

Business Management – Business in Action

What is a business?

A business is a particular type of organisation – one which involves people and resources in the making of a good or the providing of a service. All businesses have a name, a set of aims they wish to achieve, an image, resources and rules.

Task 1

Use the Internet to find out the aims of the following businesses. Record your answers in the table below.



Name of Business	Aims
Tesco 	
Primark 	
McDonalds 	

Needs and Wants

We buy the goods and services provided by a range of businesses – we are called consumers. We buy these goods and services to satisfy needs and wants.

In order to survive we all have basic needs. These include:

Food/Water



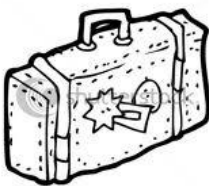
Clothing



Shelter



Once these needs have been satisfied individuals always look for and want more in order to make their lives more comfortable and enjoyable. For example we do not **NEED** a new iPad to survive, we just **WANT** it. Perhaps we have seen it advertised on TV or a friend has one and so we would want one also.



Holidays



Cars



Ipad

Task 2

Using the table below identify whether the item in column A could be considered to be a **NEED** or a **WANT**.



Item	Need or Want
Water	Need
Computer	
House	
Visit to hairdresser	
Meat and vegetables	
Holiday to Florida	
Life saving medicine	
Jewellery	

Businesses exist to look after or satisfy these **NEEDS** and **WANTS**. They make goods such as food products, shoes, clothes and electrical goods. Some businesses exist to provide services like transport, hairdressing, banking, fast-food take-away and holidays.



Goods

Cars
Washing machines
CD players
Sweets
Clothes
Seafood
Shoes
Furniture
Books

Services


Hairdressing
Car servicing
Insurance
Banking
Entertainment
(eg, cinema and theatre)
Education
Public Transport

Task 3

Using the table below, name a business that you use or know of who provides the following goods and services.



Good or Service	Name of a Business Organisation
Holidays	Thomas Cook
Fast food take-away	
Banking	
Shoes	
Clothes	
Hairdressers	
Television sets	
Football matches	



Goods are tangible, which means they can be seen and physically touched. Services are intangible, which means that they cannot be seen or physically touched

Goods and services can be durable (long-lasting) or non-durable (used up quickly). A cinema is an example of a non-durable service – it provides entertainment in the form of a film for about 2-3 hours on average. After that, the service is no longer available. A television set is an example of a durable good – it should last for a few years, at least.

Task 4

Businesses produce goods or services. Indicate whether the items listed below represents a good or a service. The first one has been done for you.



Item	Good or Service
Cars	Good
Banking	
Education	
Cinema	
Ice-skating	
Cakes	
Train journey	
Holiday to Florida	
Coffee	
Newspaper	
Mobile phone	
Beautician	

Task 5

Some goods and services are durable and other goods and services are non-durable. Indicate, in the table below, whether the items listed are:

- good or service
- durable or non-durable

The first one has been done for you.

Good/Service	Good/Service	Durable/Non-durable
Computer	Good	Durable
Mars Bar		
iPad		
Visit to the theatre		
House		
Car		
2-year gym membership		
Haircut		
DVD		
Bicycle		
Big Mac and fries		

Task 6

Try and find the following key words in the word search below.

NEED, WANT, BUSINESS, GOOD, DURABLE, NON-DURABLE, SERVICE, AIMS, TANGIBLE, INTANGIBLE, RESOURCES.

A	N	E	R	Y	L	K	L	J	J	W	E	A	D	Q	M	F	H	Q	D
D	Y	E	J	K	L	D	H	J	K	W	L	W	Q	J	H	T	W	K	U
L	I	U	E	S	S	D	M	H	J	H	A	Y	R	K	H	D	C	M	R
E	V	Q	C	D	V	C	X	Z	W	Q	E	N	H	Q	E	H	W	G	A
J	Q	W	R	Y	U	S	B	H	F	D	Q	E	R	J	J	L	R	W	B
T	V	W	C	C	B	C	X	V	W	V	W	R	T	A	I	M	S	K	L
A	L	E	H	Q	K	Q	E	K	R	E	N	Q	J	Y	A	H	J	K	E
N	B	U	S	I	N	E	S	S	H	S	J	R	H	Q	J	I	K	Q	J
G	L	W	J	S	N	W	J	K	E	J	T	Q	N	J	J	N	Y	Q	J
I	H	J	Q	V	J	W	H	J	Q	J	K	J	O	Y	J	T	G	E	Q
B	K	J	J	J	K	W	M	H	G	H	J	H	N	B	Q	A	E	H	K
L	S	J	Q	E	R	H	R	L	O	H	K	Y	D	F	G	N	H	J	L
E	L	E	G	H	Q	H	H	E	O	H	Y	E	U	J	T	G	H	H	L
K	G	J	R	H	W	G	J	M	D	J	K	W	R	Q	W	I	Q	R	Y
M	K	K	R	V	Y	P	P	W	E	T	Y	I	A	Y	O	B	H	D	U
N	J	T	K	R	I	Y	L	P	P	Y	O	P	B	P	K	L	I	P	Q
L	U	I	U	U	T	C	H	D	K	K	L	Y	L	L	K	E	K	L	P
Y	I	Y	L	U	U	Y	E	F	K	K	L	N	E	U	L	Y	J	K	E
E	R	O	T	T	P	Y	H	V	L	Q	N	K	Q	Y	M	O	G	J	O
J	Y	P	R	E	S	O	U	R	C	E	S	J	G	T	T	P	L	Y	R

Business Resource (Factors of Production)

In order to make a good or provide a service a number of ingredients/resources are required, eg, Land, Labour, Capital and Enterprise. These are also referred to as the **FACTORS OF PRODUCTION**.



FACTORS OF PRODUCTION**LAND**

Land means the natural resources that businesses use –

Plot of land, coal, forests, water, wood, fields, rivers etc

**LABOUR**

Labour means the workforce of a business and includes –

Joiners, shop assistants, teachers, clerical staff, electricians, cleaners etc

**CAPITAL**

Capital means the tools, machinery and equipment that a business owns –

Tractors, Lorries, motor vehicles, buildings, factories, tools and equipment etc

**ENTERPRISE**

Enterprise means the business ideas that an entrepreneur or owner has on how to use land, labour, capital in his or her business to make profit –

Richard Branson & Virgin



Task 7

If you were to make a list of the resources (ingredients) which are required to build a house, your list might include:



Wood
Joiners
Ladders
Slates
Plot of land

Bricks
Electricians
Plastic
Building Company
Drill

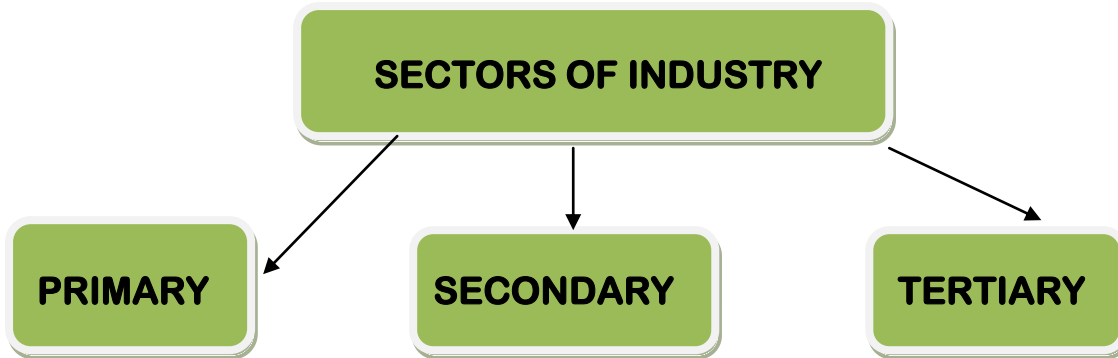
Paint
Cement mixers
Glass
Nails
Brick Layers

Complete the table below by placing each resource under the appropriate heading.

Land	Labour	Capital	Enterprise

Sectors of Industry

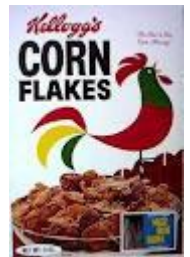
Businesses exist to produce different goods and services and as such exist in different sectors of industry. There are 3 main sectors as shown in the diagram below.



Businesses which exist in the primary sector of industry are those that are concerned with using natural resources such as farming, oil drilling, mining, fishing, and forestry. In other words these businesses are concerned with growing products or extracting resources from the ground.



Businesses which exist in the secondary or manufacturing sector of industry are concerned with the making of products. Manufacturing businesses can take the raw materials from other industries in the primary sector and convert them into different products. For example Kellogg's will purchase crops from farmers to manufacture breakfast cereal.



Businesses which exist in the tertiary sector do not produce a product. They are concerned with providing services like banking, tourism, beauticians, hairdressers, fitness centres and entertainment like film and TV.



SECONDARY SECTOR

This sector has declined in the UK. Today there are fewer firms who actually manufacture a product.

TERTIARY SECTOR

This sector has increased in the UK. Today there are more businesses that actually provide a service.

Task 8

Decide which sector each of the following areas of business should be included – primary, secondary or tertiary.



The first one has been completed for you

Area of Business	Primary	Secondary	Tertiary
Car manufacturing		√	
Insurance			
Education			
Fishing			
Public transport			
Farming			
Fire service			
Ship building			
Mining			
Wind production			
Forestry			
Hairdressing			
Engineering industry			
Leisure industry			
Stone quarrying			
Oil refinery			



Primary = Farming



Secondary = construction



Service = Hairdressing

Task 9

Decide which sector each of the following areas of business should be included – primary, secondary or tertiary.



The first one has been completed for you.

Area of Business	Primary	Secondary	Tertiary
Airline company			√
Pig farm			
Persimmon House Construction			
Butchers shop			
Plumber			
Car manufacturer			
Furniture maker			
Estate agent			
Local radio station			
Teacher			
Doctor			
Lawyer			

Task 10**Progress Check 1**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Using examples, explain the difference between a consumer need and a consumer want.	4
2	Give an example of a business or organisation which provides a service for consumers.	2
3	What does the word 'durable' mean? Give one example of a durable good.	2
4	Explain, using examples, what is meant by tangible goods and intangible services.	4
5	Name the 4 Factors of Production and give one example of each.	4
6	Name one famous entrepreneur that you have heard of.	1
7	Businesses can be classified as belonging to one of 3 sectors of industry. What is the name given to each of these 3 sectors?	3
8	State one example of a type of business that belongs to each of the 3 sectors.	3
TOTAL MARKS		23

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)



Enterprise and Entrepreneurs

Definition

An entrepreneur is an individual who develops a business idea and combines the factors of production – land, labour and capital – in order to produce a good or provide a service usually with a view to earning profit.

An entrepreneur is someone who has a good **BUSINESS** idea and is prepared to take the risk of investing their money to develop the idea.

Most entrepreneurs start as a small business and are responsible for all aspects of managing it. However, as the business grows, the role of the entrepreneur may alter as he/she will then have to employ workers and managers and delegate work for them to carry out.

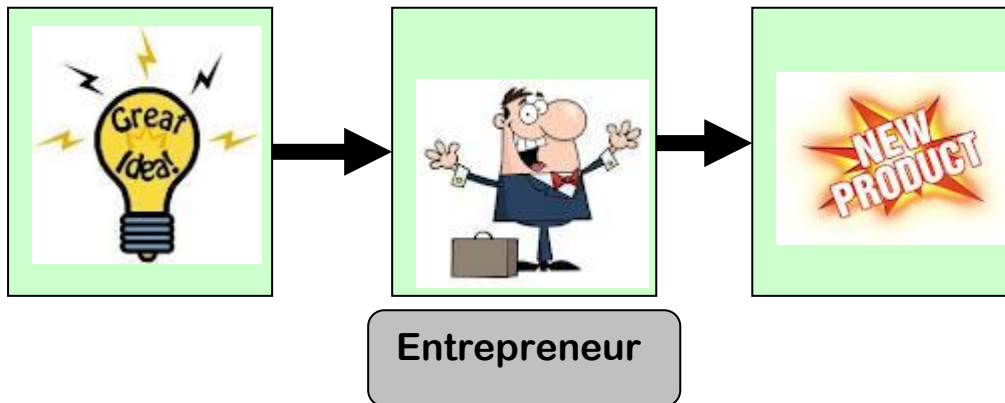
Task 11

Use the Internet and find out what products or services the following entrepreneurs have had success with.



Entrepreneur	Product/Service
Anita Roddick	
Alan Sugar	
Richard Branson	
Tom Farmer	
Duncan Bannatyne	
Michelle Mone	

Entrepreneurship



Skills of an Entrepreneur

An entrepreneur must:

- take risks – seeing a chance – taking it – risking their own money to invest in the idea;
- have good communication skills – enabling them to communicate with employees, suppliers and of course the customers;
- rise to the challenge – doesn't give up easily – finds solutions to overcome problems;
- have good decision-making skills – deciding which product to produce, best methods of raising finance, what price to charge customers and which staff to hire;
- have good leadership skills – being able to lead and motivate his/her workers to 'achieve the dream'!


Task 12

Visit the website www.topbusinessentrepreneurs.com



- Select 2 top business entrepreneurs from the list.
- Prepare a short Powerpoint presentation detailing their history and charting their success.
- Present your findings to the class.

Gaps in the Market



Spotting a gap in the market means that you have come up with an idea for a product or service which is not being offered by another company and is not already available in the market place. It may be developing a hobby they enjoy or using a special skill or talent they have to come up with a new business product.

Spotting a GAP in the market is a classic key success factor in business!

If an entrepreneur moves quickly to get a product on the market before anyone else, then the financial rewards can be great as customers have to buy from you as there are no other products available to them.

The gap in the market might be providing a product or service in a completely different way. LoveFilm rents DVDs, but they captured the market by sending them through the post rather than following the videoshop model, adding convenience and a huge list to choose from. Moonpig did exactly the same with greeting cards.



Businesses use the law to protect their business idea/product/service by registering ownership of the invention and patenting it. They may even sue for damages if others try to copy their work through the Copyright Act or they can register a trademark to make their company stand out from the rest. Nike has trademarked their “swoosh” logo and their “just do it” slogan.



Coca Cola have also patented their product to prevent anyone else using their logo.



Task 13

Find the following key words in the word search below:



FACTORS OF PRODUCTION LAND LABOUR CAPITAL
ENTREPRENEUR PRIMARY SECONDARY TERTIARY
PATENT

F	D	F	G	F	E	G	Y	F	W	Q	G	E	F	T	Y	W	D	W	Q
F	A	F	G	J	K	L	L	A	N	D	J	K	L	G	Y	M	N	N	Y
G	G	C	N	N	N	L	K	P	J	Y	J	L	O	I	P	O	P	M	J
G	F	D	T	E	W	H	W	A	G	E	Q	W	D	F	G	S	B	K	O
T	G	H	D	O	D	G	H	W	E	F	H	E	W	Q	S	Q	E	H	R
E	F	H	G	R	R	W	E	W	G	E	K	L	Y	T	R	K	I	L	P
R	J	U	P	J	P	S	E	C	O	N	D	A	R	Y	G	T	U	I	U
T	J	I	K	O	P	I	O	H	J	L	O	L	A	B	O	U	R	M	P
I	J	K	O	J	U	J	Y	F	G	T	Y	U	T	Y	K	I	R	T	J
A	P	H	L	O	P	H	J	L	P	O	P	B	N	M	J	O	I	J	K
R	J	K	O	I	O	U	I	O	P	R	I	M	A	R	Y	K	L	O	P
Y	F	G	S	W	G	H	E	H	J	K	O	G	U	I	O	P	K	J	L
A	Q	Q	W	E	G	D	F	H	H	J	E	D	L	K	J	U	L	P	E
S	D	E	R	Q	W	Q	A	S	W	S	D	U	U	J	K	L	T	U	I
S	C	A	P	I	T	A	L	S	D	U	D	R	H	C	J	T	H	J	Y
A	S	J	K	U	I	K	E	E	W	E	E	W	H	J	T	H	Y	Y	U
A	S	Y	Y	U	O	P	U	P	A	T	E	N	T	H	G	I	S	D	F
G	H	L	O	P	J	O	Y	L	S	R	P	F	B	B	B	Q	O	C	V
B	E	N	T	R	E	P	R	E	N	E	U	R	B	H	K	T	C	N	G
W	R	Y	U	I	I	L	O	P	B	E	H	F	G	G	F	G	E	R	Q

Sources of Help and Advice

There are many sources of help and advice available for small businesses. A great deal of advice is available on-line. In addition many organisations exist that provide support to new and developing businesses. Here are some examples.

Bank

A bank will give financial advice, eg, on how to manage money coming in and going out of your business.



Enterprise Agency

For example Business Gateway offers free business advice and support service through local advisers. They offer training courses for people wanting to set up a new business and give advice on such things as preparing a business plan.



Lawyer

A lawyer will provide legal advice to keep you on the right side of business law.



