GCSE Business

Knowledge Organiser

ERASMUS DARWIN ACADEMY

GCSE Business Knowledge Organiser—Unit 1—Introduction to Small Business

ERASMUS DARWIN ACADEMY

Topic	Visual	Subject Content
1.1 Enterprise and entrepreneurship		➢ Understand why new ideas come about- due to changes in technology, changes in consumer wants, products being obsolete e.g. cassette player ➢ Understand how business ideas come about- adapting existing ideas, by invention, by innovation ➢ The impact of risk and reward- failure/ financial loss/, success/profit/independence ➢ The role of enterprise and the purpose of business activity- produce goods/services, meet customer needs, to add value
1.2 Spotting a business opportunity		➢ Meet customer needs- quality, price, choice, convenience ➢ Market research- identify and understand customer needs, identify gap in the market, reduce risk, inform business decisions ➢ Primary research- collected first hand e.g. survey, questionnaire, focus group ➢ Secondary research- collected second hand e.g. Internet, market reports ➢ Qualitative data- written data which gives opinions ➢ Quantitative data- numerical data which is easy to compare ➢ Market segmentation- breaking down market based on characteristics e.g. age, gender, income, location, interests
1.3 Putting a business idea into practice		➢ Objectives must be SMART (specific, measureable, achievable, realistic, time) ➢ Financial aims- survival, profit, sales, market share, ➢ Non-financial aims- personal satisfaction, challenge, independence, control Profit= Revenue-Costs Revenue= SP x Q Costs= FC + TVC Break-even point=FC/(SP-VC) Margin of safety=Actual sales – Break-even point Net cash flow= inflows – outflows O/B=C/B-NCF Short-term Overdraft. trade credit Long-term Personal savings, venture capital, share, loans, retained
1.4 Making the business effective		➢ Unlimited liability- liable for all debts of the business, high risk (Sole trader + Partnership) ➢ Limited liability- only liable for the money invested into the business, low risk (Limited companies- PLC/LTD) ➢ Franchise- a franchisee buys the rights to trade under the name of the franchisor in return for initial fee and royalties. ➢ Location factors- footfall, competition, availability of labour/resources, infrastructure, parking, costs. ➢ The marketing mix- the price of the product, the features of a product, the place it is sold and how it is promoted. ➢ Business plans- needed to obtain finance from an external source (market research, finance, aims, target market)
1.5 Understanding external influences on business		➢ Stakeholder- a group who has an interest in a business (owner, customer, employee, supplier, government, ➢ Legislation- the laws and regulations governing businesses. (Consumer- quality and consumer rights/ Employment law- recruitment, pay discrimination, health and safety) ➢ Economy- impact from the 2008 recession (unemployment, inflation, interest rates, exchange rates, EU) ➢ External environment (PEST)- political, economic, social, technological

GCSE Business Knowledge Organiser - Topic 1.1 Enterprise and Entrepreneurship

ERASMUS DARWIN ACADEMY

1.1.1 The Dynamic Nature of Business

Key Terms:

Enterprise: A business or company, can also mean entrepreneurial activity
Entrepreneur: Someone who creates a business, taking on financial risks with the aim of making a profit from the business
Consumer: Someone who buys and uses goods and services
Customer: Someone who buys goods and services
Obsolete: Out of date and not used anymore
E-Commerce: Using the internet to carry out business transactions
M-Commerce: Using mobile technologies to carry out business transactions
Social media: Websites that allow users to interact with other users

Businesses exist to provide goods or services

Good	Service
	

How do new business ideas come about?

Type of change:	Explanation:
New technology	Ideas for new products might come about due to advances in technology. Computers, smartphones, digital cameras and so on, are all examples of products where new technology is constantly allowing new products to be developed and launched for sale.
Change in consumer wants	Fashions and consumer tastes are always changing. As well as the more obvious areas of clothing, designs will also change in areas such as cars, furniture, buildings and many more consumer goods. There are also new trends in terms of healthy eating, fitness and specialist types of holidays.
Products and services becoming obsolete	Over time products become outdated as new products are developed, which is often linked to changes in technology. Other reasons for products becoming obsolete are changes in the economy, for example increased wealth will decrease demand for **inferior products**, such as supermarket value products and bus travel.

- Adapting an existing product to keep up with trends
- Create a new product to meet new trends

Key Questions to ask

- How can I improve a product or service?
- Can I do this better than an existing business?
- Is there a gap in the market that I can fill?

1.1.2 Risk and Reward

Key Terms:

Risk: The possibility that an enterprise will make lower than anticipated profits or experience a loss
Financial Reward: The money that an entrepreneur or investor receives when a business succeeds
Market Research: The process of gathering information about the market and customers' needs and wants
Revenue forecast: A prediction of future revenue based on expected sales; this is either a judgement or based on pervious sales patterns
Cash Flow: The amount of money coming and going out of a business
Sales Revenue: The amount of money that comes in from selling a product or a service
Investment: Putting money into a business with the intention of making a profit
Start-up: A new business, usually with only a small number of employees (possibly only 1)
Intuition: Knowing something instinctively or understanding something without conscious thought

Risk can mean several things:

- the chance of loss or damage
- the probability that something goes wrong, leading to a loss
- when a hoped-for outcome does not happen

Poor management

Poor market research

Sales lower than expected

Start-up costs too high

Unexpected shocks

Too reliant on a small number of customers

Poor quality

How do you reduce risk?

Plan, research, be cautious, finance with care, avoid costs, Protect, monitor and review

Rewards from enterprise

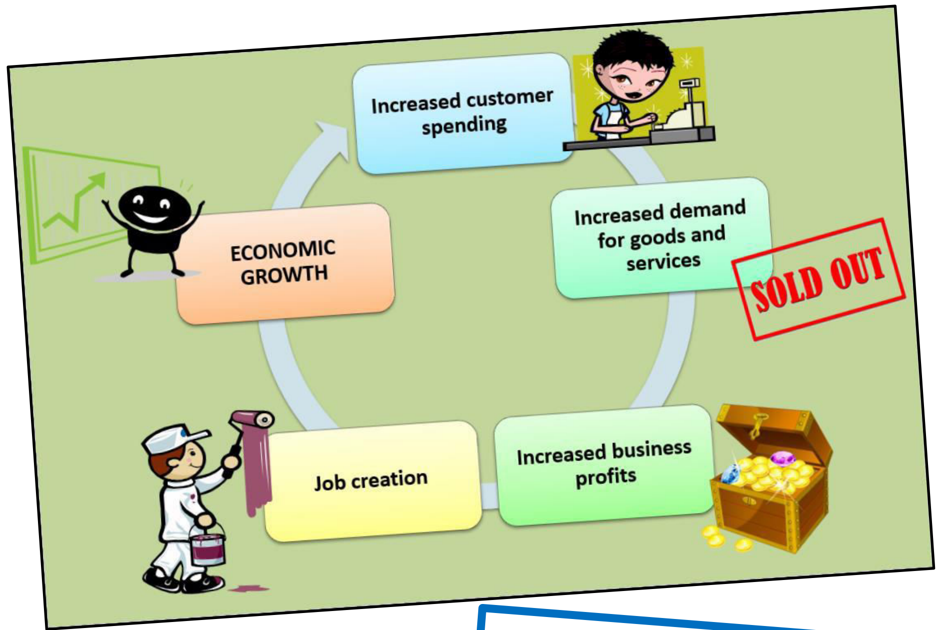
Sense of satisfaction, building something from scratch, being in control, making the first sale, opening in a new location, employing new people, getting an industry award, getting great feedback, having happy customers, money!

GCSE Business Knowledge Organiser - Topic 1.1 Enterprise and Entrepreneurship

ERASMUS DARWIN ACADEMY

1.1.3 The Role of Business Enterprise

Key Terms:
Stakeholder: Anyone who has an interest in the activities of a business
Ethics: The moral principles or standards the guide the behaviour of the business of a person.
Values: Standards of behaviour or moral principles
Loyalty: Supporting something or someone
Unique Selling point (USP): Something that makes a product stand out from its competitors
Economy: The system by which a countries money and goods are produced and used.



Purpose of enterprise activity

Producing goods and services

Meeting customer needs

Adding value

Cost to make product

Cost to buy product

Difference = Value Added

What is an entrepreneur?

"someone who takes a calculated risk through starting a business."

I am an innovative, risk taking, hardworking, organised, determined, persuasive, multitasking entrepreneur

Why do entrepreneurs start their own business?

Financial Reasons: Making Profit – Investing Money

Non-financial Reasons: Work Life Balance, Skills and Interests, Being their own **Boss**

NOTES:

ERASMUS DARWIN ACADEMY

GCSE Business Knowledge Organiser - Topic 1.2 Spotting a Business Opportunity

ERASMUS DARWIN ACADEMY

1.2.1 Customer Needs

Key Terms:
Convenience: A product or service's ability to fit in with a consumer's lifestyle, the ease in which it can be used how easy it is to acquire
Customer Needs: The wants and desires of buyers of a product or the customers of a business.

providing the right product, of the right quality, at the right price, at the right time, in the right place

How do we find out what our customers want?

QUANTITATIVE

Purpose of Market Research: Identify a gap in the market, promotion, knowing your customers, knowing demand.

