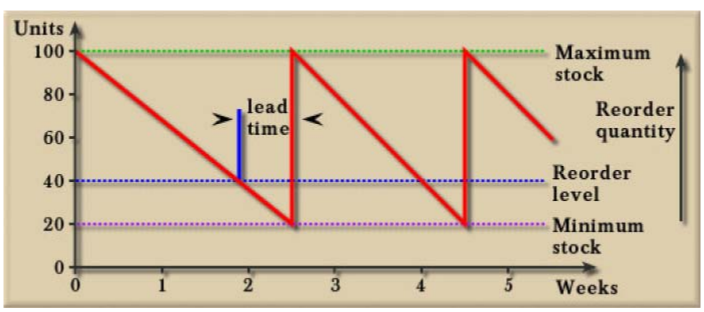
Buffer stock is held in individual workstations against the possibility that the upstream workstation may be a little delayed in long setup or change-over time. This stock is then used while that change-over is happening.

Reorder Mechanism: this triggers stock order each time the stock falls below a certain level

Stock control normally focuses on the reorder quantity and reorder level

Economic Reorder Quantity





Theoretical Model: Opening Stock is 100 units, 40 units are used per week, reorder level is 40 units, lead time is half week, and reorder qty is 80 units

JIT – Just in Time Stock Control – a manufacturing system which is designed to minimize costs of holding stock and that there are no buffer stock

Requirements:

- Excellent relationship with supplier
- Production staff must be multi-skilled
- Equipment and machinery must be flexible
- Accurate Demand Forecasts
- Latest IT equipment
- Excellent employee-employee relation and motivated staff
- Quality must be everyone's priority

Principles

- **Excess –** economic order quantity is one, firms order just in time not just in case
- **Waste –**Total quality and no defects
- **Unevenness –** buffer stock was security against unevenness in deliveries and production , eliminating buffer stock reveal problems and cooperation should be there not confrontation

Usually leads to shift from mass production to cell production

Lean production – the main aim of this is to produce quality output with fewer resources, with empowerment team working quality circles, decrease lead times by integrating design and engineering with great relationship with supplier and JIT principles with zero defects

Quality Control - a high quality product is one that best fulfils the particular needs of consumers at a price they are willing to pay

Methods

- Inspection
- Testing
- Random Sampling
- Prevention
- Correction

REVISIT TOPIC

Accounting and Finance

The need for business finance

Startup Capital, Capital for expansion

- Businesses need finance to start up because initially owners' injections of cash will be required to buy startup capital, equipment, building etc
- Business need finance to expand as either further capital to increase capital assets and higher working capital needs , or by takeover where finance is needed to buy out the owner of the firm.
- Different needs of finance require different sources , e.g. working capital- short term , capital equipment-long term