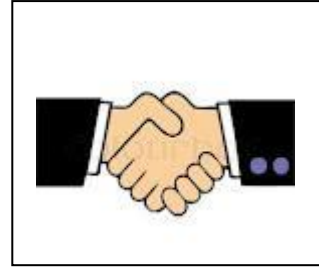
Chambers of Commerce

A local chambers of commerce – an organisation set up to help business people network (make contact with other business people who may support them). It will also offer advice on how your business can become more competitive and successful.



Entrepreneurs

Other entrepreneurs may give advice on which suppliers to choose or what mistakes to avoid.



World Wide Web (Internet)

A vast amount of information is available on line which provides advice for people thinking about starting up in business.



The Princess Trust

The Princess Trust provides practical and financial support for young people (18-30) setting up in business. It will assist them with producing a business plan, give advice on applying for grants and will also provide grants if certain criteria are met.



Task 14

Using the Internet access the following website –

www.princes-trust.org.uk



Watch the video clip and study the website and then answer the following questions on a sheet of A4 paper:

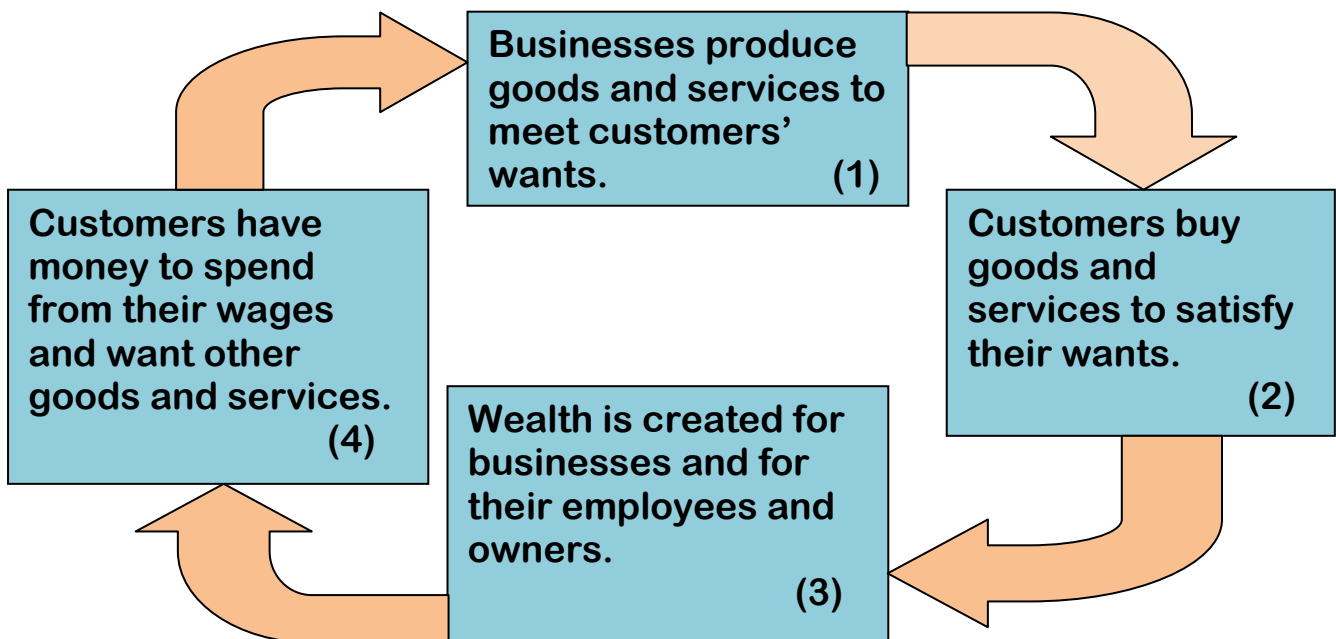
1. What criteria must be met to qualify for support from the Princes Trust?
2. How do you apply for support?
3. What help and support may be offered?

Cycle of Business



The process of buying and selling goods is an on-going process. This is the reason that enterprise is a long term process and why many shops have been on the 'High Street' for a very long time, for example, Marks and Spencer's, Next and New Look.

Study the diagram below.



STEP 1	Entrepreneurs set up in business selling goods and services that consumers need and want.
STEP 2	Consumers use their income and go out to the shops and buy goods and services in order to satisfy their needs and wants.
STEP 3	The businesses supplying the goods and services begin to earn PROFIT and this means they can pay employees wages and the owners also become wealthy.
STEP 4	Consumers now have even more income to spend (from their wages) and so want even more goods and services.
STEP 5	Businesses are now required to expand and produce more goods and services for consumers - and so the PROCESS goes on.

Task 15**Progress Check 2**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain what is meant by an entrepreneur.	2
2	Identify and briefly explain the key skills an entrepreneur should possess.	5 (3)
3	What is meant by the term “gap in the market”.	2 (1)
4	Briefly describe the main sources of help and advice available to small businesses or to someone thinking about setting up in business.	6 (5)
5	Explain why the ‘cycle of business’ is an on-going process.	4 (1)
6	In what ways can a business use the law to protect their business idea or product?	1 (2)
7	Name 2 British successful entrepreneurs and identify the product that led to their success.	4
8	There are 3 main sectors of industry – primary, secondary and tertiary. What sector would an estate agent belong to? Why?	3 (2)
TOTAL MARKS		27

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self-assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)

Task 16

In the table below, column A contains key business words/phrases and column B contains the definitions of key business words/phrases. Your task is to use the table on the next page and write the correct definition opposite the key word/phrase.



Key Business Word	Definition
Entrepreneur	Essential goods required for survival.
Factors of Production	These are goods and services that are not needed for survival.
Tangible Goods	A person who combines the factors of production to set up in business to earn profit.
Durable Goods	This refers to tools, machinery and equipment used by a business.
Need	These can be seen and touched and include things like TV's and clothes.
Want	An organisation to help and advise people who wish to set up in business.
Tertiary Sector	These are provided by hairdressers, travel agents and nurses.
Capital	These can be seen and touched and last for a very long time.
Princes Trust	These are the 'ingredients' used for production and include, land, labour and capital.
Services	This is the sector of the economy responsible for providing services.



Task 16 (Continued)


Write the correct definition next to each key word.

Key Business Word	Definition
Entrepreneur	
Factors of Production	
Tangible Goods	
Durable Goods	
Need	
Want	
Tertiary Sector	
Capital	
Princes Trust	
Services	

Self Assessed (✓)

Peer Assessed (✓)

The Business Plan




A business plan is a document which outlines the objectives of a business and how it intends to achieve these objectives. These are used mainly when starting out in business. You need to find out if it is financially viable (wise) to actually set the business up in the first place. You will need to work out all your costs and carry out market research on potential customers to find out if sales income will be enough to cover these costs and earn profit.

The entrepreneur can therefore decide whether it is worthwhile going ahead with the business idea or whether the anticipated profit is too low a level to justify financing his/her idea.

It is also likely to be used to convince investors, for example, a Bank Manager to lend the business cash in order to get it started. Banks and other lenders are more likely to lend to entrepreneurs who have been thorough in their planning and research.

To be convincing, it must therefore contain essential information:

- 
- General details – the name of the business, proposed location and what it is going to produce;
 - The market – who are the potential customers?
 - Human resources – who will be employed and work for the business?
 - Finance – what are the expected costs of running the business, what sales income is expected and what is the expected profit? Also where is the start-up cash coming from, ie, all from the owner/s or partially from a loan?

The Business Plan can also be used when planning for expansion. You may want to redo your business plan with the new costs and benefits – this will help you decide if expansion is the right thing for your business.



Task 17

Sample Business Plan

BUSINESS PLAN OF BANNERMAN ENTERPRISE		
GENERAL DETAILS	1. Business Name	<i>Bannerman Enterprise</i>
	2. Type of Ownership	<i>Sole Trader</i>
	3. What does the business do?	<i>Operate in private sector - we sell greetings cards</i>
THE PRODUCT	Description of goods/USP	<i>Greetings cards, wrapping paper, balloons, mugs, pens and small gifts</i>
HUMAN RESOURCES	Key people and experience/skills, can be displayed on an organisation chart	<i>Marketing dept, Human Resources, Operations dept, Finance dept</i>
PREMISES AND EQUIPMENT	Where is the business to be based, what equipment will be required.	<i>Based in Baillieston Road Glasgow. Equipment required - shop fittings, cash register, motor van.</i>
THE MARKET	1. Who are the customers?	<i>Consumers of all ages based in the Baillieston area.</i>
	2. Price of the goods services.	<i>25% mark-up on all goods purchased</i>
	3. Who are the main competitors?	<i>2 other Card shops located within a 25 mile radius.</i>
	4. Market research results	<i>Who would buy our products and what price they were willing to pay</i>
FINANCE	1. Who are the investors and where is the money coming from?	<i>Start up capital invested by sole trader and external financing, eg, bank</i>
	2. Estimated cash budget and trading, profit and loss statements.	<i>Estimated Cash Budget, T,P and Loss Account and Balance Sheet provided.</i>
	3. Costs and expected revenue	<i>Costs - stock, maintenance, wages and general expenses. Revenue shown on Break-even chart provided.</i>

Areas of a Business Plan

Details under each Area of a Business Plan

Example of what our Business Plan would look like.

Study the business plan above and then answer the following questions on A4 paper.

1. What type of business is being created?
2. How is the new venture being financed?
3. Are there any potential competitors, which could be a threat to the new business?
4. List the main equipment/resources that will initially be required for the new venture to get started?
5. What are likely to be the main costs for the business?
6. What did the market research focus on?



Task 18

Case Study – completing a Business Plan

(You may wish to work in pairs to complete this task)

You have decided to open a business - Ground Force - using your skills as a landscape gardener. You have worked with a local firm and have spotted a *gap in the market* for a local domestic gardening service.

You will be working from your own home – a room in your house will be converted into an office for the business. You will provide a full garden design service including paving, decking, laying lawns and planting trees and shrubs.

Your market includes retired people and working families who are keen to upgrade their gardens. Most Glasgow based companies specialise in garden maintenance rather than garden design and deal mainly with commercial companies, so there is very little competition. You will initially distribute leaflets around the area to let people know about your business. You also plan to advertise in local shops and newspapers.

You will need to employ 2 other people to work with you – someone who has expertise in building walls and a qualified gardener. You will do all your own paperwork and carry a mobile phone to save the expense of an Administrative Assistant.

You estimate your income to be £45,000. You know this is realistic having worked locally for a landscape company.

Cash flow will be a problem. You are at present trying to negotiate credit terms of 60 days from your suppliers and will only accept cash payments from your customers – you will not offer customers any work on credit. You will pay all bills from the cash you receive. Estimated costs in the first year are £14,000 giving an estimated profit of £31,000.

You are lucky enough to have had a small lottery win and have £8,000 to invest in your business. You will use some of this money to buy the following equipment: spades, rakes, lawnmowers and cement mixers etc.

You should:

1. Draft your Business Plan on the template provided on the next page.
2. Access your computer and load the electronic template 'Business Plan' and complete a final version of your plan.
3. Put your name in the footer and print one copy. Save your work using the filename BP1/own initials.
4. You should display your Business Plan on the classroom wall.

Remember to:

Self Assess (✓)

Peer Assess (✓)

BUSINESS PLAN

Business Details	Business Name: Business Address: Business Type:
Product Details	Product/Service:
Market Structure	Customers: Competitors:
Marketing Information	Pricing/mark-up: Promotion: Place it will be sold:
Resources Required	Staff: Premises: Equipment:
Finance Required	Start up:
Performance Forecast	Sales Income Costs: Estimated Profits:

Remember to complete your final copy on the computer!



Sources of Finance

At some point a business may need to borrow money from banks or other investors for purposes such as paying the staff wages, or buying a piece of machinery or for expanding the business.

Businesses can access many different sources of finance. The source of finance used depends on what the finance is for, and how long it is required for.

BANK OVERDRAFT	
Advantages	Disadvantages
A customer can overdraw from their bank account, ie, spend more than they have in their bank account up to an agreed limit. They could, for example, pay wages from their bank account even though they have no money in their account.	<p>This can work out expensive if used for a long time as interest is charged daily.</p> <p>The facility may be withdrawn immediately if the limit is exceeded.</p>

TRADE CREDIT	
Advantages	Disadvantages
Businesses can buy goods from suppliers and then arrange to pay for them at a later date. This gives the firm time to sell the products at a higher price, earn a profit and then pay their suppliers – hopefully before the bill or invoice arrives.	<p>Sometimes suppliers offer a cash discount (reduction in price) for prompt payment. The firm will lose the cash discount if they take too long to pay. Also suppliers may be reluctant to sell more goods on credit if the business struggles to pay on time.</p>

FACTORING (DEBT COLLECTOR)	
Advantages	Disadvantages
<p>When customers who buy on credit fail to pay on time or attempt not to pay at all the business can use a factoring service. The factor will buy the debts of the business and they will then attempt to recover payment from the customers.</p> <p>This saves the business time pursuing customers and ensures the business receives most of the money it is owed.</p>	<p>The factor charges the business a fee for their service and so this reduces the amount of cash they will actually receive.</p> <p>Factors tend only to be interested in pursuing customers who owe large amounts of money to the business.</p>

SHORT-TERM BANK LOAN	
Advantages	Disadvantages
<p>The bank may provide a loan to the business for a fixed amount to be paid back over a fixed period of time in fixed monthly instalments. The loan may be used to buy an essential piece of equipment or to obtain extra cash to pay bills. Because it is a short-term loan there will be less interest payments.</p>	<p>When the business tends to be small, or newly formed, they tend to be more of a risk.</p> <p>As such these loans can be more difficult to obtain and the interest rate to be paid tends to be much higher.</p>

HIRE PURCHASE	
Advantages	Disadvantages
<p>Higher purchase allows a business to buy an asset such as a delivery van and pay it back over 36 months. A deposit is required followed by payment over a few years. This allows the business to purchase items like machinery and equipment with only a small initial outlay of money.</p>	<p>The business does not legally own the asset (machinery or equipment) until the last payment has been made.</p> <p>Interest is usually charged and so it can be an overall more expensive way of purchasing large items.</p>

LEASING	
Advantages	Disadvantages
<p>When a business uses a leasing system it never owns the asset. The business simply 'rents' the asset. For example Arnold Clark now offers a leasing system to allow small businesses to rent motor vehicles and vans.</p> <p>The advantage is that the leasing system will replace the asset every couple of years and they are also responsible for any repairs.</p>	<p>The business will never actually own the asset.</p> <p>Rental charges or leasing costs can build up over a long period of time and so it may actually work out cheaper to actually purchase the asset in the first place.</p>

ADDITIONAL CAPITAL	
Advantages	Disadvantages
<p>This is where the amount of money invested in the business by the owner is increased by the owners (they take more of their own personal savings and 'lend' it to the business. Or they may decide to invite a partner to join the business. The business does not need to pay back the money which has been invested and there is no interest to pay or any other costs involved.</p>	<p>The owner/s are now risking more of their own personal money as more of their private savings are 'tied up' in the business.</p> <p>If a partner is now involved in running the business, profits now have to be shared and so each owner gets a smaller share of the profits.</p>

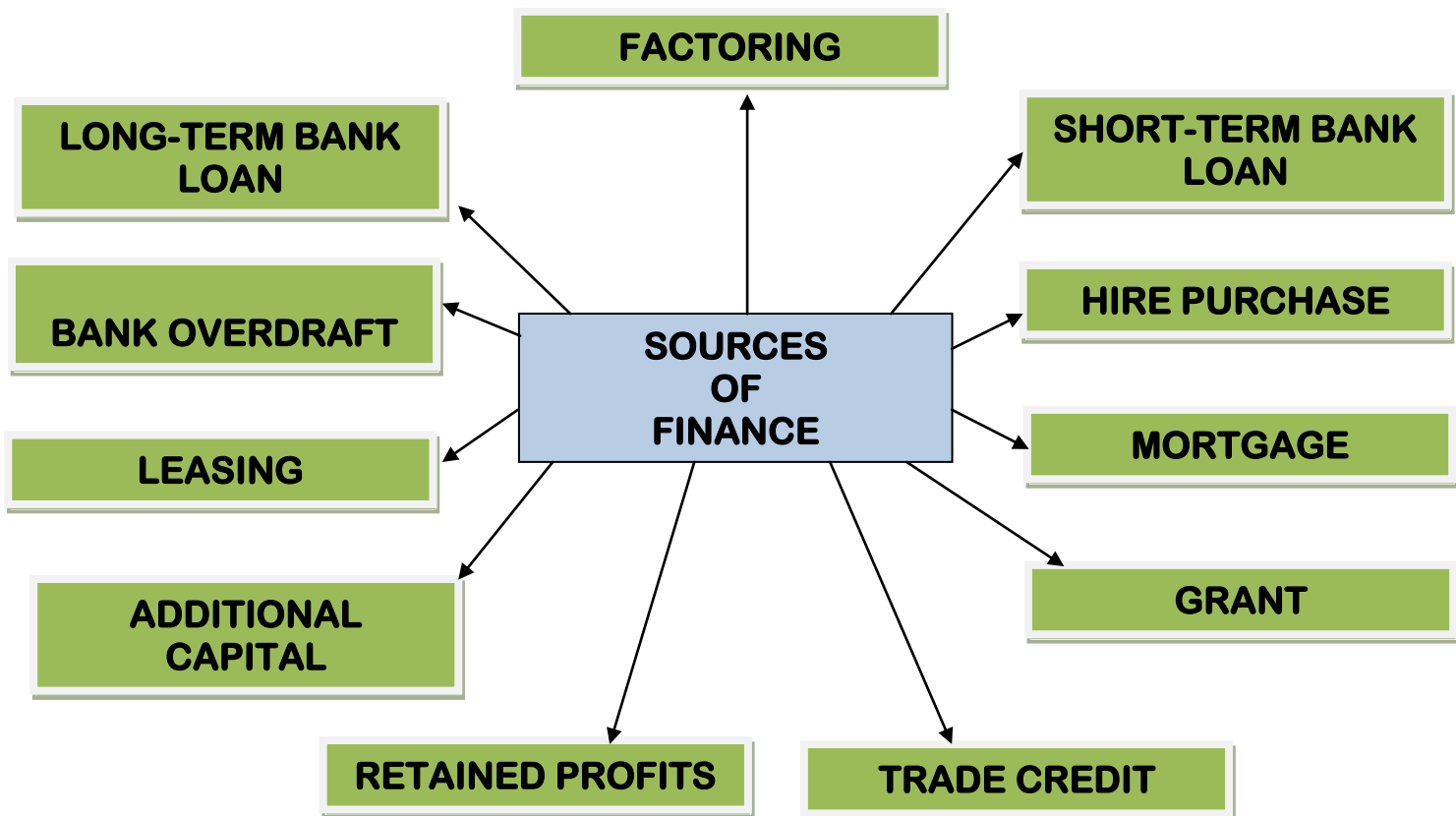
MORTGAGE	
Advantages	Disadvantages
<p>A common method of financing land and premises such as shops is to take out a mortgage which is a type of long-term loan secured against the title deeds of a property or piece of land.</p> <p>The business is given a long period of time (25 years) to pay the mortgage back.</p>	<p>Interest has to be paid on top of the initial amount borrowed.</p> <p>If the business does not pay the mortgage back or falls drastically behind with repayments, the lender (bank or building society) can claim ownership of the property or land etc.</p>