QUALITATIVE

Limitations of Market Research? Accuracy - usually only a sample is used, bias, could be out of date.

1.2.2 Market Segmentation

Key Terms:
Segmentation: The process of breaking something into small parts.
Demographics: Relating to the structure of the population

What are the benefits?

- Better matching of customer needs
- Better opportunities for growth
- More effective promotion
- Gain a higher share of the market

How do we segment a market?

Limitations of market segmentation

- Lack of information and data
- Difficulty in measuring and predicting consumer behaviour
- Customer segments could be hard to reach once identified

Market Mapping

- High price v low price
- Basic quality v high quality
- Low volume v high volume
- Necessity v luxury
- Light v heavy
- Simple v complex
- Lo-tech v high-tech
- Young v old

Is there a gap in the market for your product?

Where are customer needs not being met?

GCSE Business Knowledge Organiser - Topic 1.2 Spotting a Business Opportunity

ERASMUS DARWIN ACADEMY

1.2.3 The Competitive Environment

NOTES:

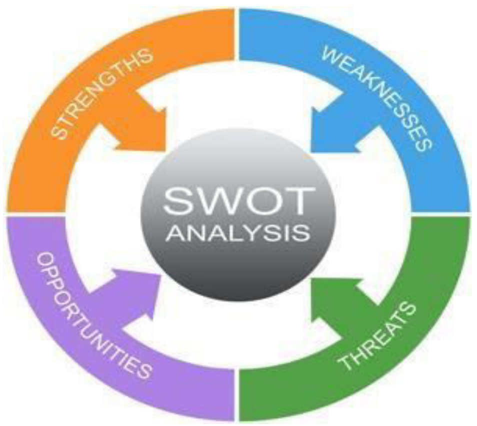
Key Terms:

SWOT AnalysisA study undertaken by a business to identify the strengths, weaknesses, opportunities and threats of a business.

Similar product but not in direct competition

Similar, product, price and place

Why monitor your competition?



GCSE Business Knowledge Organiser Topic 1.3 Putting Business Ideas into Practice

ERASMUS DARWIN ACADEMY

1.3.1 Business Aims and Objectives

KEY TERMS:
Market Share: The proportion of sales in a market that are taken up by one business
Profit: The amount of revenue left once the costs have been deducted
Social Objective: Likely to be non-financial, for example to reduce carbon emissions
Aim: Is a goal that the business wants to achieve
Objective: Tasks that a business will carry out to meet an aim

The main goal (could be long term) that the business wants to achieve)

SMART tasks that a business needs to carry out to meet its aim

Why do we set aims and objectives?

- Direction
- Focus for employees
- Planning
- Measurement of success

Don't forget social objectives:

Environment, Charity

OXFAM

Financial objectives – targets expressed in money terms, such as making a profit, earning income or building wealth.

Non-financial objectives – aims other than financial, why an individual runs their own business. Examples include personal satisfaction, challenge and to help others.

McDonald's

WWF

Will all businesses have the same aims and objectives?

1.3.2 Business Revenues, Costs and Profits

Key Terms:
Income stream: The source of regular income that a business receives (this could be from customers or investment).
Viable: Cable of working and succeeding
Revenue: The income that a business receives from sales
Fixed Costs: Costs that do not change
Variable Costs: Costs that change dependent on how many products or services a business sells
Income Statement: A financial statement showing the amount of money earnt and spent in a particular period and the resulting profit or loss
Interest: A % of an amount borrowed that is repaid in addition to the original amount
Break Even: The point in which a business's costs and revenue are equal

Formula

Total costs
TC (total cost) = TFC (total fixed costs) + TVC (total variable costs)

Geographic	Demographic	Behavioural	Psychographic
E.g. "Customers within 10 miles of the M25"	E.g. "A Level & University Students"	E.g. "Customers wanting a value for money impulse buy"	E.g. "Customers who prefer to buy organic food"

Revenue
Revenue = price × quantity

Income Streaming

- Rent and council tax
- Salaries
- Marketing, for example advertising, market research
- Insurance
- Interest repayments
- Leased equipment charges

FIXED

- Raw materials and bought-in stocks and components
- Wages based on hours worked or amount produced
- Marketing costs based on sales
- Agent and other commissions

Variable cost per unit x output

VARIABLE COSTS

PROFIT = TOTAL REVENUE - TOTAL COSTS

GCSE Business Knowledge Organiser Topic 1.3 Putting Business Ideas into Practice

ERASMUS DARWIN ACADEMY

1.3.2 Business Revenues, Costs and Profits cont.

Formula

Net profit
Net profit = gross profit – other operating expenses and interest

Gross profit
Gross profit = sales revenue – cost of sales

Sales	Costs	Profit or loss?
£100,000	£75,000	£25,000 profit
£100,000	£125,000	(£25,000) loss Note: negative figures are shown in brackets

- ☑ **Total sales greater than total costs = PROFIT**
- ☒ **Total sales less than total costs = LOSS**
- ➤ **Total sales = total costs = BREAK EVEN**

If a business borrows money from a bank they will be charged interest. Interest is calculated at the start of a loan agreement and is added on top of the loan amount.

Interest on loans (%) = $\frac{\text{total repayment} - \text{borrowed amount}}{\text{borrowed amount}} \times 100$

Break-even level of output

Using the contribution method

Break even output = $\frac{\text{fixed cost}}{\text{(sales price – variable cost)}}$

This will give you the number of units the business needs to produce and sell to break even

Break-even point in costs/revenue = break-even point in units x sales price

This formula can be used to calculate the revenue (or costs!) at the breakeven level of output

When **revenue increases** it is likely to have **a positive impact** on the business **if costs remain the same.**

When **revenue decreases** it is likely to have **a negative impact** on the business **unless costs decrease at the same time.**

When **costs increase** the business will still have to pay them, unless the business also **increases revenue** then the profit of the business will become less. ***The increase in costs is quite often passed onto customers through a rise in prices.***

When costs decrease it can have an immediate benefit on the business. **They will be making more money per unit sold.** However, if customers are aware that costs have decreased then they may expect so see that saving passed on to them in the form of lower prices.

GCSE Business Knowledge Organiser Topic 1.3 Putting Business Ideas into Practice

ERASMUS DARWIN ACADEMY

1.3.3 Cash and Cash Flow

Key Terms:

Credit: The amount of money that a financial institution or supplier will allow a business to borrow

Overheads: Fixed costs that come from running and office which are not affected by the number of specific products or services that are sold.

Positive cash flow: More money coming in than going out

Negative cash flow: More money going out than coming in

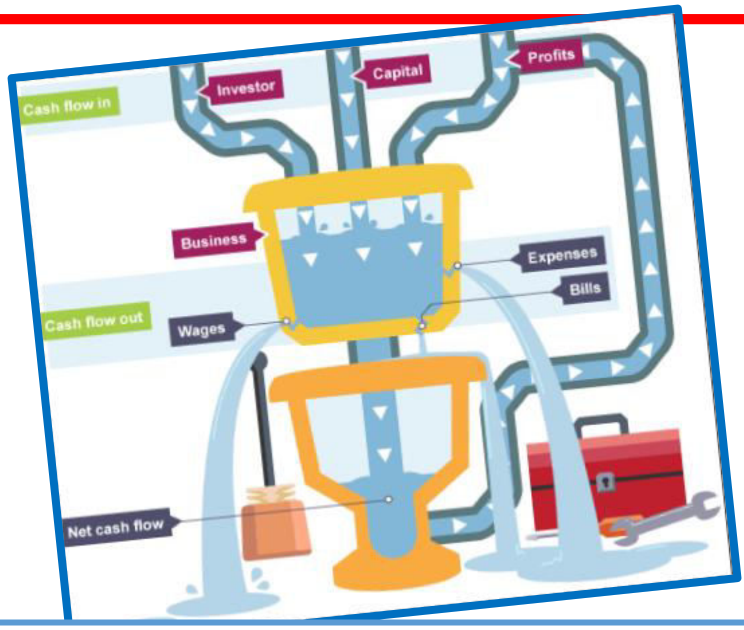
Insolvent: A business that is unable to pay its debts and owes more money that it is owed

Consumables: Items that get 'used up' such as pens, paper, staples

Opening balance: The amount of money in the business's bank at the start of any period

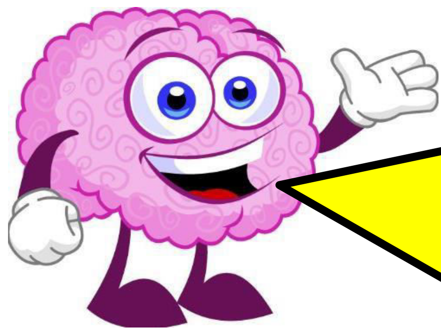
Closing balance: The amount of money in the business's bank at the end of the month

Cash flow forecast: An estimate of how much cash will come in to and leave the business over the course of a year.