Working Capital

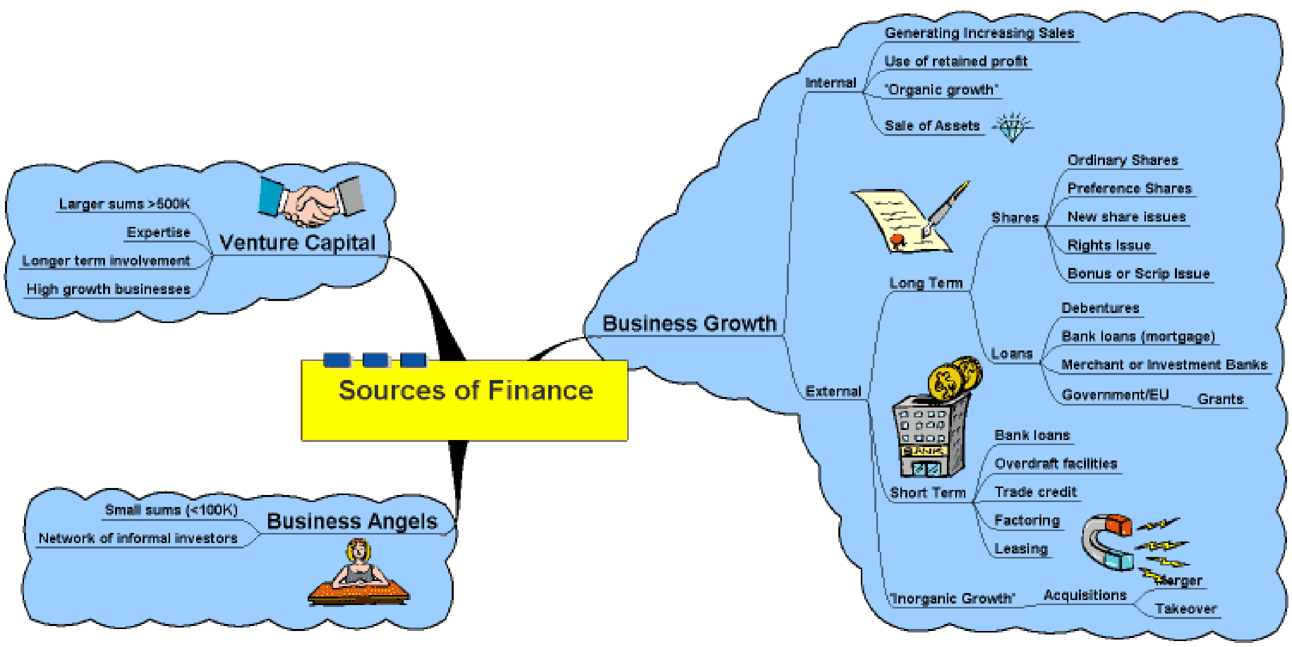
- Spending may either be
    - **Capital expenditure** – purchase of assets that are going to last long , affects the balance sheet , but does not directly affect profit and loss as its charged through depreciation
    - **Revenue Expenditure** – spending on all costs and assets other than fixed assets , it is charged in the profit and loss account

Working Capital is the excess of current assets over current liabilities it is the finance needed for everyday expenses such as payment of wages and buying stock. Can be measured using the liquidity ratios. Most business's have three assets: debtors stock and cash in the bank. The capital to purchase this comes from the current liabilities. However if all funds are taken in this form , then low liquidity and no WC to buy extra stock or extend credit to customers

WC= Current Assets – Current Liabilities
= Net Assets

Sources of Finance

This is basically the finance for limited companies



The finance for other legal structures, sole traders and partnerships may be slightly different as they can't possibly sell shares; use access to bank overdrafts, loans, credit from suppliers and borrow from family or friends

Factors influencing the sources of finance

These are dependant upon

1. Cost – how much will it actually cost , as in on interest or other reasons
2. Flexibility – how liquid the cash obtained may be
3. Need to Retain Control – debt or equity capital as by equity capital would mean losing control
4. The use to which it is put – as in machinery may require long term – sources

Forecasting Cash Flows and Managing Working Capital

Purpose of cash flow forecasts

Difference between Cash and Profits: Cash is a liquid asset owned by the business, firm may borrow $20000 from the bank. Cash increases by $20000 but no effect on profit
Profit is the surplus of revenue over costs , Total Revenue –Total Costs = Profits , It is an accounting measurement not an asset owned by the business , if goods which cost $2000 are sold on **credit** for $5000 there is a profit of $3000 but **no** movement of cash

- A business will always need to hold a suitable level of cash within a business , otherwise when credit payments are late , the firm may not have enough cash to buy stocks or it could go bankrupt is .I**t is important to know a profitable business may run out of cash and vice versa**

Cash flow forecasts in practice

Cash flow forecasts are used to help keep a balance of the cash a firm hold. Even though there will be an Opp. Cost for holding cash it is required to prevent a firm going bankrupt . These fore casts tell the firm exactly how much many is going in and out and how much is held.