LONG-TERM BANK LOAN	
Advantages	Disadvantages
<p>The bank may grant a loan for a fixed amount, to be paid back over a fixed period of time in fixed instalments. A long-term loan might be taken out to buy a very expensive piece of machinery and be re-paid over a 5 year period.</p> <p>As such the business is able to purchase machinery now and use it in the business to start generating profit.</p>	<p>The business has now incurred debts and must ensure that all monthly payments are made on time.</p> <p>Interest is usually charged on top of the initial loan amount and so this can be a very expensive way of purchasing equipment and machinery.</p>

GRANT	
Advantages	Disadvantages
<p>A Source of finance from central government or local government, Business Gateway or the Princes Trust.</p> <p>In most cases the money does not have to be repaid.</p>	<p>It is usually a one-off payment and certain conditions or criteria must be met before it can be obtained.</p> <p>Usually the business is told what the money must be used for.</p>

RETAINED PROFITS	
Advantages	Disadvantages
A business can use its profits to purchase machinery and equipment. The advantage is that there is no interest to be paid and the business is not incurring any debts. The business will own the assets straight away.	When a business spends all of its profits it can run into cash flow problems. They may not be able to pay for any unexpected costs or expenses as all profit has been spent.

SUMMARY – SOURCES OF FINANCE



Task 19**Progress Check 3**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	What is the purpose of preparing a Business Plan?	2
2	Why is it important to have a thorough and convincing Business Plan?	1
3	What essential information should be included in a basic Business Plan?	4
4	What is meant by the term 'competitor'?	1
5	Name and explain the most appropriate source of finance for an entrepreneur wishing to purchase a shop costing £150,000.	3
6	What is meant by the term 'market research'?	2
7	Explain the difference between leasing a motor vehicle and purchasing a motor vehicle using hire purchase.	4
8	What do the following sources of finance all have in common: Bank overdraft; mortgage; short-term loan.	1
TOTAL MARKS		18

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self-assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)



AIMS OF DIFFERENT KINDS OF ORGANISATIONS

PRIVATE SECTOR

- Sole Traders
- Partnerships
- Private Limited Company (Ltd)
- Public Limited Company (plc)

Main aims are:

- spotting a gap in the market
- turning a new idea into a success
- maximising profits

PUBLIC SECTOR

- Central Government
- Local Government

Main aims are:

- to provide a high quality product/service to all citizens of the country
- to provide essential services such as hospital care, education, defence and police
- provide services which are not entirely profit driven

THIRD/VOLUNTARY SECTOR

- Charities
- Social Clubs, eg bowling clubs

Main aims are:

- fund raising to support causes
- raise awareness, eg, famine in Africa
- clubs provide services and facilities for members

They do not aim to make a profit, though they may achieve a surplus of income over expenditure.

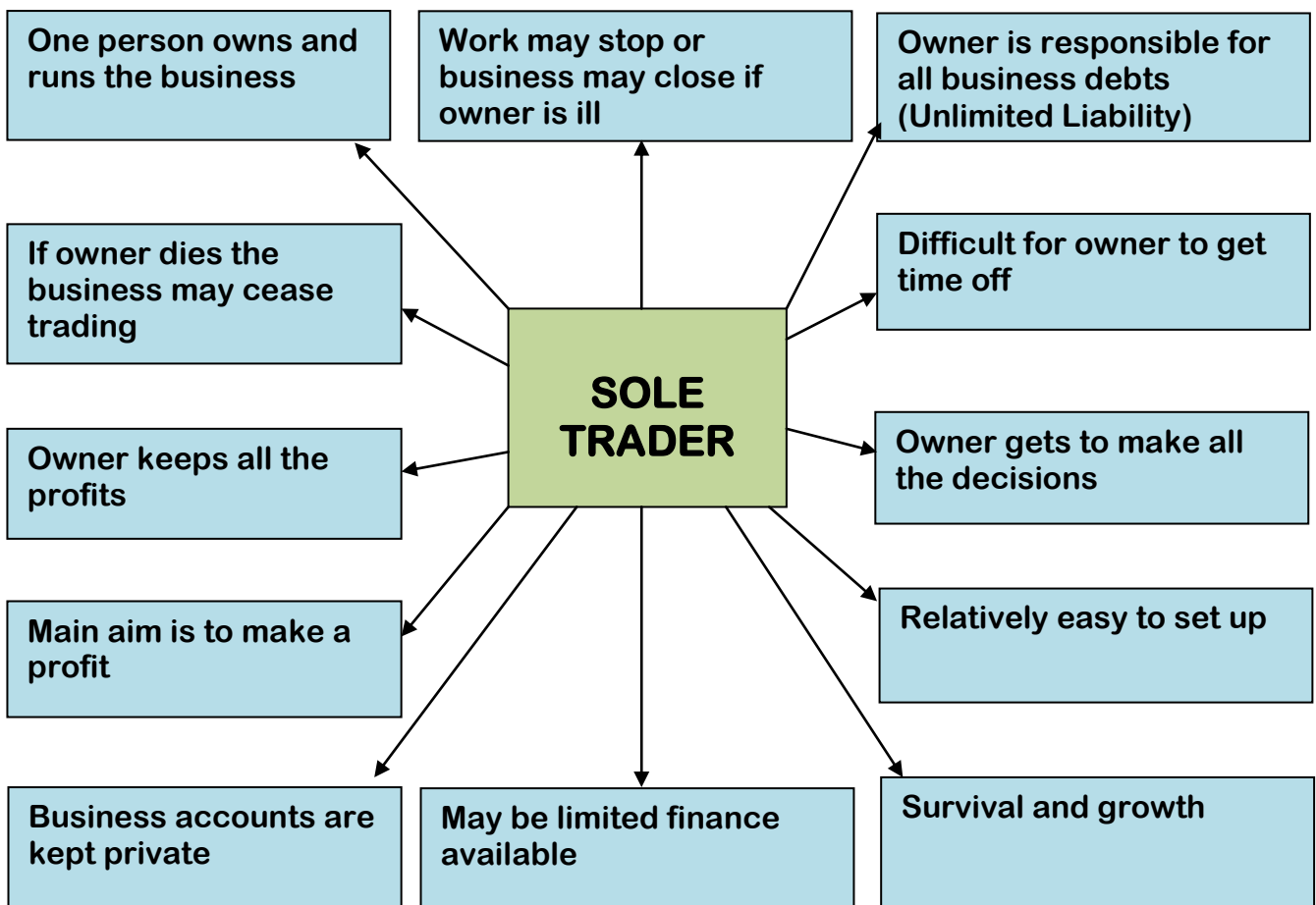


SOLE TRADER

A sole trader is a one-owner business (it is owned and controlled by one person). Most small businesses are sole traders, for example, hairdressers or plumbing businesses.

Finance is available from the owner's own savings, bank loans and government grants.

Sole traders usually aim to survive and maximise profits.



TASK 20

Study the diagram above.

The diagram outlines some of the features, aims, advantages and disadvantages of being a Sole Trader.



Working in a group, decide whether each point represents a feature, aim, advantage or disadvantage.

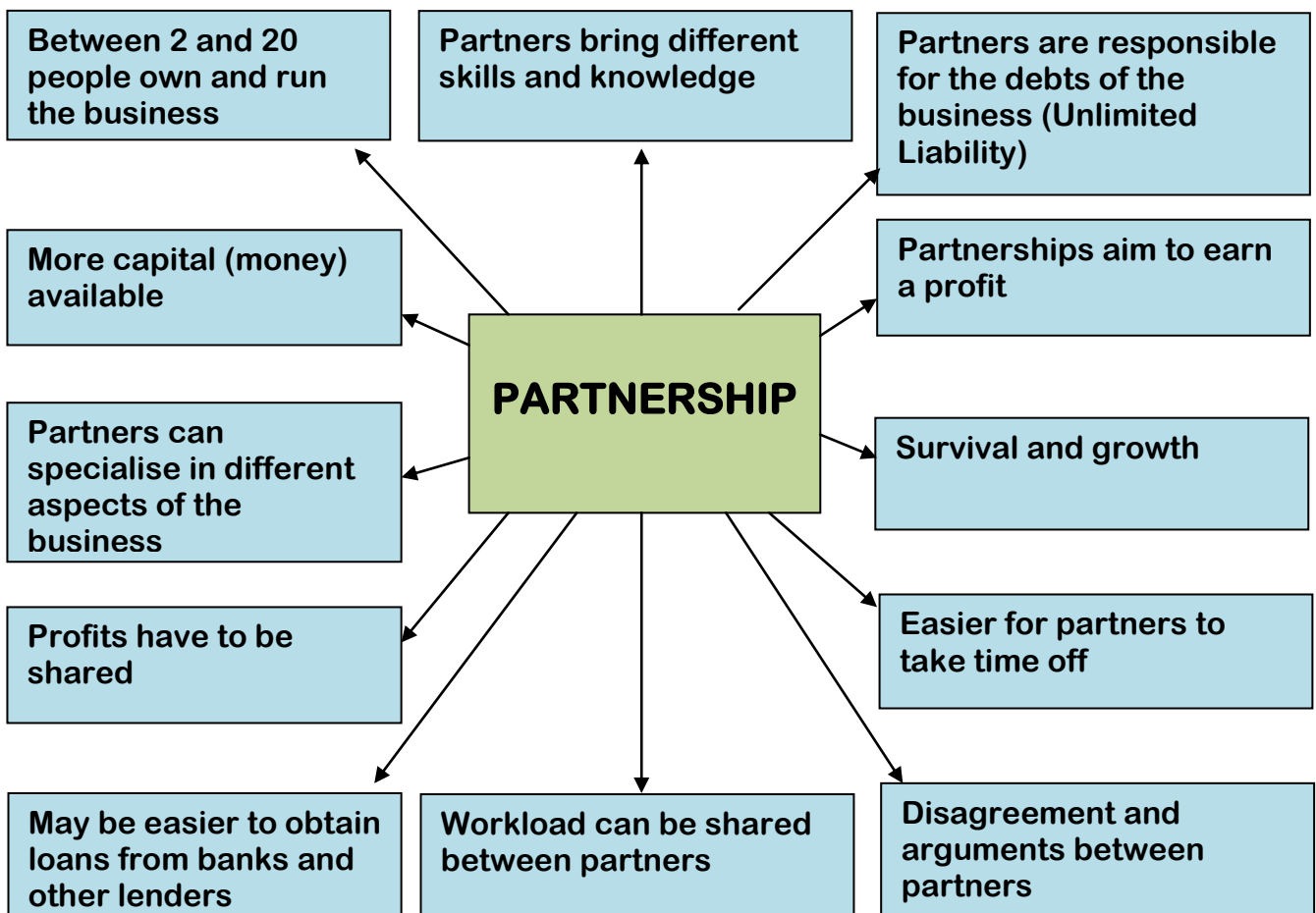
Complete the table below – the first two have been done for you.

Features	Aims	Advantages	Disadvantages
One person owns and runs the business			Difficult for owner to get time off



PARTNERSHIP

A partnership is a business with two to twenty partners – people who own and control the business together. The partners must produce a Partnership Agreement which outlines all the rules and conditions that each partner must adhere to. It also outlines the procedures to be followed when any partner joins, leaves or dies.



TASK 21

Study the diagram above.

The diagram outlines some of the features, aims, advantages and disadvantages of being in a Partnership.



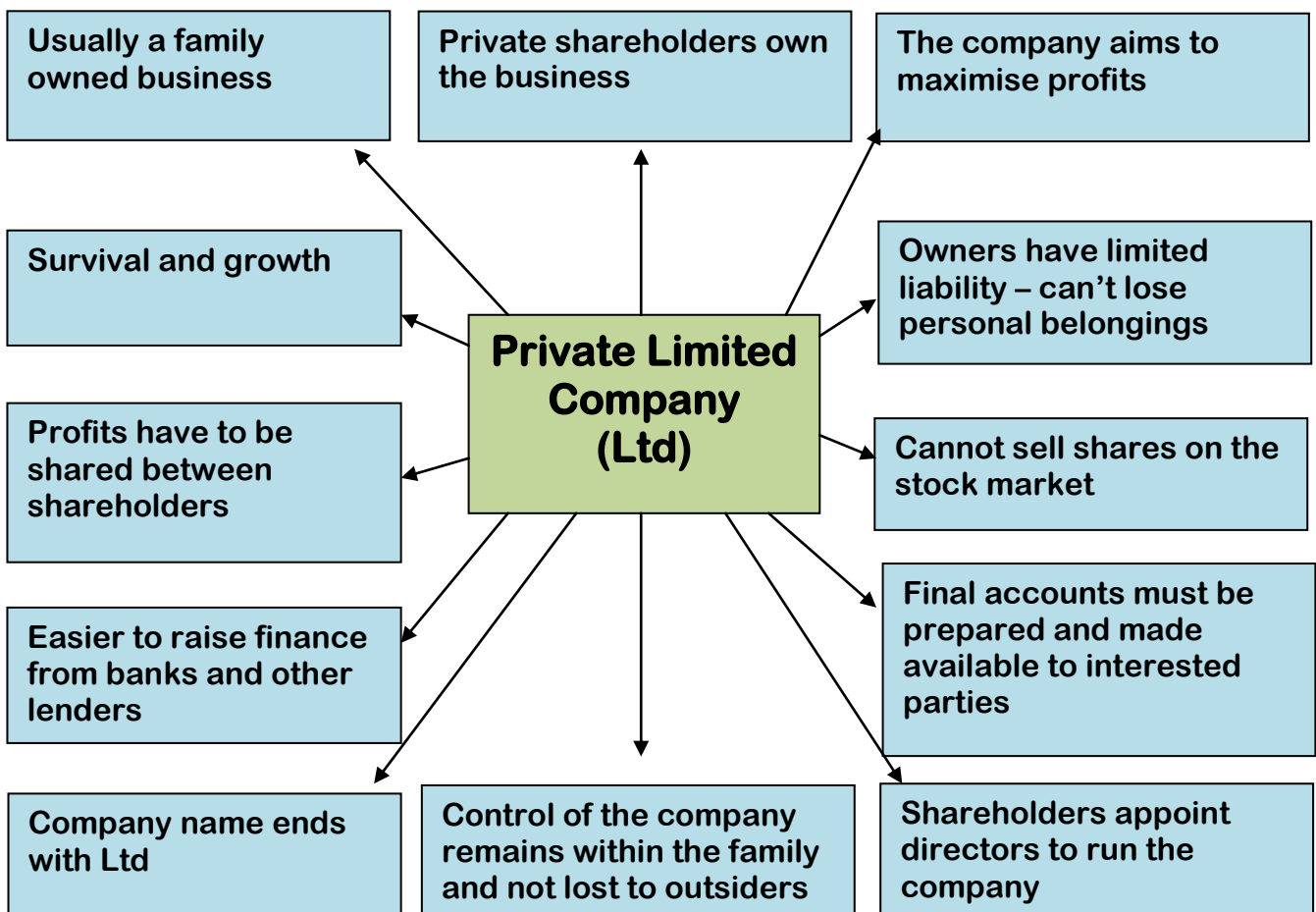
Working in a group, decide whether each point represents a feature, aim, advantage or disadvantage.