Net cash-flow = cash inflows – cash outflows for a given time period

Cash inflows	Cash outflows
Cash sales	Payment of overheads, wages and salaries
Receipts from trade customers	Payment of suppliers, for example raw materials, inventories
Sale of spare assets	Buying equipment
Investment of share capital	Interest on bank loan or overdraft
Personal funds invested	Payment of dividends
Receipt of bank loan	Repayment of loans
Government grants	Income tax, VAT and corporation tax



The importance of cash to a business

The management of a business's cash flow is important. This is because a business must have enough money in the bank to pay all the money it owes. Even if a business is making a profit, if it does not have enough cash or a reliable cash flow it can still fail.

What causes problems?

- **Low profits or (worse) losses**
- **Over-investment in capacity**
- **Too much stock**
- **Allowing customers too much credit**
- **Overtrading**
- **Seasonal demand**

£'000	January	February	March	April	May	June
Cash inflows	200	250	200	150	100	250
Cash outflows	250	300	300	100	250	150
Net cash-flow *(cash inflows – cash outflows)*	(50)	(50)	(100)	50	(150)	100
Opening balance *(same figure as the closing balance for the previous month)*	250	200	150	50	100	(50)
Closing balance *(net cash-flow + opening balance)*	200	150	50	100	(50)	50

GCSE Business Knowledge Organiser Topic 1.3 Putting Business Ideas into Practice

ERASMUS DARWIN ACADEMY

1.3.4 Sources of Finance

Key Terms:

Trade Credit: A credit arrangement that is offered to a business by its suppliers

Overdraft: A facility offered by a bank that allows an account holder to borrow more money at short notice

Credit Limit: The maximum a business can borrow with a company

Credit Period: The maximum amount of time a business can take to pay what it is owed

Retrospective Discount: A discount applied when a business has purchased a certain number of goods or spent a certain amount of money with a supplier

Venture Capital: Money that is invested in a business sourced from individuals or groups (dragons den)

Return on Investment: The amount of money that an investor will get back in return for investing in a business

Shareholders: Investors who are part-owners in a company

Share Capital: Money to invest in a business which is made from selling shares in the business

Credit Check: A check on the financial status of a business.

Security: When the lender asked the business owner to put up an asset to secure lending

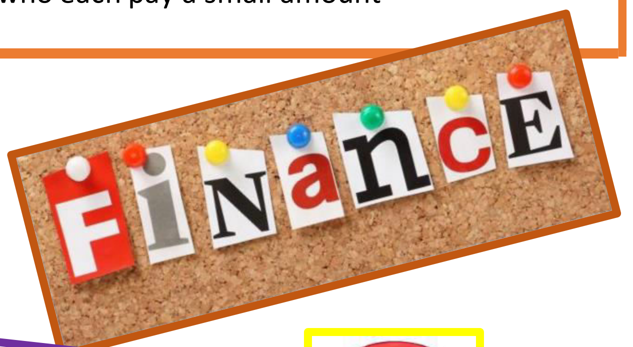
Asset: An item of value (home, machinery, premises)

Guarantor: A names person who guarantees to pay repayment if the person who has the loan fails to pay

Retained Profit: Money that a business keeps rather than paying to share holders

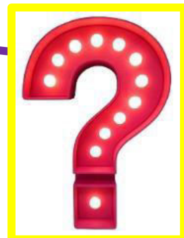
Crowdfunding: A business obtains money from many people who each pay a small amount

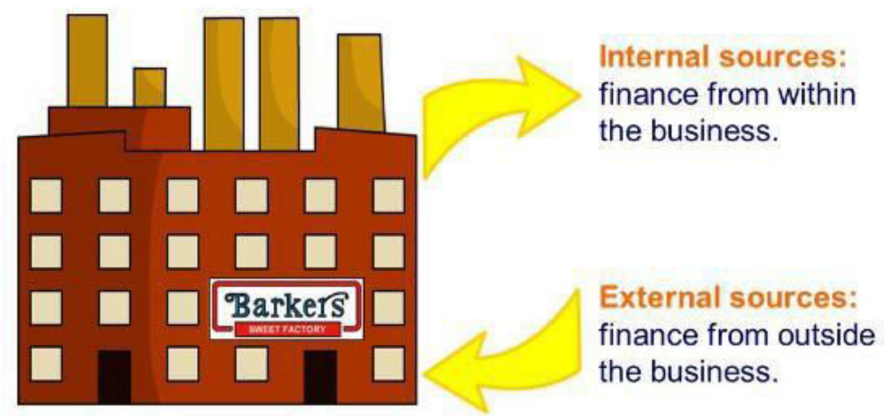
Often the hardest part of starting a business is raising the money to get going.



Questions to ask before borrowing:

- How much finance is required?
- When and for how long the finance is needed?
- What security (if any) can be provided?
- Are you prepared to give up some control (ownership) of the start-up in return for investment?
- Whether the cost of the finance, for example the interest charged, is justified?





INTERNAL SOURCES OF FINANCE

- Sale of Assets – Long Term
- Personal Savings – Long Term
- Retained Profit – Long Term
- Venture Capital – Long Term

EXTERNAL SOURCES OF FINANCE

- Share Capital – Long Term
- Bank Loan – Long Term
- Crowd Funding – Long Term
- Trade Credit – Short Term
- Overdraft – Short Term

GCSE Business Knowledge Organiser - Topic 1.4 Making the Business Effective

ERASMUS DARWIN ACADEMY

ERASMUS DARWIN ACADEMY

1.4.1 The Options for start-up Businesses

Key Terms:

Limited Liability – The level of risk that is limited to the amount of money that has been invested into the business

Assets – Property of the businesses or business owner, house, car, machinery

Incorporated – A business that is registered as a company, the business and the owners are separate in the eyes of the law

Unlimited Liability – The level of risk goes beyond the amount invested, so the personal assets of the business owner can be used to pay off the businesses debts

Unincorporated – A business that is not recognised as a company so the owners and the business are the same body in the eyes of the law

Sole Trader – A type of unincorporated business that is owned by a single person.

Partnership – A business that is owned by a group of two or more people who share the risk, the decision making and profits

Deed of partnership – A legal document that defines the terms and agreements of a partnership

Private limited company – An incorporated business that is owned by shareholders

Shareholders – Investors who are part-owners of a company, they invest in the business for a share of the company

Franchise – When one business gives another business permission to trade using its name and products in return for a fee and share of its profits

Franchisor – An established business that gives permission for an entrepreneur to trade using its name and product

Franchisee – An entrepreneur who pays a fee to trade using the name and products of an established business

Remember: LIMITED LIABILITY is only a benefit to private (and public) limited companies. Sole traders and partnerships do not benefit from this. They have UNLIMITED LIABILITY. This is a common area of confusion, which needs revising carefully.

Types of business ownership

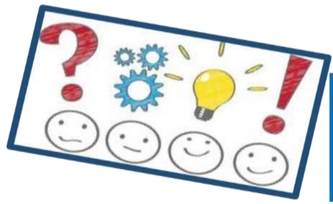
	Advantages	Disadvantages
Sole trader	☑ Quick and easy to set up – the business can always be transferred to a limited company once launched ☑ Simple to run – owner has complete control over decision-making ☑ Decision-making is quick, important in changing, fast moving markets with lots of competition ☑ Owner gets to keep all the profits ☑ Minimal paperwork	☒ Full personal liability i.e. "unlimited liability" ☒ Harder to raise finance – sole traders often have limited funds of their own and few assets against which to raise loans ☒ The business is the owner – the business suffers if the owner becomes ill, loses interest etc ☒ Limited life as the business is the owner – lack of continuity ☒ Stressful – long hours, no division of labour, no support with decision-making
Partnership	☑ Quite simple for two or more people to form a business together ☑ Minimal paperwork once Partnership Agreement set up ☑ Partners can provide specialist knowledge and skills	☒ Unlimited liability ☒ Partners have to live with decisions of others; a poor decision by one partner damages the interests of the other partners ☒ Decision-making can take longer, as disagreements can occur
	stressful than operating as a sole trader ☑ Greater potential to raise finance compared to a sole trader, as each partner provides investment ☑ Any losses will be shared	company ☒ Short life, as if one partner leaves or dies the partnership ends ☒ Profits have to be shared
Private Limited company	☑ Limited liability - protects the personal wealth of the shareholders ☑ Easier to raise finance as can sell shares ☑ Stable form of structure – the company continues to exist even when shareholders change ☑ Original owners are likely to retain control	☒ Shareholders have to agree about how profits are distributed ☒ Greater administrative costs than setting up as a sole trader or partnership ☒ Finance limited to "friends and family" ☒ Less privacy - public disclosure of company information, but not as extreme as for a plc ☒ Directors' legal duties are stricter

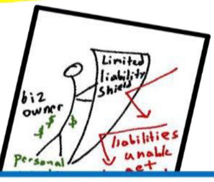
Liability: the legal responsibility the businesses owner has to pay its debts.

Limited and Unlimited Liability

Limited Liability There is a legal difference between the business and its owner

Unlimited Liability – There is no legal difference between the business and its owner





Unlimited Liability means the owners can lose their personal possessions if their business has debts. Limited liability reduces the risk as business debts will belong to the business, not the owner

Points to consider

- Size of business.
- Type of Business
- Lender requirements
- Investment protection
- Control

Which one of the following is a characteristic of a private limited company?