Managing Cash flows: managers need to assess

1. Size and likely timing of cash flow into the business
2. Size and likely timing of payments out of the business
3. Whether there are sources of finance to cover periods of shortages

Cash Flow				
Money Received	Start	Month 1	Month 2	Month 3
Cash Sales	$0	$0	$0	$0
Payments Received	$0	$0	$75	$188
New Loans	$200	$0	$0	$0
New Investment	$300	$0	$0	$0
Total Received	$500	$0	$75	$188
Money Spent				
Cash Spending	$0	$0	$25	$50
Bill Payment	$0	$0	$300	$250
Repay Loans	$0	$0	$0	$0
Purchase Assets	$0	$0	$0	$0
Total Spent	$0	$0	$325	$300
Cash Flow	$500	$0	($250)	($113)
Cash Balance	$500	$500	$250	$138

Advantages of Cash Flow forecasting:

1. The firm can test financial results before commitment
2. Forecast reveals cash needs
3. Forecast highlights when there is too much cash

Methods of improving Cash Flow

Ways of raising cash:

1. Selling stock for cash at large discount
2. Sell and lease back fixed assets
3. Try and decrease debtors
4. Factor debts
5. Increase and extend credit
6. Reduce or delay expenditure
7. Obtain cheaper supplies of materials and components
8. If new equipment just leasing
9. Overdraft or short-term loan

Costs

Cost Information

A cost is the amount given up in exchange for a good or service

Costs are either

1. Assets in balance sheet
2. Expense in profit and loss account

Classification of costs

1. the economists' view: Fixed; Variable; Marginal
2. the producers' view:
   - Direct –identified with each unit and varies with level of output
   - Indirect – cannot be identified with each unit as associated with producing a range of tasks

Problems in Classifying Costs

1. Labour costs necessarily direct variable: no because when there is a lack of order most firms will continue to pay in the short run
2. Telephone charges could be made direct if each call was recorded to its used however practically not worthwhile so then it would be considered as an indirect overhead cost

Uses of Cost Information

As we have seen earlier when making pricing decisions cost plays a significant role especially if it is cost based pricing in determining the prices of good

If costs are analysed it can help the firm in the calculation for payments for resources. It will be possible to see how much cash is going where and to which factor. It could be possible to set reasonable wages after analysing the total costs

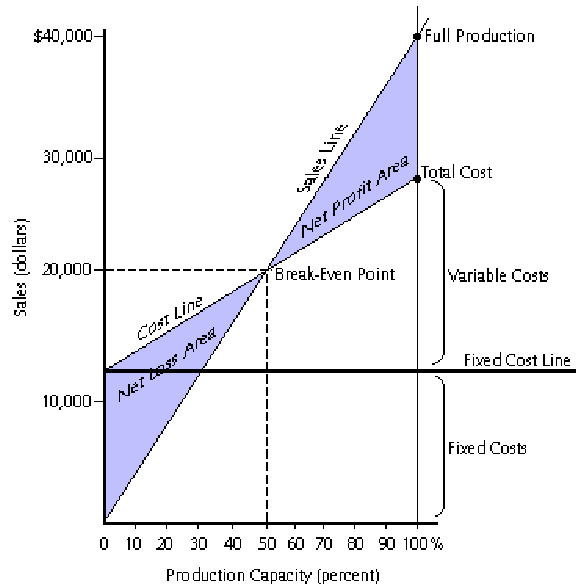
Costs can be used to monitor and improve business performance, including using cost information to calculate profits. They play an important role in the Break Even Analysis which helps a business improve its performance.