Complete the table below – the first two have been done for you.

Features	Aims	Advantages	Disadvantages
	Survival and growth		Profits have to be shared

PRIVATE LIMITED COMPANY (Ltd)

This is a company whose shares are owned privately, ie, shares are not available to the public on the Stock Market. Sometimes they are family owned companies where all members of a family are shareholders, for example, Ryanair, Arnold Clark and Baxters Food Group Ltd. There must be at least one director and a secretary who keeps all company records. Shareholders have limited liability meaning they can only lose the value of their shares and not their private assets or belongings.



TASK 22

Study the diagram above.

The diagram outlines some of the features, aims, advantages and disadvantages of forming a Private Limited Company.



Working in a group, decide whether each point represents a feature, aim, advantage or disadvantage.

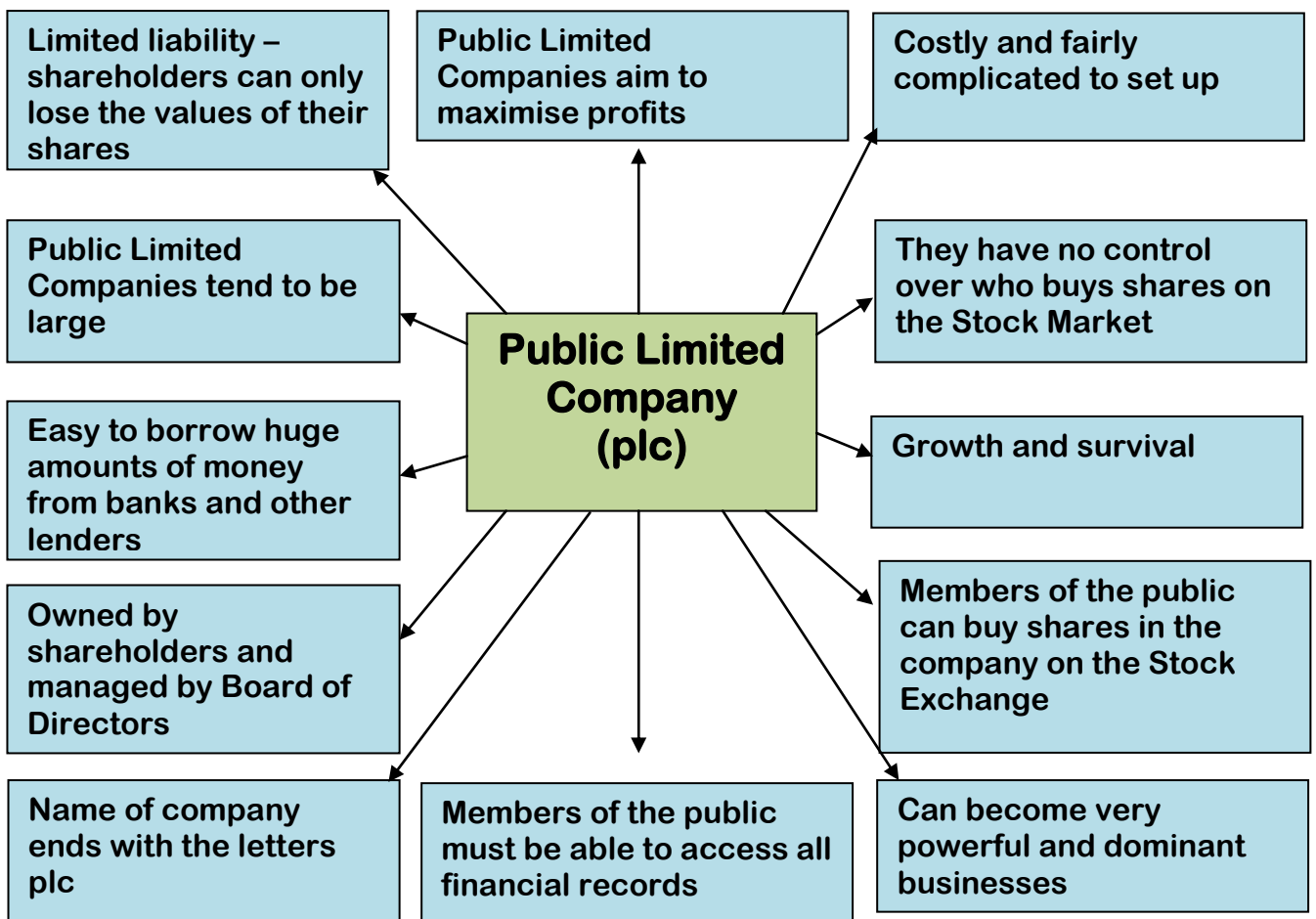
Complete the table below – the first two have been done for you.

Features	Aims	Advantages	Disadvantages
Company name ends with Ltd			Cannot sell shares on the Stock Market



PUBLIC LIMITED COMPANY (plc)

A public limited company (plc) is a company whose shares are available for purchase by the public on the Stock Market. There must be a minimum of two shareholders and a minimum of £50,000 to start the company. The company is owned by members of the public (shareholders) who appoint a board of directors to manage and control the company on their behalf. Examples include – BT, Vodafone, Tesco, Stagecoach and Celtic FC.



TASK 23

Study the diagram above.

The diagram outlines some of the features, aims, advantages and disadvantages of forming a Public Limited Company.



Working in a group, decide whether each point represents a feature, aim, advantage or disadvantage.

Complete the table below – the first two have been done for you.

<u>Features</u>	<u>Aims</u>	<u>Advantages</u>	<u>Disadvantages</u>
Members of the public can buy shares in the company on the Stock Exchange		Can become very powerful and dominant businesses	

Task 24**Progress Check 4**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	State 2 advantages of operating as a Sole Trader.	2
2	Who owns a Public Limited Company and who manages a Public Limited Company?	2
3	Shareholders have limited liability. What is meant by the term 'limited liability'?	1
4	Baxters Food Group (Ltd) is an example of a Private Limited Company. Give 2 other examples of a Private Limited Company.	2
5	What is the maximum number of people who can operate as a Partnership?	1
6	Explain why the partners in a partnership might decide to change to a private limited company?	2
7	What are the main aims of businesses that operate in the private sector?	2
8	What are the main aims of organisations that operate in the public sector?	2
TOTAL MARKS		14

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self-assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)



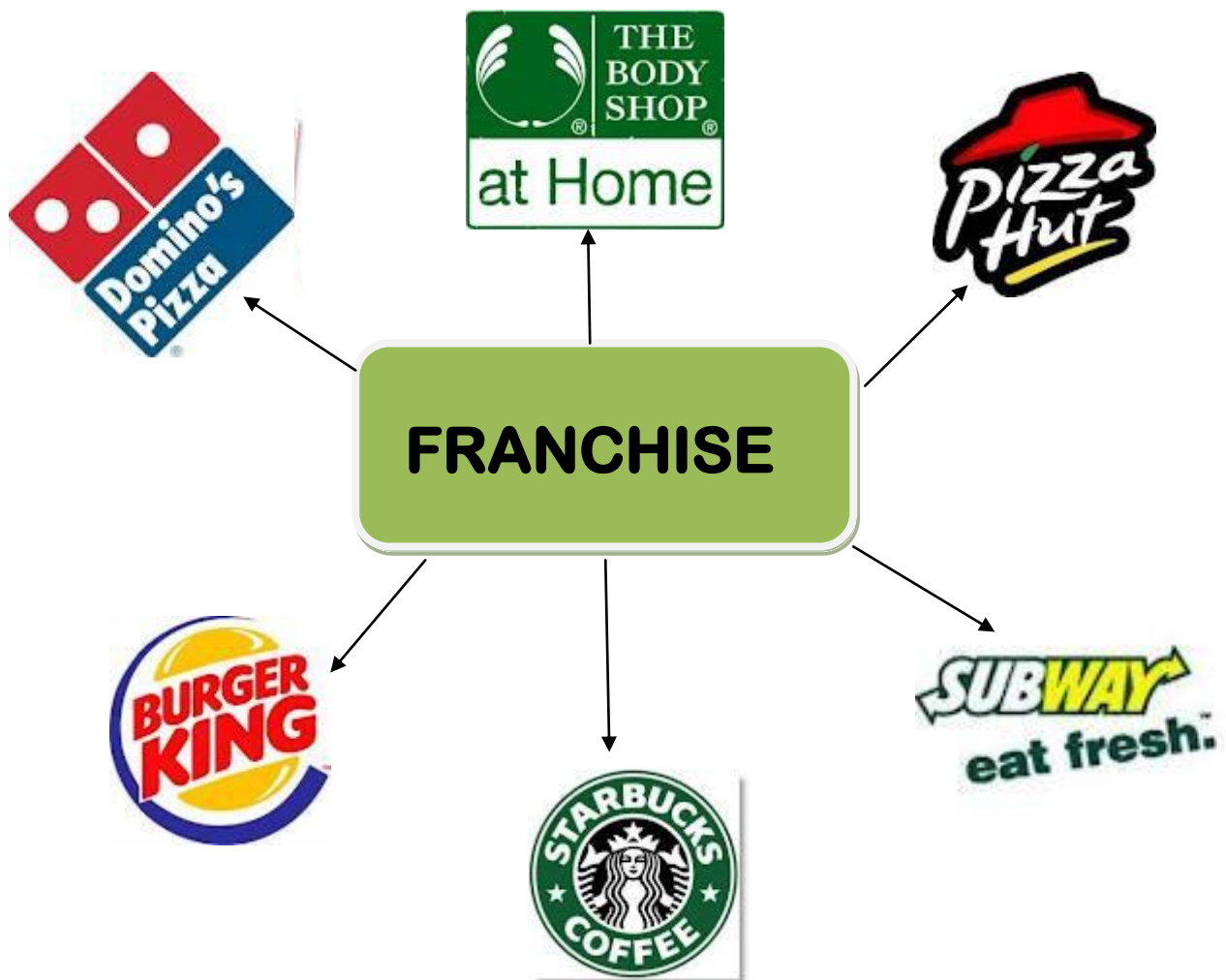
Important Definitions

Key Word	Meaning
Stock Market	Where people buy and sell shares in companies – this is now mainly done on-line
Limited Liability	Investors in a business (company) can only lose the value of the shares they own – their private belongings cannot be taken to pay the company's debts.
Companies Act	An act of law which sets out rules and procedures which companies must abide by.
Shareholders	A person who invests (uses his/her own money) to buy a share in a company. Shareholders jointly own the company.
Board of Directors	A group of highly skilled and professional managers who are appointed by the shareholders (owners) to run the company on their behalf.
Annual Accounts	Statements which are produced once per year and shows the value of the businesses assets and how much profit the business has made in the current year.



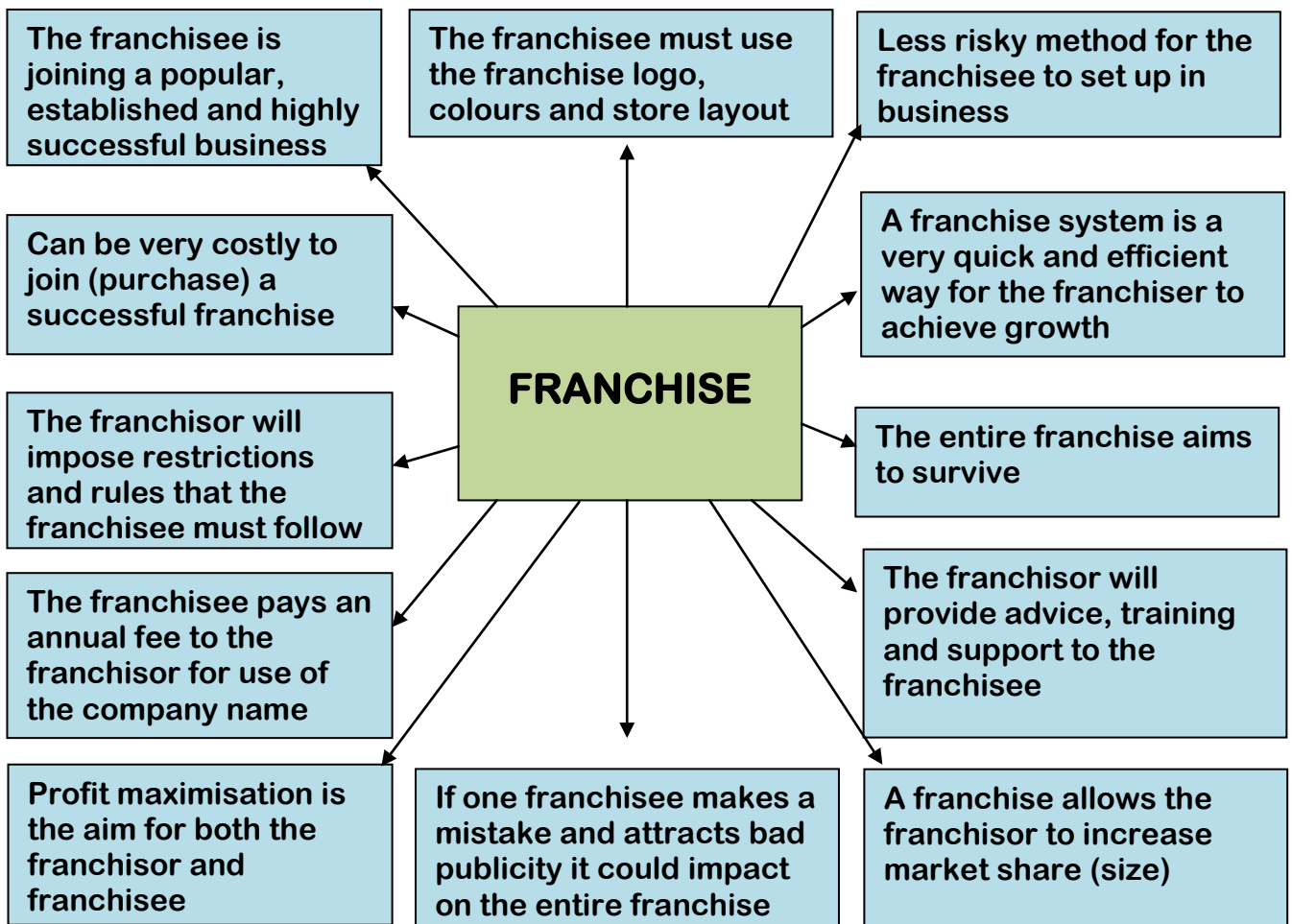
FRANCHISE

A franchise is a business agreement where one business can operate under the name of another business. The franchisee pays the franchisor a percentage of his/her annual sales or profits or agrees to pay a set fee each year. This then allows the franchisee to operate with the business name (which is usually very well known) and sell the products and services associated with the business name.



Franchisor – this is who owns the original business.

Franchisee – this is who has bought the right to use the original business name and enter into trade selling its products.



TASK 25

Study the diagram above.



The diagram outlines some of the features, aims, advantages and disadvantages of operating as a franchise.

Working in a group, decide whether each point represents a feature, aim, advantage (to either the franchisor or franchisee) or disadvantage (to the franchisor or franchisee).

Complete the table below – the first two have been done for you.

<u>Features</u>	<u>Aims</u>	<u>Advantages</u>	<u>Disadvantages</u>
The franchisee pays an annual fee to the franchiser for use of the company name		The franchisor will provide advice, training and support to the franchisee	



Task 26

Read the following case study on franchising of the pizza delivery business and then answer the following questions on A4 paper.

Delivering Fast Food Franchising

Para 1

Domino's Pizza leads the UK market for home delivered pizza and is also the world's largest franchise for this type of distribution.

Para 2

Franchising means selling the rights to use a firm's logos, operating methods and brand name. Other franchised operations include Pizza Hut Express, Perfect Pizza and its partner brand Papa John's. There is also a flow of newcomers such as EasyPizza and Telepizza. In a market dominated by franchise operations, why is this type of business organisation so successful for numerous pizza brands? And why is franchising the business organisation of choice for many individuals wanting to start their own business.

Para 3

Franchising or direct control?

PizzaExpress restaurants expanded entirely through franchises during the 1970's and 1980's but the owner Gondola plc bought back the contracts in the mid 1990's. Its objective was to give the company greater control over its brand, outlets and reputation. This has been achieved, but the growth in the business has been almost half of that of franchised operations.

Para 4

Investment has not been a problem for the Pizza Hut restaurant chain in the UK, with the massive resources of Whitbread funding its growth. However, the company has decided to use the power of franchising to develop its home delivery brand, Pizza Hut Express, as it has identified more growth in this segment. In fact expansion across the country has been achieved almost entirely through franchising. It is believed that there are as many as 2,000 franchisees awaiting approval to own a Domino's delivery outlet alone.

Para 5

Despite losing some control over the business franchising is a cost-effective way for an organisation to grow. Most of the set-up costs are paid by the franchisee. Additionally the annual franchise fees go straight to the franchising company's profits. In the case of Domino's this helped to boost their profits by 35% in 2006 to £8.8 million.