- ▯ Can sell shares to anyone
- ▯ Shareholders work for the business
- ▯ Has limited liability
- ▯ Is unincorporated

GCSE Business Knowledge Organiser - Topic 1.4 Making the Business Effective

ERASMUS DARWIN ACADEMY

Franchising

A franchisor grants a licence (the franchise) to another business (the franchisee) to allow it to trade using the brand or business format.

The franchisor helps with:

- Training staff
- Setting prices
- Choosing suppliers
- Setting wages
- Determining uniform

Advantages of Franchising	Disadvantages of Franchising
The brand and the customer base is already established	Start-up fees can be expensive
There is a higher chance that the business will be successful	The franchisor has to be paid a % of the revenue
Support and training is provided by the franchisor	Little control and flexibility
	Complicated application process

The impact of the internet on location

The internet has led to many changes in the business world and has had a significant impact on location.

For some businesses they can trade solely online and this means that they don't need a fixed location, this can significantly reduce costs which can be vital for start-up businesses.

You don't even need to have your own website, you can piggyback onto a platform that is already provided such as eBay or Notonthehighstreet.com

1.4.2 Location

Location can depend on the type of business

There are many different types of industry. We can classify industry into three main categories:

Primary	Secondary	Tertiary
These industries extract raw materials directly from the earth or sea.	These industries process and manufacture products from raw materials.	These industries provide a service.

Raw Materials

A business may depend on supplies of particular raw materials, costs will be lower if the business is located near the supplier, for example where the raw material is grown or where a distributor is based.

Agricultural businesses may need a certain type of topography, climate, soil quality to grow particular cops.

This factor tends to be more important for primary and manufacturing businesses, rather than businesses in the tertiary (service) sector.

Labour

Access to a reliable supply of skilled staff is important. Businesses that are labour-intensive often look to locate in areas of traditionally low wages (National Living Wage) or higher unemployment, although this will depend on the skill level that the business needs and the availability of this type of worker. This will help to keep costs down.

This factor is important for all businesses, but may be less significant if the business uses a lot of machinery.

Competition

Businesses need to be aware of where their competitors are based when choosing their own location.

This is particularly important if the business is providing a service. If a new business sees a "gap in the market" where there is no competitor, this might be a good reason to locate there.

Businesses selling convenience goods such as a newsagents or Tesco Extra may choose a location away from competitors as locating near them would split the local customers between the two businesses reducing potential customers.

Businesses selling a shopping good might want to be close to competitors, for example if you wanted to buy a new car and Altringham had five car dealerships but Lymm had only one, you are more likely to go to Altrincham to get a wider choice and the ability to shop around for the best deal.

However, this might mean that this is not a profitable location for any business. In some cases, it may be of benefit to be near a competitor, as customers may come to the competitor, but see another business that is nearby. This can be seen with the popularity of retailers located in retail parks or clothing stores being clustered together in shopping centres.

Government Assistance

Government support in the form of grants, business loans, reduced tax burdens or use of government owned buildings may be available if you are setting up in a particular location.

These "assisted areas" are considered to be the poorer parts of the country and may have less wealthy customers. In these areas there may be cheaper labour available.

Communications

This includes transport facilities (road, rail, air), as well as information and infrastructure.

Transport links are particularly important if the business delivers products, uses a sales force or depends on imports and exports to function.

The continued popularity of e-commerce makes transport links increasingly important, to ensure products can be delivered to customers in a timely manner.

Market - customers and population

If your product is targeted at a particular type of customer, for example older-aged people, then it is important to be located where they live. Businesses may look at footfall and demographics before choosing a location.

If you are producing a bulk-gaining product then it is more sensible to locate close to the market you are selling to as transportation can be harder and more expensive.

This is particularly important for businesses in the tertiary sector, as they provide a service.

GCSE Business Knowledge Organiser - Topic 1.4 Making the Business Effective

1.4.3 The Marketing Mix

- Product - the good or service that the customer obtains
- Price - how much the customer pays for the product
- Place (distribution) – how the product is distributed to the customer
- Promotion - how the customer is found and persuaded to buy the product

An effective marketing mix is one which:

- ✓ Meets customer needs
- ✓ Achieves the marketing objectives
- ✓ Is balanced and consistent
- ✓ Allows the business to gain an advantage over competitors

The elements of the marketing mix must work together

Balancing the marketing mix

Changes to the marketing mix

Changing customer needs and trends

Internet usage

- **e-commerce**
- **m-commerce**

Price	**Changing a products price to undercut its competitors, businesses do have to be careful that this does not end up in a price war.**
Product	Altering aspects of the product or bringing out a new product with a new feature, this can achieve product differentiation
Promotion	Undertaking promotional activities to boost awareness of the brand to encourage brand loyalty
Place	Changing the place or increasing the number of places in which the products are available to customers in or der to maintain or increase market share. This could include introducing an e-commerce site or m-commerce technology.

1.4.4 The Business Plan

"failing to plan is planning to

The initial Business Plan

The idea	A simple plan of the proposed business and its location
Where the idea came from and why it is a good one	
Objectives and key aims for the business	Sales, profit, growth, ideally for the next 3-4 years
Finance required and sources of finance already in place	How much from the owners of the business, how much to be loaned over how long and from where
Market overview	Results of market research, main segments, target market, market size, growth, market share of main competitors.
Business operations	Location of business, type of premises, staffing, distribution methods
Marketing mix	Description of the 4P's
Cash-flow forecast	Forecast revenue, costs and profits. Important to ensure the business does not run out of cash

The purpose of business plans

- It provides a focus on the business ideas
- It produces a document that helps clarify thoughts and identify any gaps in information or research
- It encourages the business entrepreneur to focus on what the business is really about
- It helps test the financial viability of the idea
- A business plan will minimise the risk of failure
- The plan provides something which can be used to measure actual performance
- A business plan is essential to raising finance from outside providers
- Reviews current performance
- Allows business objectives to be modified if required
- Allows departments of the business to produce their own plans,
- Allows entrepreneurs to update their current business strategy or plans for the future,

Overall it will help the business make informed decisions

GCSE Business Knowledge Organiser—Topic 1.5 Understanding external influences

ERASMUS DARWIN ACADEMY

1.5.1 - Business Stakeholders

Stakeholder Definition - is anyone who has an interest in a business. This is not about ownership, it is about being interested in how the business is run. An example is bank who have leant money to the owner to start-up his/her business– a bank **do not own** the business but they are interested in it as they want to make sure they will have their money paid back.

Internal Stakeholders

Owners - The owner is the person (or persons) who started the business with their own money. There main interest will be to ensure they receive a financial return so they will aim to maximise profit.

Employees - they are interested in the business – they want to know if they have **job security** so they can pay their own bills. They are also interested in – if there are job **promotion** prospects.

Managers - They are interested in a business because they may get a financial bonus if they reach targets they have been set

External Stakeholders

Suppliers - Suppliers are interested in the business because they want to know if they will get paid for the goods and services they have provided.

Local Community - The local community are interested in the business because it may pollute the environment, it may cause noise with lorries loading. The local community may not want a well known large business to open (e.g. a new Tesco store) as it may harm local business trade.

Government - The government are interested in the business because they want to know that they will pay their taxes. The government also wants to know that they will adhere to any laws that might apply e.g. Health and safety at work Act. They will also want businesses to provide jobs to help reduce unemployment, this means the government will spending less money on benefits and can further invest in public services e.g. the NHS.

Shareholders - Shareholders are interested in a business because they want to know if a profit will be made and if they will be paid a dividend. In •a **private limited company** the shareholders may be friends and family of the owners. In a **public limited company** the shareholders can be anyone.

1.5.1 - Business Stakeholders

Customers - customers are interested in the business because they want to know they can get quality products and services at low prices. Customers want products and services that satisfy their needs. Customers want to know their favourite products will continue to be sold.

Pressure groups - A pressure group is interested in a business because they want to know that they have acted ethically

How stakeholders impact business activity

Employees ⇨	**can influence the success of an organisation by their productivity and efficiency in the tasks they do everyday. They can also resort to industrial action (strike) if they disagree with working conditions, pay or company policies**
Suppliers ⇨	can decide whether to raise prices for orders which can obviously affect a firm's profits. Also a supplier's reliability could affect production.
Government ⇨	can influence a firm by introducing new laws that can affect operations such as the National Minimum Wage, or they can raise Corporation Tax which would eat into a firm's profits
Customers ⇨	can influence a business by deciding to continue to purchase goods and services from the organisation. They can choose to take their custom elsewhere.
Local community ⇨	can influence a business by protesting against the building of premises

GCSE Business Knowledge Organiser—Topic 1.5 Understanding external influences

ERASMUS DARWIN ACADEMY

1.5.1 - Business Stakeholders

Possible conflicts between stakeholder groups

Employees want higher wages but owners and shareholders don't want to pay higher wages, as this will raise costs and therefore impact profit.

Mangers want big bonuses but owners and shareholders don't want to pay them as this will impact costs and lower profits

Customers want low prices and high quality, but owners and shareholders want high profit so want to charge high prices and quality costs so may also have an impact on profit

Local communities want lower pollution levels, but owners and shareholders want high profits and reducing pollution will raises costs and so may lower profit

Suppliers want to get good prices for their goods and services, owners and shareholders want high profits and want to keep their costs low

1.5.2 - Technology and business

How technology influences business activity

Sales - Use of technology can improve sales. Customers may be unhappy with slow service in a shop – whereas shopping online is instant. Customers get the convenience of shopping when they want – for shift workers this is a huge bonus as the internet can sell goods 24/7 orders can be processed by staff the next working day.