Break even Analysis

At the breakeven point the

Total Revenue=Total Cost

$$Break\ Even\ Point = \frac{Fixed\ Costs}{Contribution\ Per\ Unit}$$



The margin of safety is equal to the number of units that production can fall before there are losses

Margin of Safety = Actual Output- break even output

Calculation of profit can be done using margin of safety and contribution per unit as after break even each unit produced goes to profit

Profit: Margin of Safety x Contribution Per unit

Units required in achieving a target profit

$$Units\ Required = \frac{FC + Profit\ Target}{Contribution\ Per\ Unit}$$

Break even Analysis – Other uses

1. A marketing decision , the impact of a price increase
2. Operations Management Decision - the purchase of new equipment with lower variable costs
3. Choosing between locations for a new factory
    a. Charts for both locations may be assumed and compared to conclude the relative advantages and disadvantages of each

Break Even Analysis Assumptions

- The selling price is constant
- Variable cost per unit is constant
- Fixed costs are always fixed!
- Firm sells all it produces , stocks do not change

Advantages:

- Easy means of analysing a firms financial position
- Shifts in prices , variable costs and fixed costs show break even points change

Disadvantages:

- These are the assumptions mentioned above such as Sales=Stock or Total Revenue and Total Cost functions are linear
- The model is static , it cannot account for changes in environment

Accounting Fundamentals

Accounting: recording, organizing, analyzing & communicating of information.

Income Statement ({Profit and Loss Account) - Contents of an income statement include

- Turnover,
- overhead expenses
- net profit,
- dividends
- cost of sales,
- gross profit,
- profit (before tax) for the year,
- retained profit

Balance Sheet - Contents of a balance sheet include

- non-current assets,
- current assets,
- current liabilities,
- working capital,
- net assets,
- non-current liabilities,
- reserves and
- equity

Internal users of accounting information

- Business managers – decisions on daily business – finance arranged
- Workforce – profitability as wages and house are associated
- Owners –
    - profitability and status of business
    - assets of business
    - show a certain position

External users

- Government – employment, wage rates
- Tax collectors – profile
- Lending Institutions – Banks – growing ratio
- Suppliers – performance, doubtful debts, ability to pay
- Investors – profitability
- Communities as a whole
- Competitors – status of business

This information is only available for public limited company but private limited companies and Unlimited ones are not liable to show them.

Limitation of published accounts

- predicted or future plans of profits are not given
- qualitative information
- As employees work force is an asst which isn't shown directly like their
- Commitment and loyalty of the workers.
- only quantified info is present which is based on bank information
- Window dressing – trying to make the business appear better than it actually is.

Financial accounting & management accounting.

- Financial accounting is that part of accounting that is concerned with external reporting to shareholders government and other interested parties. It's the preparation of published accounts of the business.
- Management accounting is concerned mainly with internal reporting to the managers. It is the preparation of detailed and frequent information for internal use by the managers who have to control the firm and take decisions for future success.

Financial Accounting

1. Collection of data on daily transaction. Preparation of published reports and accounts –balance sheet, profit / loss accounts cash statements
2. Information is used by external groups.
3. Accounts usually prepared once or twice a year.
4. Accountants bound by the rules and concepts of accounting profession. Company accounts must observe requirements of company accounts.
5. Covers past periods of time

Management Accounting

1. Preparation of info for managers on any financial aspect of a business, its departments and products.
2. Information is only made available to managers and internal users.
3. Accounting reports and data prepared as and when required by managers and owners.
4. No set rules – accountants will produce information in the form requested.
5. Can cover past periods, but can also be concerned with present or on projections into the future

Liquidity Ratio

- $Acid\ Test\ Ratio = Current\ Assets - \ Stocks/Current\ Liabilites$
- $Current\ Ratio = (current\ \text{assets})\ /\ (current\ liabilities)$

Profitability Ratio

- $Gross\ profit\ margin\ = \ (Gross\ Profit)/Sales\ \ \times 100$
- $Net\ Profit\ margin\ = \ (Net\ Profit)/Sales\ \ \times 100$
- $Return\ on\ Capital\ employed = (Net\ Profit)/(Capital\ Employed) \times 100$