Para 6

Domino's believes it can achieve a market penetration of over 1,000 franchised units in Britain. An individual Domino's outlet can serve up to 20,000 homes and, as the UK has around 25 million households, its projected growth and profits may continue for some time to come. The company intends to open 250 new outlets over the next 5 years. Similarly, Perfect Pizza plans to create more than 2,000 jobs in 100 new franchised takeaways and increase its market share to 15%. The company, which already has 200 outlets, intends to carry out the expansion over the next 5 years in the north of England and Scotland.

Advantages of Franchising

Para 7

Despite the costs of buying a franchise and territory, business start-ups based on franchising have a far lower failure rate than independent firms. An entrepreneur needs cash of at least £50,000 to start with well-known franchises such as Domino's and Pizza Hut Express. The associated risks of such a level of investment – and the need to take out additional loans – are reduced because trading strategies and methods have been tried and tested by these established brands.

Para 8

Many young (consumers) people will not use unknown independent outlets. Names and logos such as Pizza Hut and Dominos have wide customer loyalty, ensuring the franchised outlet has immediate demand. Additionally, large franchise businesses have marketing budgets way beyond other independent sole traders. As an example, Domino's has bought the right to use The Simpsons in its latest promotional campaign; such an investment would be impossible for an small-scale independent sole trader.

Para 9

Television advertising has played a major part in the success of Pizza Hut. To achieve good national exposure requires an investment of at least £500,000; small independent (sole trader) pizza delivery services could never compete at this level.

Para 10

The potential danger for new franchises is the saturation of the pizza delivery market, over-supplied by competing brands. There are also concerns that the increasing concern about high levels of fat in our diet may eventually affect pizza sales.



Questions

Answer the following questions in sentences on A4 paper.

Question		Para	Marks
1	Who leads the market on pizza delivery?	(1)	1
2	Explain what is meant by franchising.	(2)	2
3	State what other home pizza delivery businesses now operate as a franchisee?	(2)	5
4	Why did Pizza Express buy back all franchised outlets?	(3)	1
5	How many franchisees are waiting to join Dominos?	(4)	1
6	Why is franchising considered a cost-effective way to grow?	(5)	2
7	Perfect Pizza plans to open 100 new franchises – how many new jobs will this create?	(6)	1
8	Why are the risks of failure lower for a franchise rather than an independent sole trader?	(7)	2
9	What reason is given in paragraph 9 to suggest that independent sole traders are not able to compete with franchises?	(9)	1
10	What 2 factors could pose a threat to pizza franchises?	(10)	2



Task 27

Marks and Spencer's plc is one of the longest surviving and best known businesses on the high street today.

You should visit the following website:

http://corporate.marksandspencer.com/aboutus/student_info

Study the information on the website. Consider such factors as:

Employment – how many people are employed by Marks and Spencer's?

Customers – how many people visit M& S stores in an average week?

Environment – how are M&S working to become a more environmentally friendly organisation?

Take note (on a sheet of A4 paper) of any interesting facts regarding the operation of this business.

Prepare a short Powerpoint presentation to record your findings – maximum 4 slides.

Present your findings to the class.





PUBLIC SECTOR

The public sector comprises of:

- Westminster Government
- Scottish Parliament
- Local Government (Local Councils)

**CENTRAL
GOVERNMENT**

Central Government

The Westminster (Houses of Parliament) and the Scottish Parliament provide important national services such as

- Health
- Transport
- Defence

Finance – this comes mainly from taxes paid by the public.

Objectives:

- provide a high quality and efficient service (eg, National Health Service);
- to improve society;
- to make effective use of taxes.

Central Government is organised and operated by elected politicians. To help achieve its aims and objectives Central government delegates resources and responsibility to Local government.

Local Government

Local Government (Local councils) are set up by central government (Scottish Parliament) and are run on its behalf by locally elected councillors. The day to day running of services is organised by managers and employees of each council. A local council aims to meet the needs of local people and businesses. Local councils do not aim to make profit – rather they are required to provide the most efficient service possible within allocated budgets.

Local government functions include the organisation of:

- **education and leisure services** - staffing, buildings, museums, pools and sports centres, childcare, psychological services, halls and community facilities, libraries;
- **social work** - community care, children and family services;
- **planning and transport** - roads, public transport, economic development, flood prevention, development of new buildings;
- **environmental services** - refuse collection and disposal, street lighting, food safety, health promotion, animal welfare, maintenance of parks and cemeteries;
- **housing** - allocation and maintenance of public housing, homeless provision, rent collection, building new council houses;
- **finance** - annual budgets for managing income and spending, financial reports, collection of Council Tax and business rates;
- **information technology** – use of ICT across all council services.

It is clear, therefore, that the work of local government has a huge impact on the lives of residents of the area. However, local governments generally have to act within central government policy even if it is something of which they are not particularly in favour. There is constant monitoring of local government activities in an effort to ensure that 'best value' is always being attained.

Finance

Local governments are financed in a variety of ways:

- **government grants** - the main source of local government income. This money comes from the UK government via the Scottish Parliament and accounts for about 40% of total council income;
- **council tax** - an amount of money paid by each household based on the value of the property. Each local authority sets its own council tax rate;
- **non-domestic rates** - paid by businesses. This is set by the central government and is the same across the country charges for services: such as entrance to leisure facilities, housing rents;
- **the sale of assets** - such as council houses.

Public Corporations

These are companies that are owned and controlled by central government. The government appoints a chairperson and board of directors to run the company on the government's behalf. Examples of Public corporations include the BBC and Royal Mail.



VOLUNTARY (THIRD) SECTOR

These organisations have different aims from those of private sector enterprises. They are 'not for profit' organisations and very often their reason for existing is to help a charitable cause in some way.

Charities

The government regulates the activities of charities and keeps a Register of Charities in the UK. Charities are exempt from paying most taxes. Charities are often set up as trusts with no individual owner, and overall management and control is undertaken by unpaid trustees (people who are placed in a position of trust with the responsibility for looking after the interests of others).

FINANCE

- Donations from the public
- Donations from companies
- Government grants
- Lottery Grants
- Profits from charity shops

OBJECTIVES

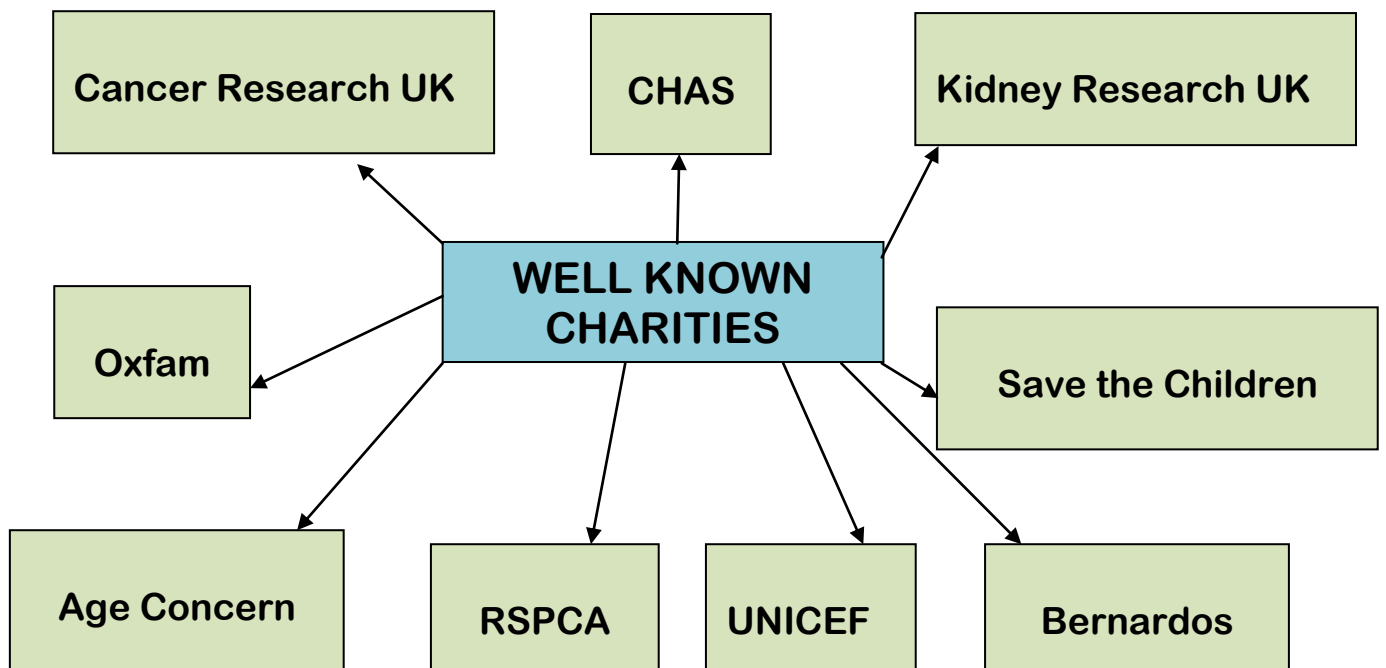
- To provide a service
- To relieve poverty
- To fund medical research
- To provide protection to the vulnerable

Voluntary Organisations

Voluntary organisations are run and staffed by volunteers. Examples include the Scouts, youth clubs, Brownies, sports clubs. They bring together people with similar interests. They are run by a committee of elected volunteers.



These organisations can raise finance by applying for grants from the lottery, Sports Council or local authorities. They may also charge a fee to become a member of their organisation or to use their facilities.



Task 28

1. Select one of the charities from the diagram above.
2. Use the Internet (or other sources of information) to research your chosen charity. Find out the charities aims and objectives, achievements to date, how it raises finance and any other relevant information.
3. Present your findings in a Powerpoint presentation – maximum of 4 slides.
4. Design a poster (on the computer or on A4 card) to raise awareness of your chosen charity.
5. Display your poster on the classroom wall.



Task 29**Progress Check 5**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain the difference between a franchisee and a franchisor.	2
2	Starbucks is a well-known franchise. Name 2 other well-known businesses that operate as a franchise.	2
3	State 2 advantages and 2 disadvantages for a franchisee.	4
4	State who owns a plc and who manages a plc.	2
5	Outline the difference between Central Government and Local Government.	4
6	List some of the main services provided by Local Government.	4
7	Name 2 well known charities and state what causes they support.	4
8	Outline some of the ways in which charities finance their organisations?	3
TOTAL MARKS		25

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self-assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)



CUSTOMER SERVICES/CUSTOMER SATISFACTION

Overview

To survive, businesses must meet the needs of customers. So what are the needs of customers? Here are some factors which are important to customers:

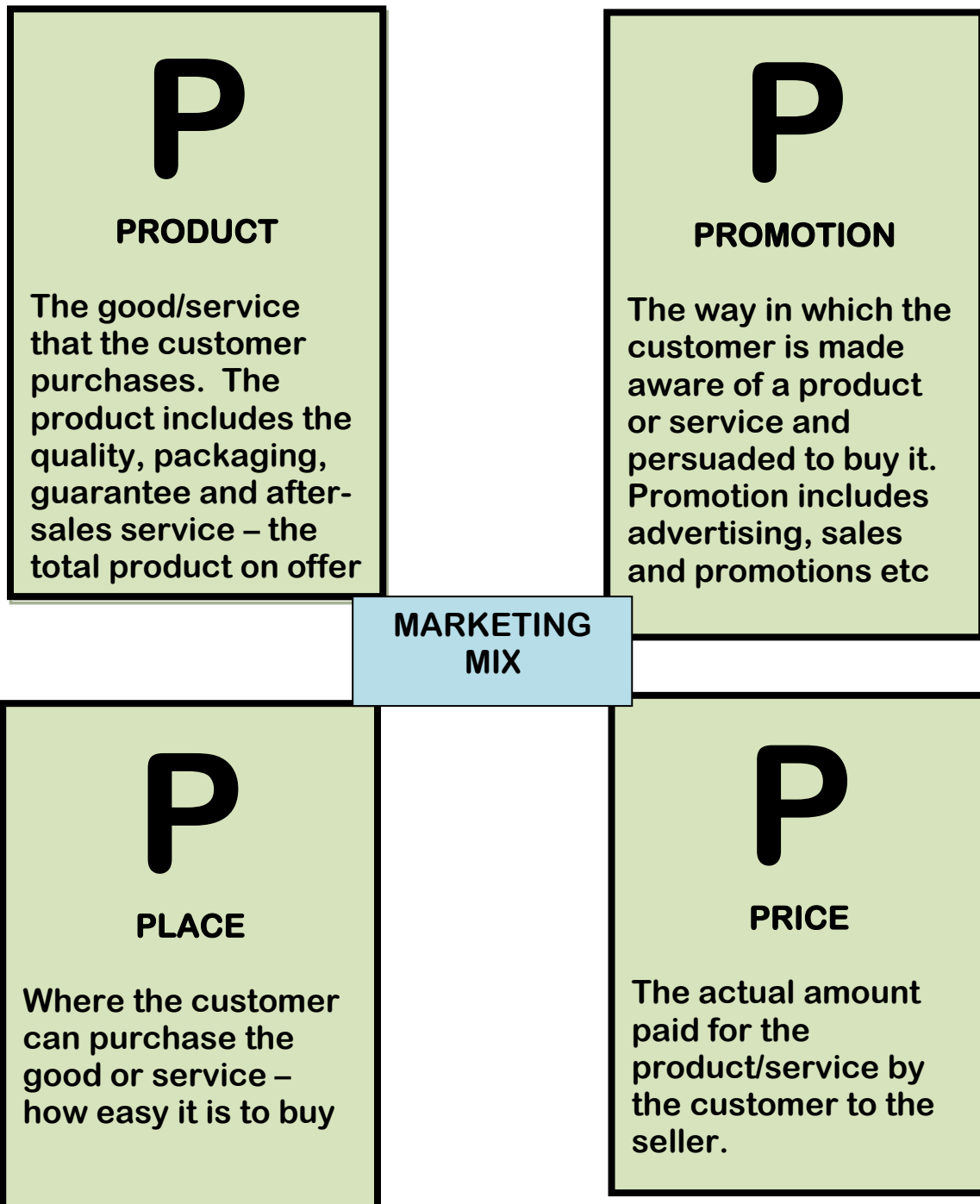
- **Good quality products**
- **Attractive packaging**
- **Durability (products that will last)**
- **Up-to-date, fashionable products**
- **Good Prices**
- **Good Image**
- **Easily available**
- **Guarantees with the product**
- **Good after-sales service (refunds if customer is not happy)**



Businesses use market research to identify consumer needs/wants. This could be as simple as asking your restaurant customers to fill in a questionnaire commenting on the quality of the food, or the service they received etc. This will allow the restaurant owner to identify any areas of weakness that can be improved on – and thereby satisfy the customers so that they continue to return to the restaurant.

Market research can also help identify gaps in the market, ie, come up with a new idea for a new product or service to satisfy consumer wants.

If a business wishes to meet the needs of its customers and sell its products successfully it must develop a strategy based on the 4 P's – **Product, Price, Promotion and Place**. How these 4 elements are combined is referred to the **MARKETING MIX** and will determine how well a product will sell.



The task for the seller is to: **Promote the right Product at the right Price in the right Place!**

What is Customer Service?

Customer service is the provision of service to customers before, during and after a purchase. In order to ensure that a customer's needs are met, the organisation should try to ensure that customers are dealt with in a fast, constant and effective way. A company may decide to set up a customer care strategy. This will include:



- Ensuring the quality of customer service – staff are always happy to help;
- Measuring whether customer's needs are being satisfied – ensuring a wide range of products;
- How customer complaints are dealt with – all complaints are treated seriously and resolved to full customer satisfaction.

Many organisations now also make customer service a high priority on their web-sites. Many businesses believe that it is actually a lot cheaper to encourage existing customers to keep coming back rather than having to continually advertise to attract new customers.

Task 30

Visit the following websites:

www.arnoldclark.com/about-us/

www.morrisons.co.uk (go to the bottom of the website Help and Info)



On a sheet of A4 paper, record some of the services that both these businesses offer as part of their customer services package.



Factors which affect whether Goods or Services Meet a Customer's Needs:

- Reliability/quality of the product/service;
- Consistency over a period of time – how does it match up to the last good/service purchased?
- The speed and flexibility of delivery – can the organisation accommodate the customer's needs, for example, can they deliver within 24 hours?
- Courtesy and attitude of staff – from those on the shop floor to the delivery drivers;
- The information given about the product – was it accurate? Did it do all the business claimed it would do?
- How did the organisation react if help was needed? Were staff happy to assist the shopper?

What Makes Good Customer Service?

- Keeping customers well informed of progress and changes.
- Under-promise and over-deliver – do not set expectations too high so that customers will not be upset if they are not met, however, if you can deliver more than what they are expecting customers will be pleased.
- Go the extra mile to ensure customer's needs/expectations are always met.



Task 31**Top Ten Good Customer Service Tips**

Work in pairs. Devise a list of what you think makes good customer service. You can use your own experiences of shopping and also look at the websites of the following organisations:

- Marks and Spencer
- John Lewis
- Scottish Power

Record your results in the table below.

	Indication of Good Customer Service
1.	
2.	
3.	
4.	
5.	
6.	
7.	
8.	
9.	
10.	



Why is Customer Service So Important?