Costs - Using e-commerce and payment systems means that just about anyone can start their own business online. All they need is a simple website, a good product and a PayPal account. No need for premises like a shop which reduces costs.

Marketing mix - Technology means that now marketing campaigns have more speed, relevance and reach. If a business starts a marketing campaign on TV it can back it up with social media and then use targeting to send out e-mails.

1.5.2 - Technology and business

E-commerce - E-commerce is the business term for shopping on the Internet. Selling via e-commerce is cheaper for business as less staff and premises are needed. The shop can be open 24/7 and can reach a global marketplace and orders can be processed by staff the next working day.

Social media - Businesses can now use social media campaigns to promote their products as part of their marketing strategy

Digital communication - Digital communication means communicating using digital means such as: Text, E-mail, Mobile Phone, Skype. A business will use this to communicate with their; customers, suppliers, government agencies

Payment Systems - Payment systems are a vital way of transferring funds from customers to businesses, here are a few examples: Credit and debit cards - for shopping, BACS - for wages or business to business, PayPal - for items bought over the Internet e.g. eBay.

1.5.3– Legislation and business

The purpose of legislation - The consumer rights Act - 2015

Goods must be:

1. **As described** - The goods supplied must match any description given to you, or any models or samples shown to you at the time of purchase.
2. **Fit for purpose** - The goods should be fit for the purpose they are supplied for, as well as any specific purpose you made known to the retailer before you agreed to buy the goods.
3. **Satisfactory quality** - Goods shouldn't be faulty or damaged when you receive them.

Principles of consumer law

If something's gone wrong with an item a customer has bought, they may be entitled to a refund, repair or replacement. It doesn't matter whether they bought the item new or second hand – the consumer still has rights

GCSE Business Knowledge Organiser—Topic 1.5 Understanding external influences

ERASMUS DARWIN ACADEMY

1.5.3– Legislation and business

Principles of employment law: recruitment

The recruitment process involves; advertising, selecting, interviewing and hiring the staff needed for the business.. The Equality Act 2010 makes sure that there is no discrimination in this process on age, race, gender, religion etc.

Principles of employment law: pay

NATIONAL MINIMUM WAGE or NATIONAL LIVNG WAGE (over 25's) is the legal minimum that can be paid to workers in the UK

Principles of employment law: health and safety

All workers have a right to work in places where risks to their health and safety are properly controlled. Health and safety is about stopping you getting hurt at work or ill through work. The employer is responsible for health and safety, but the employees must help.

The impact of legislation on businesses

A small business will have to meet all of the consumer, employment and recruitment laws. This may mean additional costs in training staff, protection equipment for staff, costs of paying NWM. Higher costs have an impact on the profit of the business. This could mean a business is pressured to increase their prices which could make them uncompetitive.

Consequences of not meeting these obligations

Failure to comply with these requirements can have serious consequences – for both organisations and individuals. Consequences include fines, imprisonment and disqualification

1.5.4 - The Economy and business

Changing levels of consumer income - As consumer incomes rise, they choose to buy better products – luxuries. As consumer incomes fall, they will need to buy cheaper products – inferior products

Unemployment - If unemployment rises people have no jobs, this means that they have low incomes. This also means that they have little disposable income – which is what is left after all the bills have been paid. No disposable income means no luxuries, this means that business make less sales and as result may have to lower their selling prices and reduce their workforce (which will further increase unemployment) in order to reduce their costs.

Inflation - If the UK inflation rate goes up consumers will feel poorer as their earned £££ will not go as far because goods have risen in price. This means that potential customers will not be able to buy as many goods. Also anie increase in inflation will likely increase costs as they will be paying more for their supplies as a result reducing profits. Inflation is a problem, if food keeps going up in price and wages don't then soon consumers will feel poorer and not be able to afford to buy as much. If prices are stable then consumers and business have a rough idea of how much items cost.

Interest rates - Interest rates are the cost of borrowing money. If consumers can borrow they can buy; clothes, cars, washing machines, houses, caravans, holidays, and just about everything else. If the cost of borrowing goes up then consumers decide to save instead of spend. If interest rates <u>rise</u> then the cost of borrowing will rise and this will mean that the cost of supplies for a business may increase. •A <u>fall</u> in interest rates means that the cost of servicing debt falls which may lead to an increase in profits (costs less to borrow so less to pay back).

Tax - Government charges business with a range of taxes. **Corporation tax** of 20% on profits must be paid by any UK limited company. Tax is a cost of the business and so will have an impact on profit. Income tax - An Increase personal allowance means you can earn more before you pay tax, this means this money could be spent on businesses goods and services. An increase in income tax could mean customers have less disposable income to spend on businesses goods and services.

Exchange rates - exchange rate is the price of one currency in exchange for another. Currencies can change in value and this is due to the demand and supply of a currency. What impact will a change in exchange rates have on the cost of supplies? It depends if they were purchased from abroad. If our pound increased against another currency this will make imported supplies cheaper e.g. cheese from France:

GCSE Business Knowledge Organiser—Unit 2 Building a Business

ERASMUS DARWIN ACADEMY

Topic	Visual	Subject Content
2.1 Growing the business		➢ Business growth- internal through new products, new markets or new technology/ external through mergers, takeover ➢ Internal finance to help growth- money raised from within the business e.g. retained profit/selling assets ➢ External finance to help growth- money raised from outside the business e.g. loan/share capital ➢ Globalisation- imports: bringing goods into a country/exports: selling for oversea markets ➢ The two barriers to international trade are tariffs and trade blocs. ➢ Ethics- how morally correct a business is e.g. recycling/fair trade. Reduces pressure group activity on the 4p's.
2.2 Making marketing decisions		➢ Product- what the business is selling...function, aesthesis, cost, features, U-S-P ➢ Product life cycle- introduction>growth>maturity>decline>extension strategy (new design, packaging, advertisement) ➢ Price- the price a company is charging for a product/service (can directly impact demand) ➢ Pricing strategies- premium, competition, penetration, psychological, skimming, cost plus ➢ Promotional mix- how the company gains customer awareness for their product/service- advertisement, sales promotion, direct marketing, public relations, packaging ➢ Place- where the product/service is sold.....e-commerce vs high street
2.3 Making operational decisions		➢ Operations- the purpose is to produce goods and provide services ➢ There are three different production methods- job, flow and batch (each type will impact costs/productivity differently) ➢ JIT stock control- stock ordered just in time to meet demand. Low storage costs but must have reliable suppliers ➢ Procurement- the action of obtaining something ➢ Suppliers- must have positive relationship (quality, delivery, availability, trust, cost) ➢ Quality- the standard expected of a product/service. Quality is a form of added value and can impact brand image ➢ The sales process- if the customer service provided during this process meets customer needs then value is added ➢ Good sales includes: product knowledge/speed and efficiency of service/customer engagement/post-sales service
2.4 Making financial decisions		➢ Business calculations- these are used to compare business performance from year-to-year Gross profit = sales revenue − cost of sales Net profit = gross profit − other operating expenses $\text{Gross profit margin (\%)} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$ $\text{Net profit margin (\%)} = \frac{\text{net profit}}{\text{sales revenue}} \times 100$ $\text{Average rate of return (\%)} = \frac{\text{average annual profit (total profit / no. of years)}}{\text{cost of investment}} \times 100$ For each equation, you must: -be able to compare data -know the limitations -know the benefits/uses
2.5 Making human resource decisions		➢ Organisational structure- centralised where decisions made at centre/decentralised where decisions are delegated ➢ Communication vital for the success of a business (Barriers: too much, too little, motivation, language) ➢ Recruitment- employing new people for a vacant job role. Must create job advert which includes; person spec/job descr ➢ Training and development used to increase productivity, improve customer service and boost motivation ➢ Financial motivators- remuneration, bonus, commission, promotion, piece rate ➢ Non-financial motivators- job rotation, job enrichment, delegation, autonomy

GCSE Business Knowledge Organiser—Topic 2.1 Growing the Business

ERASMUS DARWIN ACADEMY

2.1.1—Business Growth

Internal growth (organic growth) - when a business grows by expanding its own activities. It is low risk, but slow. They do this by:

- Targeting new markets
- Developing new products

External Growth (inorganic growth) - when a business merges or takeover another business. This is higher risk, but faster

Merger—when two businesses join together to form a new larger business

Takeover—when an existing form expands by buying more than half the shares in another business

There are four ways a business can merge or takeover another business:

- Join with a supplier
- Join with a competitor
- Join with a customer
- Join with an unrelated business

2.1.1—Sources of Finance for Large Businesses

Internal	External
Retained Profits - profits the owners have put back into the business	**Loan Capital** - money borrowed from the bank, paid back with interest
Selling Assets—business can sell fixed assets that are no longer in use	**Share Capital** - If a business becomes a limited company they can sell shares

Public Limited Company—Shares in the company are traded on the stock market so they can be bought and sold by anyone. They have limited liability

The extra capital can help the business expand

2.1.1 Economies & Diseconomies of Scale

Economies of Scale	Diseconomies of Scale
When a business expands, its costs may decrease per unit produced. This is called economies of scale. They can happen because: • Larger businesses can buy raw materials in bulk, so get them at a cheaper price per unit • Larger firms can afford to operate and purchase advanced machinery that are faster and cheaper to run • A factory that is 10x as big wont be 10x as expensive—the law of dimensions	When a business expands, it could cause some costs to increase per unit. Such as: • It is harder and more expensive to manage a large business • Bigger businesses have more people so lines of communication are longer, employees lower in the hierarchy may be demotivated and be less efficient • The production process might become complicated and difficult to coordinate.