- It is important to treat the customer well as it will have longer term benefits for the organisation.
- Good customer relations mean that the organisation's reputation is enhanced – customers see the way they were treated by an employee and the organisation as the same thing.
- All organisations benefit from good publicity from happy customers. A person with a bad experience is five times more likely to pass on a story of a bad experience than a happy experience.
 - Good customer relations are likely to mean regular repeat orders. Customers happy with the service they received are likely to become loyal customers.
 - Increased loyalty results in more sales and a bigger market share.
 - Good publicity received from an enhanced reputation means that the company is likely to attract a better calibre of employees – members of the public looking for employment always seek out those businesses with a good reputation.



Impact of Poor Customer Service

- Customer care is important at all levels of the organisation. Many people will form an opinion of an organisation from the way they are dealt with from their first point of contact with the organisation.
- Bad publicity results from poor customer service as people always tell others about their experiences.



- A poor reputation is difficult for an organisation to turn around and a poor reputation has implications for falling market share.
- Customers who are not happy will not come back. Many people do not complain about the poor service, they just simply do not give repeat custom – resulting in falling sales.

Task 32

Customer Satisfaction Survey



Work in Pairs

You are working on behalf of the school canteen (Fuel Zone) to find out what ways the school canteen can be made better. You are going to create a questionnaire/survey to find out customers experiences and opinions.

Some of the information you may want to find out is:

- What year group customers are in?
 - How often they use the canteen?
 - What they purchase?
 - How much they spend?
 - Is the range of products what they want?
 - How helpful are the staff?
 - How long they have to wait to be served?
1. Design a questionnaire using Microsoft Word.
 2. Print 10 copies of your questionnaire and ask members of the school community to complete it.
 3. Record your findings from the questionnaire on a sheet of A4 paper.
 4. Display a copy of your survey on the classroom wall.

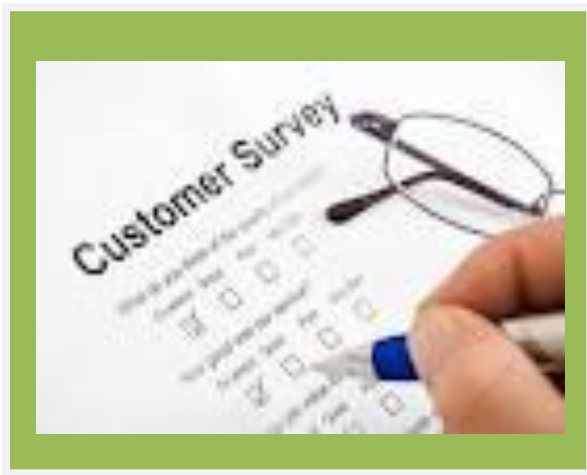
How can you measure customer satisfaction?

Market Research

Often organisations survey customers or ask for feedback to ensure that high standards of customer service are being met or to find out if there is any way things can be made better.

Some methods of checking customer satisfaction are:

- a written survey or questionnaire is posted out to customers;
- telephoning customers to ask pre-set questions;
- e-mailing customer questionnaires;
- holding a meeting of invited customers to answer questions/give opinions;
- face to face interviews given at point of sale or on entry and exit from the store;
- mystery shoppers – who act as customers to experience the service given by the organisation.
- suggestion boxes/schemes for customers to leave anonymous suggestions/opinions.



Task 33

The Hot Plate – Case Study

Read the passage below and then answer the questions that follow on A4 lined paper.



The Hot Plate is a small restaurant in Glasgow. It caters for traditional Scottish fare but prides itself in keeping up-to-date with modern cuisine. Head chef and owner, Hamish McDonald has recently started a new but flourishing cookery school based within the premises on two week day evenings, where customers can learn about local produce and how best to cook it.

Hamish is the owner of the restaurant and is responsible for the day to day running of the restaurant. He employs one other chef, and five other employees who each have an interest in food. They either work in the kitchen or as waiting staff. Hamish's sister Mhairi is employed to order supplies, paying staff wages as well as looking after all bookings and greeting customers on their arrival.

The Hot Plate is flourishing and has built up an excellent reputation. Hamish puts this down not only to the excellent food but the excellent customer service provided by his staff

Customers often visit the restaurant or cookery school after being recommended by friends or family. The restaurant staff have been trained to ensure that needs of customers are the top priority and will often go out of their way to make sure that customers have the best possible experience within the restaurant. Customers are invited to tasting evenings where they can try samples of all the products available and there is a comfortable bar area where customers can sit before and after their meal.

Staff are trained to chat with customers in a friendly and unobtrusive way. Hamish trains his staff up on the ingredients used in his dishes and encourages them to test the items on the menu so that they can give their customers helpful, knowledgeable information in order to help them make the best decisions on their menu choices.

Questions

- 1. Describe all the ways that the Hot Plate has promoted excellent customer service within its restaurant.*
- 2. Describe two positive effects to the Hot Plate of having excellent customer service.*
- 3. Describe two negative effects that would come if the Hot Plate developed a reputation for poor customer service.*

**Task 34****Progress Check 6**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	List some of the key factors which customers would consider to be important when buying a product.	6
2	Outline some of the consequences for a business who fails to pay attention to customer care.	4
3	What 3 strategies should a business employ to ensure good customer service?	3
4	What are the advantages for an organisation who invests heavily in ensuring good customer care?	4
5	Explain what is meant by a mystery shopper.	1
6	List some of the methods a business can employ to carry out market research.	5
7	Explain what is meant by the 'marketing mix'.	4
8	Why do YOU think more and more businesses are giving more coverage to customer care on their web sites?	1
TOTAL MARKS		28

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self-assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)



UNDERSTANDING BUSINESS OBJECTIVES

PROVISION OF A SERVICE

A charity or local authority (Council) would have this objective.

SALES MAXIMISATION

To achieve as much sales revenue as possible. This is popular with sales staff who may receive bonuses or salaries according to the number of sales made.

PROFIT MAXIMISATION

Most private sector organisations, eg, sole trader, partnership, limited company or public limited company aim to make as much profit as possible.

GROWTH

Many organisations aim to grow from a small business into a large business. A large firm can be more competitive, earn more profit and may also reduce the risk of failure.

SURVIVAL

Continuing to stay in business is vital, especially for a new business, and particularly in hard times, for example, when the country is in recession and consumers have little money to spend.

MANAGERIAL OBJECTIVES

Sometimes managers have their own objectives, for example, to increase their own salaries or a preference to enter into business contracts with particular customers or clients.

SOCIAL RESPONSIBILITY

Many organisations aim to have a good image and take responsibility for the environment, for example, reducing pollution and investing in recycling and other environmentally friendly issues.



STAKEHOLDERS

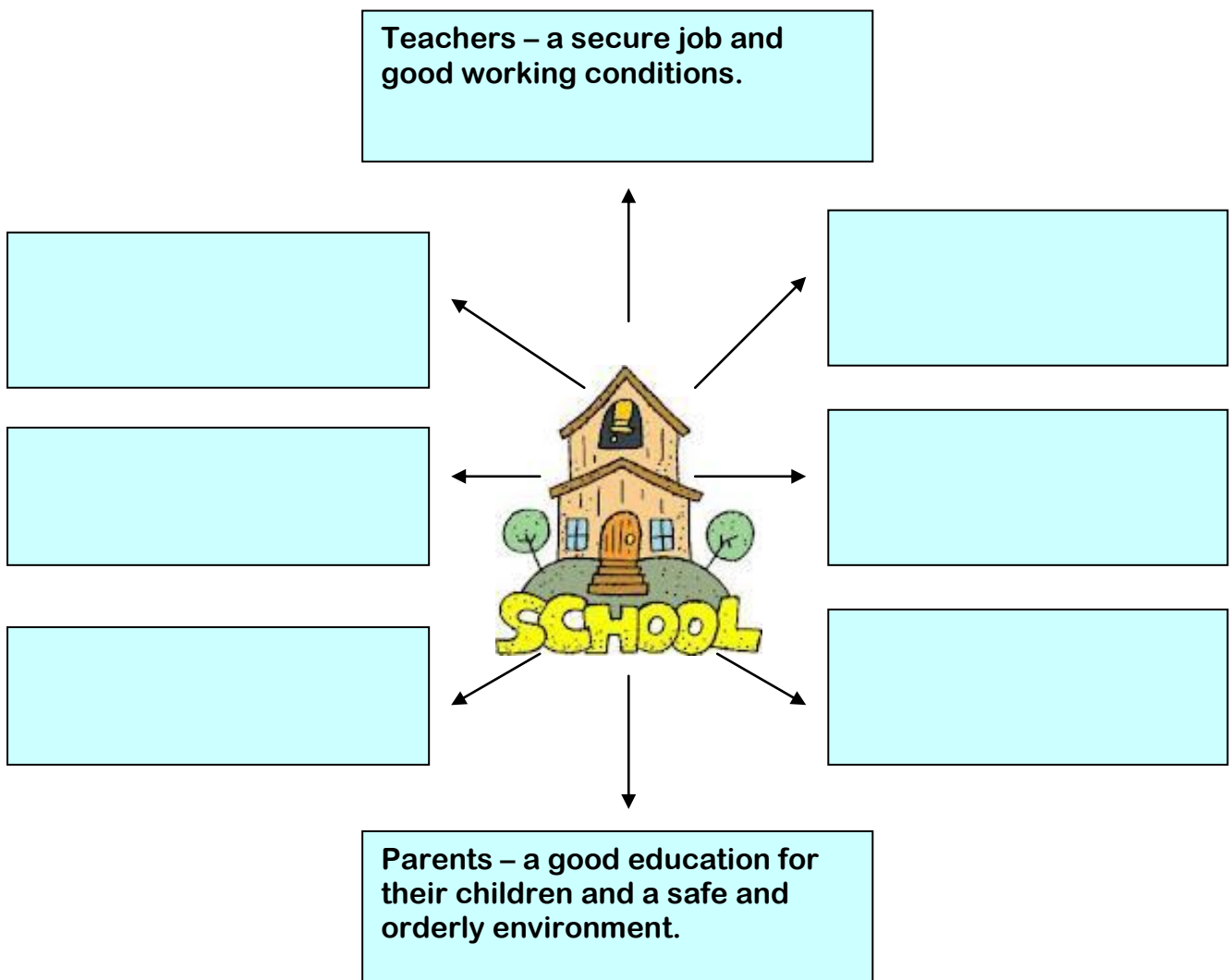
Definition

“A person or group of people who have an interest in a business or organisation and in the way in which it is managed and run.”

Think about your school. There are many people that have a ‘stake’ in it and have a genuine concern with how well it is performing.

Task 35

Complete the diagram below to outline the stakeholders (and their interests) for Bannerman High School. The first two have been completed for you.



Quite clearly, there are many people or stakeholders that are concerned with the welfare of your school.

Similarly, in every business organisation, from large companies like British Airways to your local corner shop, there will be a number of people or stakeholders that will look for that business to produce results which suit their own personal needs. Some stakeholders are actually in the business, eg, staff (Internal Stakeholders) others are outwith the business, eg, customers (External Stakeholders).

Let's now consider some of the more common business stakeholders and what their specific interests are.

Task 36

Below is a list of potential business stakeholders.

Consider their interest in a business and indicate whether you think they are INTERNAL or EXTERNAL. The first one has been completed for you.



Owners – The owners have invested their own money into the business in the hope that it will progress and grow.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Managers – The managers are employed by the business and will sometimes have special arrangements in place that may entitle them to additional pay (a bonus) if the business is performing well. On the other hand, if the business is *not* doing well they could possibly be sacked. A good example of this is when a football team is not doing well; it is normally the team's manager that faces the 'axe'.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Inland Revenue (HMRC) – The Government need to know how successful the business is to ensure they collect and receive the correct amount of tax.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Employees – They want job security, to be paid a fair wage and to be part of a successful business.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Shareholders – They have bought shares in the Public Limited Company and want a good return on the money they have invested through the payment of dividends. They also want to see the value of their shares rise.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Suppliers – They need to be guaranteed that if they supply goods on *credit* that the company has the ability to pay them back.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Banks – They want to make sure that if they provide an organisation with a loan that the business will be able to pay it back within the terms and conditions of the loan agreement.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Local Community – The local community surrounding a business want it to do well so it can provide employment in the area and even support local projects. They also want to ensure that the business does not create any negative effects such as pollution or traffic congestion.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Customers – The customers of a company want the business to provide them with a quality product or service at an affordable and reasonable price.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER



Support Agencies – provide support and advice for entrepreneurs and start-up businesses. These include Business Gateway and the Prince’s Scottish Youth Business Trust. It is important that the people and businesses they help out do well so that they become well-respected within the business community and so that they can continue to provide the services they offer.

INTERNAL
STAKEHOLDER

or

EXTERNAL
STAKEHOLDER

Task 37



The following are all stakeholders in a business:

- Shareholders
- Local Community
- Owner
- Managers
- Employees
- Support Agencies
- Suppliers
- Customers
- UK Government

The table on the next page lists the interests of various stakeholders. Opposite each one, write what stakeholder, from the list above, is likely to express each of these interests.

Interest	Stakeholder
I want to make sure that the raw materials and equipment I provide on credit to a business is paid for on time.	
I want to make sure my job is safe and that I am being paid fairly.	
I want to make sure that the business operates according to existing legislation and that the business pays the correct VAT.	
I want to make sure the business achieves its projected targets so that I am paid a bonus.	
I want to be happy with the product or service I have purchased and don't want to be left feeling that I have been 'ripped off.'	
I want to be paid a healthy dividend at the end of the business year and hope that the share price of my stock rises.	
I want the organisation to be environmentally-friendly and provide the area with employment.	
I want my business to be well-respected and make excellent profits so that I can retire soon in the Maldives.	
I want the business to succeed using the support and advice I have provided.	

Task 38

Watch the video clip at the following website and while viewing, indicate whether each of the following statements are true or false.

<http://www.bbc.co.uk/scotland/learning/learningzone/clips/10969/>

(√)

STATEMENT	TRUE	FALSE
Sir Alan Sugar believes that stakeholders need to be juggled in such a way in order to keep them motivated and so that the business is able to look after their interests.		
Saira Khan's stakeholders are herself, her customers and her suppliers.		
Deborah Meaden believes the forgotten stakeholders are the employees of the organisation.		
Nicola Vane's stakeholders are her consumers, customers, suppliers and the bank.		
Dr Paul Thomas Truffle's business operates strictly within the city and as such so do all of his shareholders.		
Hugh Pym says that stakeholders are always moving in the same direction and will almost always agree.		
Saira Khan says stakeholders become increasingly concerned when things go wrong with the running of the business.		
Ben Wallace says that it is important for business to be selective in whom their stakeholders are and that there should be a unique reason for working with them.		
Deborah Meaden says that communication is the key between the business and the expectations of its stakeholders.		

Task 39

Find the following key words in the word search below:

Customers	Employees
External	Interest
Internal	Local Community
Managers	Owners
Shareholders	Suppliers
Support Agencies	UK Government

I	L	O	C	A	L	C	O	M	M	U	N	I	T	Y	F	H	L
N	C	F	G	J	K	C	U	S	T	O	M	E	R	S	K	L	O
T	G	L	O	I	P	I	U	H	M	N	F	M	H	J	L	O	G
E	G	H	M	L	H	J	L	O	P	Y	K	P	I	J	H	L	N
R	N	M	Y	A	G	H	Z	V	C	N	M	L	K	L	H	G	K
E	G	U	I	L	N	J	K	J	I	K	Y	O	W	N	E	R	S
S	V	B	N	M	J	A	J	H	L	K	N	Y	L	O	I	H	U
T	V	N	K	I	J	H	G	U	I	L	O	E	Y	T	K	I	K
A	G	J	L	K	U	Y	U	E	K	J	I	E	K	J	I	O	G
F	G	S	U	P	P	L	I	E	R	S	K	S	B	N	M	P	O
V	B	M	J	K	L	O	N	I	K	S	K	J	K	I	U	Y	V
G	H	K	J	L	O	P	T	K	I	O	L	O	I	J	U	L	E
F	G	K	I	L	I	U	E	X	T	E	R	N	A	L	J	U	R
J	K	L	O	S	H	A	R	E	H	O	L	D	E	R	S	N	N
G	H	K	I	O	L	P	N	K	L	L	U	Y	T	M	I	N	M
D	H	K	R	P	O	P	A	J	H	J	L	O	Y	U	L	P	E
V	B	K	I	U	L	P	L	J	U	M	O	L	Y	N	M	I	N
S	U	P	P	O	R	T	A	G	E	N	C	I	E	S	B	L	T



For stakeholders to have power and influence, their desire to exert influence must be combined with their ability to exert influence on the business. The power a stakeholder can exert will reflect the extent to which:

- the stakeholder can disrupt the business' plans
- the stakeholder causes uncertainty in the plans
- the business needs and relies on the stakeholder



Task 40

In small groups of 3 or 4 discuss what actions the following stakeholders could do to affect a business's future:

- Trade Unions
- Pressure groups
- Lenders
- Customers

After discussion has taken place, you should complete the table below entering the one most important action that each stakeholder could take.