2.1.2 - Changing Aims and Objectives

As a business grows, its aims and objectives will change. They could:

- Change if they aim to survive (earlier stages) or grow (more established business)
- Change the size of their workforce
- Enter or exit new markets
- Change the size of their product range

Reasons for changing aims and objectives:

Internal Reasons	External Reasons
Business performance	New legislation
Management changes	Changes in market conditions
New technology	Changes in technology

GCSE Business Knowledge Organiser—Topic 2.1 Growing the Business

ERASMUS DARWIN ACADEMY

2.1.3 - Business and Globalisation

Globalisation — when businesses and countries become more connected because of better technology, travel and communication

Globalisation can have many impacts on business:

- Imports: businesses have a larger, global, market to buy from. Can buy supplies cheaply
- Exports: Easy to export so a larger market to sell to
- Location: easier for businesses to locate and operate abroad
- Multinationals: when a company operates in a new country, businesses already in that country need to make sure they are able to compete.

There are barriers to international trade:

- **Tariffs**—taxes on goods being exported or imported
- **Trade blocs**—groups of countries that have little or no trade barriers between them (such as the European Union). If you are outside of these blocs it's difficult to compete with the businesses inside.

How businesses can compete internationally:

- Use e-commerce to sell goods online
- Adjust the marketing mix to suit a given country

2.1.4 - Ethics and Business

Ethics — the moral principles of right and wrong

Businesses may act unethically by:

- Forcing staff to work excessively long hours
- Forcing staff to work for low pay
- Buying raw materials from businesses that exploit staff
- Lying in marketing about their products or competitors

Advantages and Disadvantages of acting ethically:

Advantages	Disadvantages
Can give competitive advantage as a unique selling point	Can be expensive for the business
May encourage investment	Can be difficult to find suppliers
Positive brand image	May not make much profit on products

2.1.4 - The Environment and Business

Businesses can have a negative impact on the environment. Their factories, trucks and machinery can cause air, water and noise pollution.

Businesses can use up non-renewable resources such as coal and oil

Sustainability—acting in a way that will not harm the earth for the future

Businesses can be sustainable by:

- Using less packaging and recycling
- Disposing of hazardous waste in the correct way
- Using efficient machinery
- Using renewable energy sources such as solar

Benefits of being environmentally friendly:

- Positive brand image
- Being "green" can be a USP and give competitive advantage

However, being environmentally friendly can be expensive, such as buying new energy efficient equipment

A stakeholder that persuades businesses to be more environmentally friendly are pressure groups. They can run campaigns on businesses that are not environmentally friendly and ruin their brand image

GCSE Business Knowledge Organiser—Topic 2.2 Making Marketing Decisions

ERASMUS DARWIN ACADEMY

2.2.1 - Product

The Design Mix

Consists of three questions

- **Function** - what problem does the product or service solve?
- **Design/Aesthetics** - how does the product look, feel, taste?
- **Cost/Economic** - can the product be made (or service provided) for the right price, so a profit can be made?

Definition: **Product life cycle** (PLC) is the **cycle** through which every **product** goes through from introduction to withdrawal in terms of its sales over time

Introduction Phase

- The **introduction** phase will involve high costs in research and development and the product may have been test marketed before launching, so profits may be negative
- Sales will be low as customers may not yet be aware of the products

Growth Phase

- **Growth** phase products are enjoying rapid growth in sales and profits
- At this stage the customers are aware of the product and demand is high

Maturity

- Maturity phase products face intense competition now all the producers have joined the market
- Sales are high but profits are starting to fall
- Products have to be discounted to keep sales high

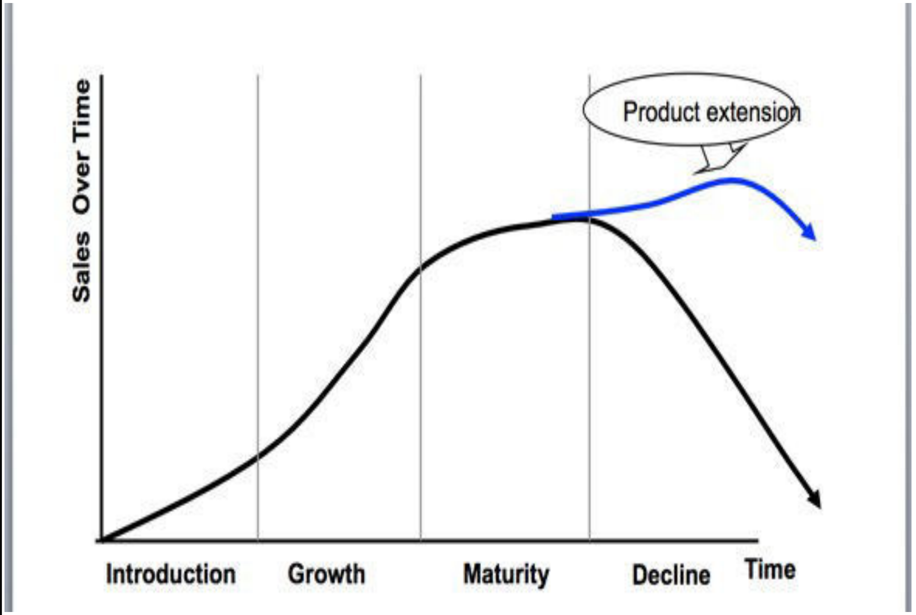
Decline

- **Decline** phase products may be limited in production
- At this stage profits and sales have fallen
- The product may be withdrawn from sale

2.2.1 - Product

Extension strategies extend the life of the product before it goes into decline. Again businesses use marketing techniques to improve sales. Examples of the techniques are:

1. **Advertising** – try to gain a new audience or remind the current audience
2. **Price reduction** – more attractive to customers
3. **Adding value** – add new features to the current product, e.g. improving the specifications on a smartphone
4. **Explore new markets** – selling the product into new geographical areas or creating a version targeted at different segments
5. **New packaging** – brightening up old packaging or subtle changes



ERASMUS DARWIN ACADEMY

GCSE Business Knowledge Organiser—Topic 2.2 Making Marketing Decisions

ERASMUS DARWIN ACADEMY

2.2.1 - Product

Differentiation - When a business make their products or services different from the competition. This can be achieved though:

- Branding
- USP
- Location
- Design
- Customer Service
- Quality
- Product mix

2.2.2 - Pricing Strategies

Price skimming - A product is priced high to begin with as it has a desirability factor (novelty) that will mean customers will want it when it is new. This price might be lowered later on.

Penetration pricing - means setting prices really **low** for a new product or service to encourage sales and to persuade customers to try the product for the first time. Then when customers like the product and have to keep buying it, the business raises the price. Low prices should gain the business more market share.

Cost-plus pricing - is worked out by calculating the total cost to produce the product or service and then profit is added on top.

Competitor pricing - some products which are very similar (like orange juice) will be priced very similar to close competitors. This means that customers will have to judge a product or service on "non-price" methods such as; quality of service, speed, extras.

Promotional Pricing - a product or service is offered for sale at a cheaper price for a limited time. Customers may also be offered free extras to encourage them to make a purchase.

2.2.2 - Influences on Pricing Strategies

Technology– Technology now enables customers to quickly compare prices with competitors, businesses have to be wary of this. Technology also includes the monitoring of web traffic, Amazon react to web traffic by increasing and decreasing their prices continually depending on how many customers are viewing their pages.

Competitors - If a business is operating in a market where there is lots of choice and not much product differentiation then prices will be similar to other firms. E.g. Petrol (product is the same everywhere).

Market Segments - Similar mass market products (e.g. eggs, milk) will have low prices to encourage high sales volumes. Unique differentiated products within niche markets are more likely to be sold for higher or premium prices.

Product Life Cycle - where a product is on the product life cycle will influence its price:

- **Introduction** - businesses may start will a low price to encourage sales when a product is first launched
- **Growth -** businesses may offer small discounts and promotions to encourage purchase
- **Maturity -** businesses will keep prices high to take advantage of profit
- **Decline** - products may be very heavily discounted to make it cheap enough for consumers to buy it

2.2.3 - Promotional Strategies

Advertising - is any paid-for communication overtly intended to inform and/or influence one or more people. Advertising can be via TV, radio, print media and websites.