Stakeholder	Action
Trade Unions	
Pressure Groups	
Lenders	
Customers	

Task 41**Case Study**

Thomson Holidays call centre was set up at Cardonald Business Park in 1999 with help from Scottish Enterprise. It received a government grant—Regional Selective Assistance worth £1.4m when it opened. In December 2006 Thomson closed its Glasgow call centre with the loss of 450 jobs. More people are now choosing to book on-line rather than by phone. Since the centre opened in 1999, the company's Internet bookings had increased from 10% to 50%.

Source: adapted from article www.bbc.co.uk/news 30-08-2006

Answer the following questions on A4 paper:

1. Thomson Holidays is a plc. How is a plc financed?
2. In which sector of industry does Thomson Holidays operate?
3. Name and describe the other 2 sectors of industry.
4. Identify 2 stakeholders who will be affected by the closure of the call centre. Describe their interest in the business.
5. Explain how the interests of employees might conflict with the management of Thomson Holidays, who are primarily concerned with increasing sales and profits.

Task 42**Case Study**

Primark uses a variety of methods to engage with its different stakeholder groups. For example, one method that Primark uses to communicate with its customers is through its ethical trading website. To communicate with workers and the communities, in the countries that manufacture the goods, Primark uses initiatives such as the community engagement programme it has in India. Primark understands that different stakeholder groups have different needs and expectations. As such, Primark must use appropriate channels of communication to engage with each stakeholder group.



Read more:

<http://businesscasestudies.co.uk/primark/engaging-with-stakeholders/what-is-a-stakeholder.html#ixzz1vhP8svFU>

Answer the following questions on A4 paper:

1. In which sector of industry does Primark operate?
2. In which sector of the economy does Primark operate?
3. Identify as many stakeholders in Primark as you can.
4. Why do you think Primark is trying to work with all stakeholders?

Task 43**Meeting stakeholder needs through community involvement****Introduction**

ASDA is the second largest UK retailer with 321 stores in the UK and 148,000 colleagues. Customer loyalty is extremely important, especially in a highly competitive market such as supermarket retailing. Competing on price helps to retain customers, but so does non-price competition, such as having a good image in the community.

Mission statements

ASDA makes clear statements of its mission, purpose and values to help stakeholders see the direction the business is taking. New colleagues receive a detailed induction.

Stakeholders

ASDA has both internal stakeholders, within the business and external stakeholders. Examples of internal stakeholders are managers and colleagues. Examples of external stakeholders are customers and shareholders. Stakeholders may want different things:

- Customers want low priced, good quality products. They also want to see that ASDA is involved positively in their community.
- Colleagues are motivated by a good career structure and by being able to help the community.
- Shareholders want a good return on their investment but they also believe in community involvement, as it makes good business sense.
- Suppliers may be local businesses that ASDA can use.

Community programme

The programme has been running for seven years and has a different focus each year, focusing on people, health, education, community and 'big' events. For example, under 'health' ASDA stores hosted blood donor vans and also raised money for Breast Cancer Care and Breast Cancer Campaign. The programme is designed to help colleagues contribute to their community.

Benefits to stakeholders

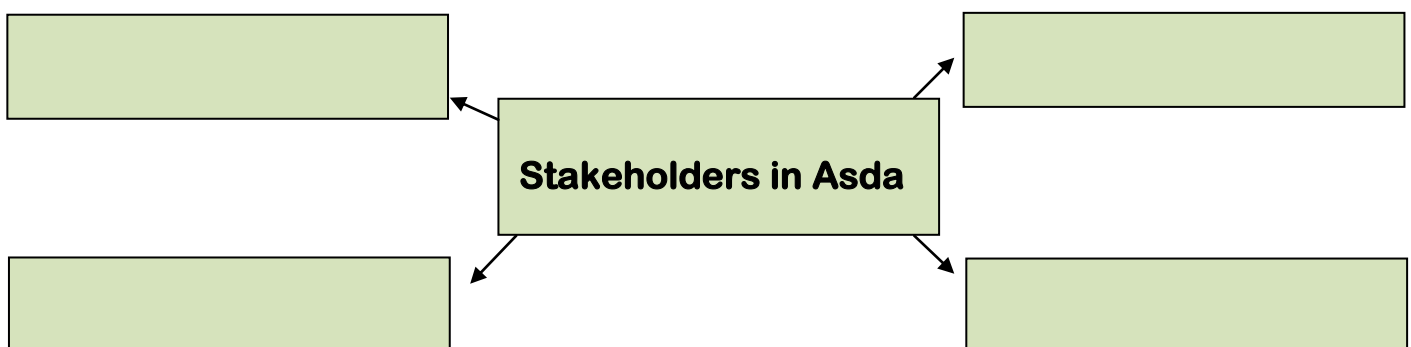
Different stakeholder groups benefit in different ways. Customers gain from the improvement in their local and wider community. Colleagues gain by helping to make these improvements and feel more valued. Working with the community has become a source of staff motivation.

Conclusion

Organisations in competitive markets need to keep customer loyalty. ASDA's method involves gaining loyalty by having a positive effect on the communities in which it works.

Answer the following questions on A4 paper.

1. Give a full definition of a stakeholder.
2. Copy and complete the following diagram:

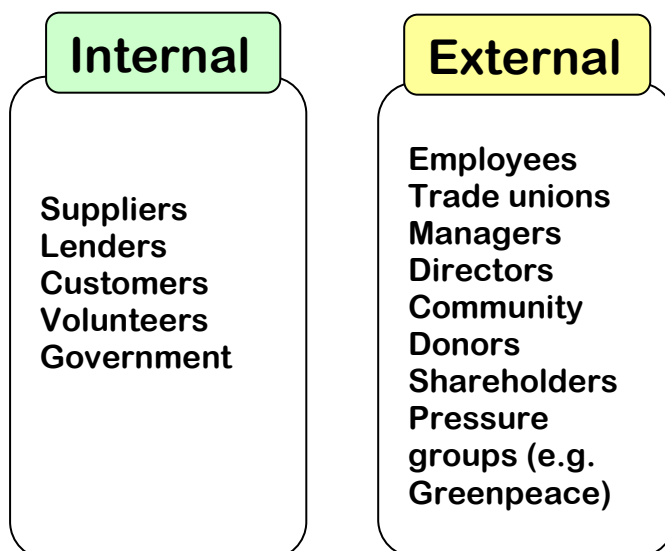


3. What is the difference between internal and external stakeholders?
4. Give 2 examples of internal stakeholders and 2 examples of external stakeholders.
5. For each of the following stakeholders state what their aim is and how they can influence ASDA:
 - (i) Customers
 - (ii) Employees
 - (iii) Government
 - (iv) Local Community


Task 44



The diagram below lists stakeholders of a business into 2 categories – INTERNAL and EXTERNAL. However a number of stakeholders have been listed under the wrong category. Copy the diagram on to a sheet of A4 paper and ensure that each stakeholder is placed under the correct heading.



Disagreements between stakeholders



Due to the demands placed on businesses by so many different stakeholders, it is no surprise that there are often disagreements and conflict between the different groups. Some of the more common areas of conflict are:

➤ **Shareholders and management**

Profit maximisation is often the most important objective of shareholders – resulting in large dividend payments for them. However, it is far more likely that the Sales Manager, for example, will aim to maximise sales rather than profit in order to earn high bonuses.

➤ **Customers and the business**

Customers are unlikely to remain loyal and repeat purchase from the business if the product that they have purchased is of poor quality and/or is poor value for money. However owners of the business may attempt to cut costs in order to maximise profits resulting in poorer quality products.

➤ **Suppliers and the business**

Suppliers are often complaining that businesses take too long to pay for supplies of raw materials that have been delivered to them and so may refuse to sell on credit. On the other hand, many businesses have been known to complain about the late deliveries of raw materials and that stock from suppliers is of poor quality.

➤ **The community and the business**

The local community can often suffer at the hands of a large company through the effects of pollution, noise, congestion and the building of new factories in areas of outstanding beauty. However, if the business faces strong protests from residents and from pressure groups concerned about its actions, then it may decide to relocate to another area, causing much unemployment in the community it leaves behind.

Task 45**Progress Check 7**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Why might a sales manager see sales maximisation as her key business objective?	2
2	Linda Smith is the Girl Guide leader in her local church. What do you think her key objective is?	1
3	What is a stakeholder?	1
4	Explain the difference between internal and external stakeholders.	2
5	What would be the main objectives of a shareholder in a public limited company?	2
6	What would be the main objectives of a Trade Union?	2
7	Give one example of how the interests of 2 stakeholders might conflict.	2
8	Name 4 stakeholders in Scottish Gas plc.	4
TOTAL MARKS		16

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self-assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)

INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT

External Environment

There are a number of key factors in the external environment of a business. All businesses must react efficiently to changes in its external environment – failure to do so could be fatal for the future of the business. External factors (PESTEC) can be summarised as follows:

P	Political Factors
E	Economic Factors
S	Social Factors
T	Technological Factors
E	Environmental Factors
C	Competitive Factors

Political

P

The government can introduce laws which can affect every business in the UK. For example the government have set laws which ban advertising tobacco on television. Business must comply with laws or face heavy legal penalties. The government can also affect businesses by changing the amount of corporation tax charged on business profits. They have also introduced a minimum wage which employers must pay – this will affect their costs and profits.

E

Economic

If there is a recession and unemployment is high, consumers will have less income, which will result in a loss of sales for businesses. In order to survive and encourage consumers to buy from them, businesses may have to ‘slash’ prices and accept a cut in profits just to survive.

S

Social

In the UK there have been changes in the structure of the UK. More people are living longer and so the elderly are now making up a larger percentage of the total population. Business must take note of this and produce goods and services relevant to the needs of the population.

T

Technological

Put simply, businesses must keep up with changes in technology. For example they must get involved in e-commerce, ie, selling goods and services using the Internet. They must also use technology and robots in production lines when making their products. Failure to keep up with technology could lead to a fall in sales and profits.

E

Environmental

There is now increasing pressure for firms to be environmentally friendly, eg, bags for life and to minimise pollution.

Business can also be seriously disrupted with extreme weather conditions like storms, floods and snow.

C

Competitive

All businesses face competition from other firms both in the UK and from foreign firms. For example, when the National Lottery was launched, Littlewoods Pools had to change the way they advertised to compete with the Lottery.

Task 46

Read the following case study on your own.

In groups discuss the questions which follow the case study.

On a sheet of A4 paper write your answers to the questions.

**McCain Foods**

The McCain product most people recognise is Oven Chips. McCain is the world's largest producer of chips. McCain buys 12% of the British potato crop. McCain is also one of the world's largest frozen foods companies.

McCain is a privately owned company with a strong market focus. This means that it carries out market research to find out what consumers want. It then uses this market information to create products that consumers want to buy.

McCain is the world's largest producer of chips. McCain buys 12% of the British potato crop. McCain's business is broader than just chips, with a range as wide as frozen potato specialities and frozen light meals. It provides consumers with a wide variety of cut and seasoned potato products through UK retailers, like supermarkets and restaurants. These include roast potatoes, potato wedges, hash browns, waffles and potato croquettes.

McCain produces more specific potato shapes like Potato Smiles, Crispy Bites and Sumthings (shaped as numbers) which appeal to younger consumers. McCain also makes pizzas.



Chips have come a long way since the potato was first brought to this country by Walter Raleigh in the 17th century. By the 1850s fish and chips were sold in the streets and alleys of London and in some of Britain's industrial towns. If asked to name a typically English dish, most people will say 'fish and chips'.

Chips are produced in lots of different shapes and sizes, ranging from those deep-fried in fish and chip shops to McCain's 5% fat Oven Chips.

External challenges

One of the biggest environmental factors affecting McCain in 2005/6 was the growing concern about obesity, particularly in children. This case study shows how McCain has risen to the challenges of this debate and other external challenges.

McCain's view is that its chips can and do play a role in a healthy balanced diet and it is continually finding ways to ensure McCain products are as healthy as possible.

Questions

1. Outline what is meant by a privately owned company.
2. What is meant by market research? Briefly outline one method by which a company can carry out market research.
3. What changing factor in McCain's external social environment is shaping the businesses future?

Task 47

Read the following case study on your own.

In groups discuss the questions which follow the case study.

On a sheet of A4 paper write your answers to the questions.

Jessops

Jessops has been a leader in the photographic business for over 75 years. The Jessops story began in 1935, when Frank Jessop opened a photography store as a sole trader in Leicester.

Today, the company is the UK's premier photographic retailer operating from over 200 stores around the UK. In addition it has an online shop and call centre.

The modern photographic industry has changed radically. The business originally focused on producing prints from photographic film. Every shot of a reel of film was printed regardless of quality. Today, however, digital cameras allow consumers to choose which prints are produced.

As a result, traditional film printing in the UK is declining by around 30% year on year. This poses a challenge to the directors and managers at Jessops. To sustain and grow the business, they must develop ideas and plans to combat the changing market and stimulate new demand.

1. Outline what is meant by a sole trader and outline 2 advantages and 2 disadvantages of operating this type of business.
2. What changing factor in Jessops' external technological environment is shaping the businesses future?

Task 48

Read the following case study on your own.

In groups discuss the questions which follow the case study.

On a sheet of A4 paper write your answers to the questions.

Bad weather affects Christmas deliveries

The weather and overwhelmed courier networks have cost some online retailers millions and pushed some businesses to their limits as they race to make sure Santa didn't get stuck in a delivery depot on Christmas Day.

According to the Financial Times, companies including John Lewis and Marks and Spencer stopped taking online Christmas orders earlier than planned to ensure they could make deliveries on time.

Heavy snow has kept shoppers away from stores in advance of Christmas, forcing some listed retailers to warn the market of falling sales and pushing more shoppers online. But courier services have struggled to get those deliveries through to areas in rural England and northern Scotland and Wales.

“This is a hugely busy time for online sales. It's not something you do lightly,” said Dino Roccos, John Lewis's operations director, of the company's decision to suspend Christmas orders three days early.

Home Delivery Network, one of the couriers John Lewis uses to deliver goods ordered online, suffered unexpectedly severe delays because of snow, and the retailer had to turn to its other contractors to help deliver the group's 1.2m Christmas packages, Mr Roccos said.

“[The snow] knocks us out for a couple of days, and the recovery is slow,” he said. “As you're trying to recover from the first batch, you're hit again.”

City Link stopped taking new packages for shipment to Scotland on December 16, and on Thursday warned customers to expect delays of up to five days on deliveries to areas including Ashford and Scunthorpe in eastern England.

Questions

What 2 well known companies stopped taking online orders earlier than planned?

What factor in the external environment affected sales, on-line orders and deliveries for the companies mentioned in the passage?

Task 49

Below are 3 very well known businesses.



Answer the following questions on A4 lined paper:

For business number 1, identify one factor in its Social external environment that could pose a problem.

For business number 2, identify one factor in its Competitive external environment that could pose a problem.

For business number 3, identify one factor in its Economic external environment that could pose a problem.

INTERNAL FACTORS WHICH AFFECT A BUSINESS

The following internal factors could have an impact on the success of a business organisation.

Internal Factor	Example of how it can affect a business
Finance available	A lack of finance may mean that a business has to consider cost cutting measures such as staff redundancies or closing branches of the business.
Ability of staff	Expert and capable staff will be more productive in their work and help the business achieve a lot more.
Information	If a business carries out thorough market research then they will have good information which will help them meet the customer's needs.
ICT/Technology	The use of ICT and robots may mean that goods or services can be produced more efficiently and cheaper.
Good Management	A strong and capable management team will mean good decisions are made which will lead the business to success.
Changes in costs	Wage rises, increases in the cost of stock may mean that the business has to take a cut in profits.

Task 50**Progress Check 8**

Answer the following questions in sentences on A4 paper.

Question		Marks
1	Explain the difference between an internal and external business environment.	4
2	The Scottish government passed legislation banning smoking in public places. What area of the external business environment (PESTEC) does this law refer to?	1
3	State 2 internal cost increases that a business may face and what could be the result of such cost increases for the business?	3
4	Why is it very important that a business carries out market research?	1
5	Name 3 businesses that make up the external competitive environment of Kentucky Fried Chicken (KFC).	3
6	State 2 external environmental factors that can impact on a business.	2
7	More large businesses are under pressure to be more environmentally friendly. What area of PESTEC is being referred to?	1
TOTAL MARKS		15

Before you submit your work to your teacher, remember to indicate (by ticking the boxes below) that you have self-assessed and peer assessed.

Self Assessed (✓)

Peer Assessed (✓)

Task 51

Find the following key words in the word search below:

Internal

External

Economic

Political

Environmental

Competitive

Social

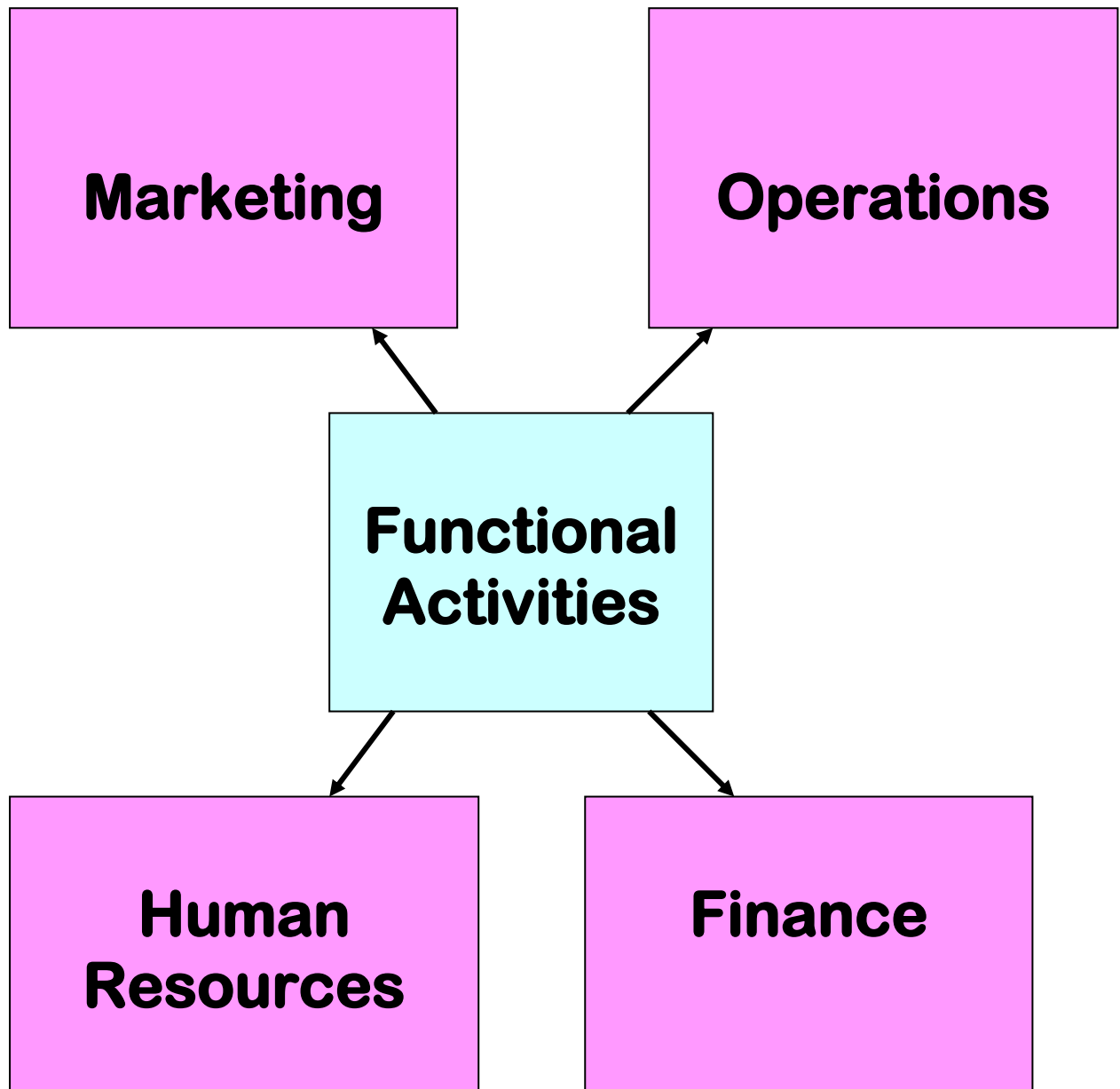
Technological

1	N	T	E	R	N	A	L	Q	J	H	U	L	K	L	T	M	E
P	O	K	X	Y	U	T	R	N	H	T	Y	J	T	K	I	N	N
K	L	U	T	N	P	B	V	G	H	W	J	I	K	T	R	Y	V
K	J	H	E	C	O	N	O	M	I	C	H	Y	U	L	O	N	I
O	P	J	R	H	L	L	O	P	S	O	C	I	A	L	H	K	R
P	M	L	N	P	I	I	O	T	U	M	K	I	L	P	H	Y	O
J	K	M	A	K	T	O	P	Y	J	P	H	K	U	L	O	P	N
G	E	W	L	H	I	Y	U	H	U	E	K	L	U	I	N	J	M
L	K	I	U	H	C	K	I	N	M	T	G	T	N	J	K	I	E
K	O	L	P	N	A	J	K	L	O	I	L	P	J	H	K	I	N
H	J	J	K	L	L	H	J	Y	T	T	J	K	L	O	P	I	T
J	U	K	O	P	F	G	H	J	R	I	H	K	L	O	P	U	A
J	H	J	K	U	L	K	L	J	H	V	K	I	O	P	P	L	L
K	I	O	B	H	J	L	O	P	O	E	J	K	L	O	P	H	U
H	Y	U	K	O	P	U	L	O	H	U	O	P	N	J	K	O	P
K	L	T	E	C	H	N	O	L	O	G	I	C	A	L	K	I	P
J	K	J	K	M	I	O	K	P	N	J	K	O	L	O	P	M	N
J	Y	U	L	O	P	M	K	L	O	P	J	K	U	Y	J	O	P

FUNCTIONAL AREAS OF BUSINESS



Large business organisations usually have specific functional departments. The 4 main functional departments of business organisations are shown below.





MARKETING

“Selling goods/services to customers that will satisfy their needs/wants and are of a quality such that the customer comes back but the goods do not!”

The Marketing Department is responsible for **promoting and advertising the product in order to maximise sales**. Tasks involved would be:

- **collecting information on customer's needs** and collecting **information on competitors** goods/services eg the price their competitors charge.
- using the information to decide the right **marketing mix (the 4Ps)**
- passing the results of their research onto the **design and operations team**
- **Promoting and advertising the product** eg special offers, tv adverts etc



Marketing Departments in large organisations often have very large **budgets** available to them so that they can attract as many customers to their products as possible.

Activities undertaken in the Marketing Department

A very important task undertaken in the Marketing department is the **PROMOTION** of the organisation's products or services. Promotion simply means making sure that the customer knows about the organisations products and tempting them to purchase them.

There are a number of promotional strategies that a business can use including:

- advertising
- special offers
- free samples
- celebrity endorsement



Task 52

Visit the following website - <http://www.asda.com/> and find out what items are on **special offer** or sale. Record your answers on a sheet of A4 paper.



Task 53



- You have been asked to design a poster to **promote** one of the following 'teen groups' who will be performing at the SECC in Glasgow this Saturday night at 7pm.
- You should design your poster using Microsoft Word or Microsoft Publisher. You may wish to access the Internet to research these groups.
- Think about the information you will have to display on your poster – date of concert, start time, price of tickets and supporting acts etc.
- Make your promotional poster as attractive and professional as possible.



OPERATIONS (PRODUCTION)



This department **makes the product**. This involves changing the raw materials it requires to make its product into the finished article to sell to customers (think of the shop floor of a factory).

If the company **provide a service** eg Insurance Company, then the operations department does **not** manufacture a product eg the Insurance Company staff are responsible for asking the customer questions and setting up an insurance policy over the phone – the **operation** involves setting up an insurance policy.

Activities undertaken in the Operations Department

Quality Control

The Operations department must ensure that customers receive products that are made to a high quality. This means that the product works in the way it should, first time, with no problems, has been made using high quality raw materials and its physical appearance looks good. The product should be delivered to the customer on time.

Marks and Spencer's try to produce food products of the highest quality:



“This is not just food – this is M&S food”

How does the Operations Department ensure Quality?

Method	Description
Quality Assurance	This involves checking the product at various stages of the production process – any product that is not at the highest standard will be disregarded (scrapped) at this stage of production.
Quality Control	Once complete, all products should be checked individually – if a product is not up to standard then it should be scrapped.
Quality Management	This is where all employees in the organisation are trained to achieve the highest standards and always look for ways of improving production of the product. All employees take pride in the work that they do.
Quality Circles	This is where members of the organisation meet regularly to discuss any quality issues and ways of improving quality.



Quality can also be achieved by:

- using good quality raw materials
- employing high qualified and skilled employees
- investing in up-to-date machines, robots and technology

Task 54

BMW cars are known world-wide as cars produced to the highest standard.



Visit the website address shown below:

<http://www.bmweducation.co.uk/coFacts/view.asp?docID=54>



Study the website and list (on a sheet of A4 paper) some of the measures that BMW employ to ensure the production of high quality cars that maximise customer satisfaction.



HUMAN RESOURCES

The main focus of this functional area is the management and support of the workforce of a business. The human resource function includes a number of areas of responsibility. These include;

- **Recruiting** staff
- **Training** staff
- Looking after **staff welfare**
- Ensuring the organisation **complies with employment legislation**
- **Motivating** staff



Activities undertaken in the Human Resources Department

Induction Training

The employer has a responsibility to make sure that the employee is shown around the organisation, introduced to colleagues and helped to learn their role. This is usually done via induction training.

Induction training should take place before the employee actually starts the job. It includes the following elements:

- a tour of the premises and the facilities, eg, toilets and canteen and other facilities
- introduction to other employees
- familiarisation with company policies, eg, Absence from Work Policy
- health and safety training, eg, fire routes
- the job – how to carry out the role. The day to day duties involved in the job.

BIG
ON TRAINING



Task 55 – Case Study

Read the following case study and then answer the questions that follow on a sheet of A4 lined paper.

Anna has been successful at interview and has been told to come into her new office on Monday morning. She is met at 9.00 am by Ms K Macleod and is given a tour of the building. Anna is introduced to some of the people she will be working with – there are lots of people and she is not sure who is who. Who should she report to? Who can she ask for help if she needs it?

Anna is shown her desk and told that “the best way to learn is to do”. Anna watches what other people are doing – they are on the phones and typing on keyboards – what should Anna do?

Anna is hoping that she will be given a coffee break but she is not sure if she is allowed and she has no idea where to get a cup of coffee. Ms Macleod comes back at lunchtime and shows Anna where the staff room and toilet are.

Questions

1. Do you think Anna has been given induction training?
Justify your answer.
2. Identify the points in which Anna should have been trained in.
3. Suggest three improvements that could be made to the induction training in future.
4. How do you think Anna feels as she starts her new job?



Training should be on-going, with employees being taught new skills. The benefits of training are:

- staff become more competent at their jobs
- staff motivation increases
- staff become more productive
- there are fewer accidents
- staff become more flexible, i.e. they can do a variety of jobs

Motivating Staff

The Human Resources Department need to ensure that all employees in the organisation are motivated and giving their very best effort. In order to motivate staff the following may be used:

- issue bonuses
- company perks, for example, private health care or company car
- Involve staff in profit sharing or share ownership schemes
- organise team-building and social events
- organise staff training



Task 56 – Class Discussion

What is meant by the following terms?

Bonus

Profit sharing

Share ownership

Team building

Once you have discussed the terms you should demonstrate your knowledge and understanding by writing a brief explanation of each term on a sheet of A4 lined paper.



FINANCE

The Finance Department deals with all the **money coming into and going out of the organisation**. They also pay staff wages and try to ensure that there is enough cash coming in to pay all the bills.

The main responsibilities of business finance are:

- dealing with all the **money** that comes into and leaves the organisation
- paying **staff wages**
- financial planning and **forecasting**
- monitoring and **controlling cash flow** and preparing cash budgets
- preparing the **final accounts** ie the trading, profit and loss account and balance sheet
- calculating **breaking even points**
- working out the **cost of a job**



Activities undertaken in the Finance Department

The Finance Department will be responsible for the preparation of internal information to enable the business to make decisions. We will now consider 2 of these areas of work:

- Job Costing
- Budgeting

Job Costing is simply the process of calculating the cost of completing a job in order to determine a price that the customer will be happy to pay and will also enable the business to make a PROFIT.

Example

Moben Kitchens installs kitchens in people's homes, designed to customer's specific requirements. In order to quote a price the Finance Manager will prepare a Job Costing Statement. This is shown below.

Job Cost Statement 1 – Mr and Mrs Johnstone Prepared on 12 December 20..

	£
Direct Materials	6,000
Cost of Wages	4,500
Overheads	2,000

TOTAL COST	12,500
Add Profit Margin (20%)	2,500

Price quoted to customer	15,000



TASK 57

Study the Job Cost Statement and then answer the questions below:

What is the problem if the company quotes a price which is too high?

What is the problem if the company quotes a price which is too low?

TASK 58

Moben Kitchens have now asked you to prepare Job Cost Statements, using today's date for the following Jobs. For each job, you are required to calculate the total cost for each job, the profit, and the price to be quoted to the customer.

Prepare your Job Cost Statements on a sheet of A4 paper.

Job 1 – Mr A Brown

Direct materials - £3,500
Wages - £1,500
Overheads - £800
Profit Margin 15%
Price quoted to customer?

Job 2 – Mr and Mrs McKenna

Direct materials - £6,000
Wages - £2,000
Overheads £3,000
Profit Margin 50%
Price quoted to customer?

Job 3 – Miss Silver

Direct Materials - £5,500
Wages - £3,400
Overheads - £4,000
Profit Margin – 5%
Price quoted to customer?

Job 4 – Mr and Mrs Anderson

Direct Materials - £2,100
Wages - £5,000
Overheads - £2,000
Profit Margin – 6%
Price quoted to customer?

TASK 59

Answer the following questions in the spaces provided. You will have to refer to the Job Cost Statements that you prepared in Task 58.



Mr and Mrs McKenna (JOB 2) are very unhappy with the price that you have quoted them for fitting their new kitchen. They are thinking about going to another company. What do you think Moben Kitchens should do?

Answer

The Finance Manager discovers that the price quoted to Miss Silver (JOB 3) is £2,000 lower than the price she has been quoted by 5 other companies. What should the Finance Manager do?

Answer

BUDGETING

A cash budget is a forecast of cash coming into the business and cash going out of the business. A cash budget can be prepared for a few months, for example, for January-April, or it can be prepared for a full year – January-December.

Study the cash budget shown below.

<u>Cash Budget for June and July</u>		
	<u>June</u>	<u>July</u>
Opening Bank/Cash Balance	1,000	2,950
<u>Receipts</u>		
Cash Sales	2,000	3,000
Credit Sales	3,000	1,000
	—————	—————
	5,000	4,000
	—————	—————
<u>Payments</u>		
Wages	400	600
Advertising	450	2,000
Petrol	200	150
Purchases	2,000	2,500
	—————	—————
	3,050	5,250
	—————	—————
Closing Bank/Cash Balance	2950	1700
	—————	—————

Question

What 2 factors may have caused the closing bank/cash balance to reduce between June and July?

TASK 60

Complete the Cash Budget below for Brown plc and calculate the closing balance for each month.

**Cash Budget for January and February**

	<u>January</u>	<u>February</u>
Opening Bank/Cash Balance	5,000	
<u>Receipts</u>		
Cash Sales	10,000	16,000
Credit Sales	25,000	6,000
	_____	_____
	_____	_____
<u>Payments</u>		
Wages	800	1,600
Purchase of new van		15,000
Insurance	500	260
Purchases	5,200	3,100
	_____	_____
	_____	_____
Closing Bank/Cash Balance	_____	_____

Question 1

What has caused the closing balance to be dramatically reduced in July?

Question 2

Instead of paying for the total cost of the van in July, how could Brown plc have paid for it?

TASK 61

Complete the Cash Budget below for Kelly & Templeton who are partners and calculate the closing balance for each month.



<u>Cash Budget for March and April</u>		
	<u>March</u>	<u>April</u>
Opening Bank/Cash Balance	12,000	
<u>Receipts</u>		
Cash Sales	4,000	6,100
Credit Sales	3,500	2,250
	_____	_____
	_____	_____
<u>Payments</u>		
Wages	1,500	5,000
Advertising	400	600
Insurance	240	240
Purchases	6,200	5,200
	_____	_____
	_____	_____
Closing Bank/Cash Balance	_____	_____

Question 1

What payment has dramatically increased between March and April?

Answer

Question 2

What might the partners have to do to reduce the payment (identified in question 1)?

Answer



HOW DO FUNCTIONAL DEPARTMENTS WORK TOGETHER?

Functional Departments do not work in isolation. Each department carries out a **specific activity** within the organisation. These activities should **complement each other** and enable the departments to work collectively for the good of the organisation.

It is the responsibility of senior managers to ensure that each department runs smoothly and that there is good communication between departments.

Here is an example of **how departments would work together** in setting the price of a product.

The Marketing Department would be responsible for researching the market – finding out if the consumer wants the product, what they would look for in a product, what price they would be willing to pay.



The Operations Department would be responsible for determining what raw materials would be required to make the product and what staff would be required.



Human Resources would recruit new staff if required.



The Finance Department would cost out the product and determine the mark-up required to achieve the desired profit.



The Marketing Department would be responsible for the advertising and promotion of the product.

TASK 62 – FUNCTIONAL ACTIVITIES

Read the following activities and discuss with your partner which departments you think may be responsible for the activity.

ACTIVITY	DEPARTMENT RESPONSIBLE
Training Staff	
Collecting all the cheques received and taking them to the bank.	
Preparing a flyer advertising a new promotion.	
Organising a team-building exercise for staff.	
Making the product.	
Carrying out market research.	
Checking the quality of the product during the production process.	
Calculating the profit made for the year.	
Interviewing staff	
Calculating the cost price of a product.	
Deciding the best place to sell the product.	
Promoting staff	
Calculating the break-even point and displaying this information in a chart.	
Setting up an insurance policy.	