Mass market products

Large advertising budgets:

- National Radio
- TV adverts
- National newspapers

Niche market products

Large advertising budgets:

- Local radio
- Local paper
- Flyers
- Social media

GCSE Business Knowledge Organiser—Topic 2.5 Making Human Resource Decisions

ERASMUS DARWIN ACADEMY

2.2.3 - Promotional Strategies

Sponsorship– When a business sponsors something, they are establishing an **association** with another organisation or event
That connection must make sense to the customers and enhance the reputation of the business

Product Trial - A temporary offering intended to provide market information by allowing consumers to examine, use or test a **product** prior to fully committing company resources to a full launch

Special offers/sales promotion - sales promotions techniques they are designed to encourage consumers to make a purchase e.g. BOGOF, discounts, free gifts and completions.

Branding - a characteristic name or symbol that distinguishes one product from a competitor. Consumers will be brand loyal and businesses can use this loyalty to promote their products

2.2.3 - The use of Technology in Promotion

Targeted advertising online - e.g. a customer is shopping online for video games, they then click on a news site and see an advert for video games

Viral marketing - When an image, video, piece of information is circulated rapidly and widely from one Internet user to another. It **went viral** means that an advertising campaign has been so successful that consumers are passing it along to each other.

Advantages of Social media advertising:

- Social media advertising is free or low cost so very cost effective
- All brands now need a web presence and can do this with social media platforms
- Customers can be kept informed of new products
- Increases customer engagement with the brand
- Can show customer service with a quick response

Viral advertising via e-newsletters means advertising by sending out an e-newsletter to a customer (means via e-mail). That customer then sends it to their friends and they send it their friends . The business needs to ask their e-mail customers to **SHARE** the newsletter

2.2.4 - Place (methods of distribution)

Retailer– A retailer is a business that sells goods direct to a consumer through a 'bricks and mortar' shop
E-tailer - An e-tailer is a business which sells goods direct to a consumer via the Internet

Retailer	
Advantages	**Disadvantages**
Going shopping is an enjoyable experience that customers can do with their friends or family Trying on clothes helps when buying Customers can have the product as soon as they have bought it – instant satisfaction Retailers win when a customer needs to see, touch, try or test a product first	Retailers are only open during the day and customers may be too busy with work or family Customers may have to wait in a queue or carry heavy bags of shopping Customers may find it embarrassing to buy some personal items May charge higher prices than the e-tailers

E-tailer	
Advantages	**Disadvantages**
Can be started with a smaller investment as no premises and less staff needed Can sell a much larger range than a physical shop Can undercut competitors prices by being cheaper (no shops, less staff) Lots of potential to grow rapidly and reach an global marketplace Lower fixed costs as no shops to pay rent on	Hard to establish trust with the customer as no face-to-face interaction Website costs can be high Security and fraud for online transactions are an issue Only as strong as your distribution / delivery if this is late then it may damage your reputation

GCSE Business Knowledge Organiser—Topic 2.5 Making Human Resource Decisions

ERASMUS DARWIN ACADEMY

2.2.5 - Using the marketing mix to make business decisions

How other parts of the marketing mix can influence :**Price**

Product
- Some products are very rare or in high demand and this will mean a high price can be charged
- e.g. apple iPhone 7 256gig is £1000

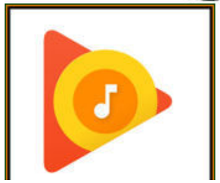
Place
- Some transport costs are high due to the cost of lorry fuel rising which will mean a higher price will have to be charged for the product

Promotion
- Some brands heavily advertise and promote to make sure that high prices can be charged for their goods e.g. Adidas

How other parts of the marketing mix can influence: **Product**

Price
- If customers are demanding lower prices then the product may have to be made from lower quality raw materials or the product may have to be changed e.g. toblerone

Place
- New media and technology is being demanded from customers, who want to download music and DVDs rather than buy it in a shop



Promotion
- New digital marketing methods means that products may have to be adapted for online promotions e.g. Groupon goods

How other parts of the marketing mix can influence: **Place**

Product
- The product type will influence where it can be sold, for example perfume is hard to sell on the Internet as customers will want to smell it first

Price
- The price will dictate what kind of shop the products are sold in. For example Rolex watches will be on sale in high end jewellers

Promotion
- Any active promotion or advertising campaign will influence where goods will be sold, with a big campaign more retailers will want to stock the products

How other parts of the marketing mix can influence: **Promotion**

Product
- Old products may need more promotions or discounts to boost flagging sales or clear out old stock

Place
- Some shops are discounters and so they may expect the products to have a wide range of promotions and sales

Price
- High priced goods competing in niche markets may benefit from PR reviews in magazines rather than STL ad campaigns

ERASMUS DARWIN ACADEMY

2.2.5 - Using the marketing mix to make business decisions

Using the marketing mix to build competitive advantage

- Every marketing manager needs to make 4 key decisions; how to get the right product, to the place, at the right price, and with the right promotion
- The marketing manager needs to make sure there 4 elements or the mix meets **customers needs**
- If the marketing manger gets the mix right, customers will buy and the business will get **competitive advantage** over their competitors

GCSE Business Knowledge Organiser—Topic 2.3 Making Operational Resource Decisions

ERASMUS DARWIN ACADEMY

2.3.1—The purpose of business operations

To produce goods - Some businesses decide that they would like to produce goods. They will take raw materials and produce goods that can be sold. They will use other materials and processes to add value to the raw material so that customers will buy it

To provide services - Some businesses may decide to provide services to customers, These are intangible items that we cannot touch, for example: car or home insurance, a haircut, or having the lawn mowed by a gardener.

Production Processes

Job - Job production is where a single product is made at a time. Products are made for a specific client or customer. Products made are high quality, which means higher prices can be charged, However the production process can be

Advantages of Job Production	Disadvantages of Job Production
• Bespoke, unique, one off, to customers measurements or specifications e.g. a kitchen • Very motivated workers who can see one item made from start to finish • Motivated workers are normally more productive and have lower rates of absenteeism • Higher prices can be charged to the customers	• Skilled labour and craftsmen are expensive • Wide labour and craftsmen are expensive

slow and labour intensive

Batch - Batch production is where small quantities of identical products are made , machines can be easily changed to make a different batch, this is the production method used when a business wants to make more than one item , e.g. different types of bread.

2.3.1 - The purpose of business operations

Advantages of Batch Production	Disadvantages of Job Production
• Flexibility because production can be changed to meet customer needs or fluctuations in demand • Standard production of items means it can be mechanised, this means less labour involved than in a job production process • Employees specialise so become good at their job	• Workers may be less motivated with repetitive work • Idle •time between batches needs to be managed as this is wastage because work stops while the machines are changed to make the next product • If one batch takes too long the other batches will all be held up too

Flow - Flow production uses production lines with continuous movements of items through the process. Many mass produced products are made this way such as cola, cars and toothpaste. The factory would be laid out in assembly lines. This is a very capital intensive process (lots of machines)

Advantages of Flow Production	Disadvantages of Flow Production
• A business can make larger quantities which means they can bulk buy raw materials and save money (economies of scale) • Automated and computerised production means improved quality and more complex designs can be made in shorter times • As production is continuous stocks of parts and raw materials don't need to be held this means a business can use the JIT system	• Workers may be less motivated with repetitive work • Idle •time between batches needs to be managed as this is wastage because work stops while the machines are changed to make the next product • If one batch takes too long the other batches will all be held up too

ERASMUS DARWIN ACADEMY

GCSE Business Knowledge Organiser—Topic 2.3 Making Operational Resource Decisions

ERASMUS DARWIN ACADEMY

2.3.1 - Impact of technology on production

Lower Costs - Initial costs of buying new machinery or robots will be expensive. However the business will soon make these costs back with the improvement in quality and reduction of wastage. Robots don't need to be paid so the savings on wages will soon build up.

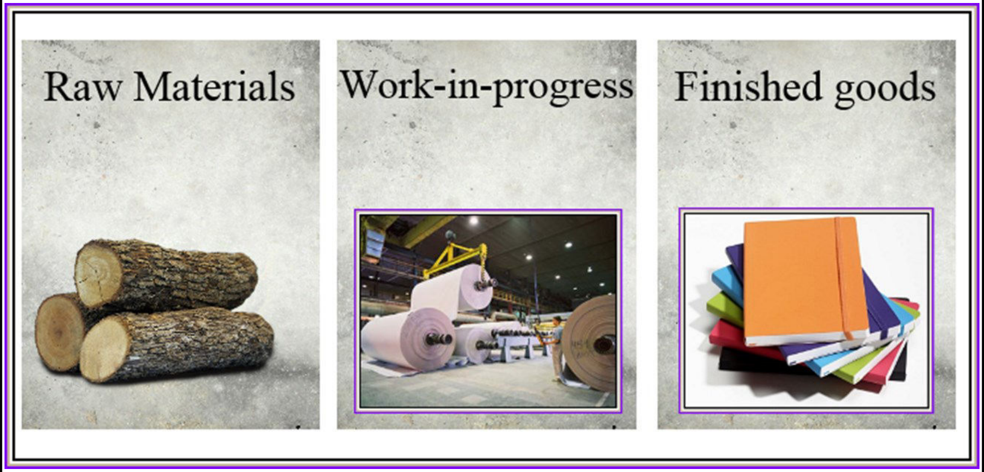
Improve in quality - Design used to be on paper now with CAD (computer aided design) designs can be completed on the computer and seen in 3D. Machinery and robots ensure there is no human error in production.

Improve in productivity - Robots and machines can work 24/7. They do not need breaks, lunch hours, time off or holidays. This will increase the productivity of a business producing products. Productivity output per hour.

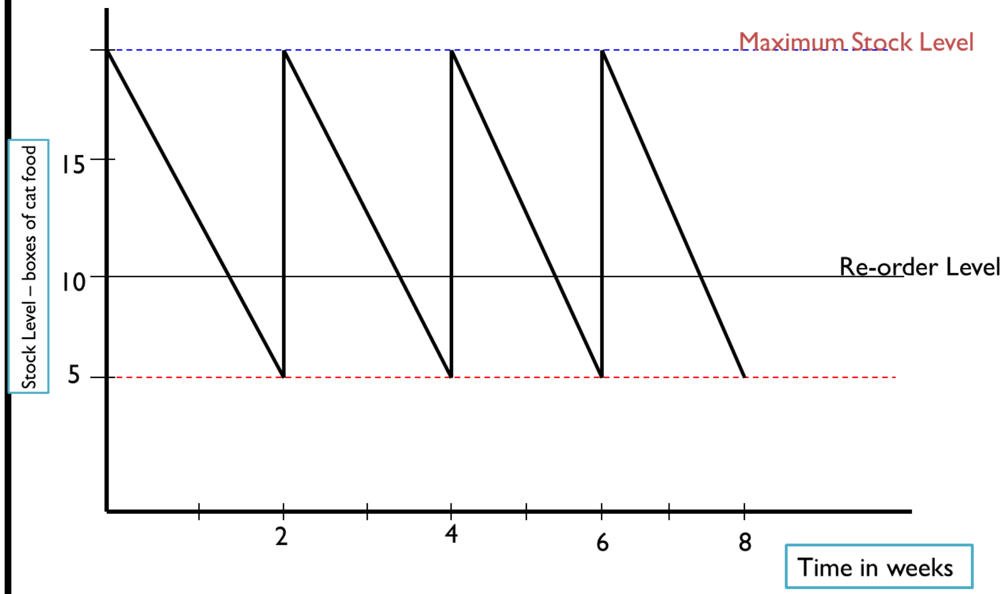
Improve in flexibility - Using CAM computer aided manufacture means that a business can use computers to very precisely control, monitor and adjust tools in manufacturing. It also means that a business producing products can be more flexible and produce a wide variety of products.

2.3.2 - Working with suppliers

Stock can be defined as:



2.3.2– Managing stock - bar gate diagrams



Max stock level - This is the most you an store in e.g. your shop/storage. You can't store more as you don't have the space and it will go out of date.

Min stock level - This is the least that you should store – any less and you will run out and not be able to meet customer demand. This is also called the "buffer stock". E.g. You may keep in 2 boxes of cat food as a buffer to make sure you never run out.

Re-order level - As a business owner of a pet shop you know when you are getting low, but if you have a re-order level you will never run out e.g. 3 boxes This should keep you in stock until the delivery turns up.

In the bar gate diagram above:

- The max stock level is 20 boxes
- Min stock level is 5 boxes
- You will have 10 boxes when you need to re-order

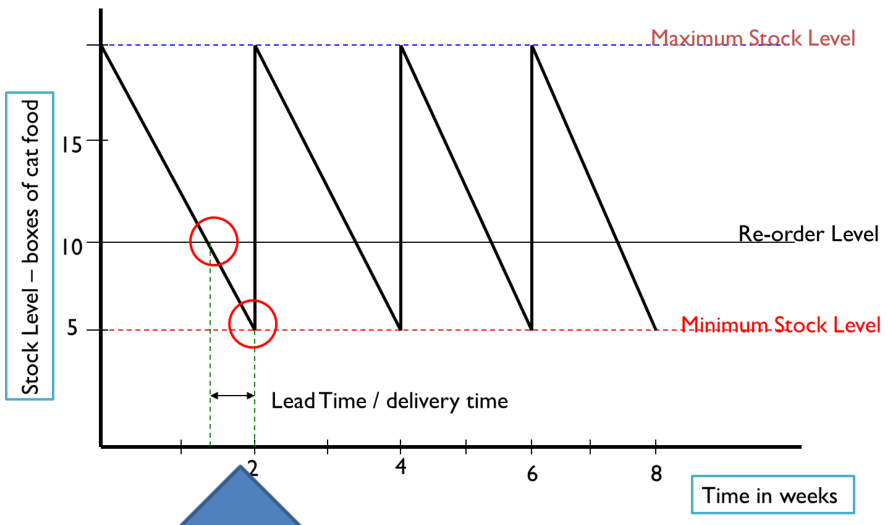
ERASMUS DARWIN ACADEMY

GCSE Business Knowledge Organiser—Topic 2.3 Making Operational Resource Decisions

ERASMUS DARWIN ACADEMY

2.3.2– Managing stock - bar gate diagrams

Working out delivery time



Delivery time is the difference between the re-order level (in weeks) and the minimum stock level (in weeks)

2.3.2– Managing stock - just in time delivery

Just-in-time (JIT) - Just-n-time means that a business does not keep stocks of parts in a warehouse. Instead they order the parts and get them delivered same day from the supplier. To make JIT work the manufacturer needs to have excellent working relationships with their smaller parts suppliers. JIT •does not work when there are delivery or quality issues. No buffer stocks are held in a JIT system so if delivery does not arrive the product cannot be made

2.3.2 - Managing stock - just in time delivery

Advantages of Just-in-time	Disadvantages of Just-in-time
• As stock is ordered as they are needed there is **no wastage** • Stock is not warehoused which is a massive **cost saving** in terms of premises and staff • Stock is less likely to go out of date. • The business will improve their cash flow, as their money is not tied up in stock	• The business won't be able to meet unpredicted surges in demand. • The business won't be able to quickly replace damaged parts. • If the delivery does not turn up in time this can stop the whole production line, which is costly

2.3.2 - The role of Procurement

Procurement defined: Is the process by which businesses buy raw materials, component, products, services, and other resources from a supplier to produce their own products and services.

Relationships with suppliers:

Quality - a business will want its suppliers to sell them the best possible quality products for the price

Delivery - Some •businesses may wish to enter into a JIT agreement with a supplier. This may involve a number of deliveries being made a day. If a delivery is late this may stop production and could cost the business money. If a delivery is late this may stop production and could cost the business money.

Availability - Once the business has an agreement with a supplier to deliver quality stock on time – there will be problems if the stock is not available. This •may stop production entirely. If products continue to be out of stock customers will shop elsewhere.

Cost - Once a supply deal has been made, both sides will want the deal to last a long time to reduce the costs of having to find other suppliers or customers or renegotiate another deal

Trust - The best relationships work well when there is joint problem solving and open communication between the businesses. Trust can be built through reliable deliveries and quality products/services.

GCSE Business Knowledge Organiser—Topic 2.3 Making Operational Resource Decisions

ERASMUS DARWIN ACADEMY

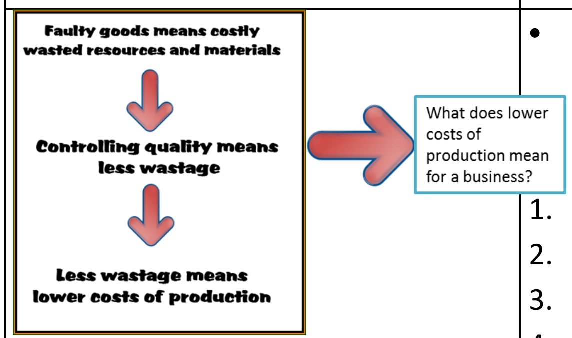
2.3.3– Managing Quality

Quality is the extent to which a business meets or exceeds customer needs. Within manufacturing, a measure of excellence or a state of being free from defects, deficiencies and significant variations.

Quality Control - Quality inspectors check that standards have been met at the end of the production process: standards are consistent. This that quality standards are met and the customer does not receive a sub-standard product. However it could be a lot of waste as the fault is only identified at the end of the production process. Quality control is mainly about "**detecting" faulty output - rather than preventing it.**

Quality Assurance - Quality assurance is about how a business can design the way a product of service is produced or delivered to minimise the chances that output will be sub-standard. In quality assurance, there is more emphasis on '**self-checking' by everyone**, rather than checking by inspectors. Quality assurance will likely be more time consuming for the workers and each worker may have different standards therefore impacting on the consistency of e.g. production, customer service etc.

Quality and controlling costs



Quality and Competitive Advantage

- A business can use quality to build competitive advantage over their competitors in a market

Quality means:

1. Differentiated products
2. Meeting customer needs
3. Building a strong brand image
4. Premium prices can be charged

2.3.4 - The Sales Process

Product Knowledge - This is an essential sakes skill. Understanding •the **products**' features allows the sales person to present their benefits accurately and persuasively. Customers respond to enthusiastic sales staff who are passionate about their **products** and eager to share the benefits with them.

Speed and efficiency of service - If customers visit a fast food outlet they expect: fast service and the correct order. McDonald's has made this their core service strategy.

Customer engagement - (CE) is an effect, a reaction, a connection, a response and/or an experience of **customers** with one another, with a company or a brand. The initiative for **engagement** can be either **consumer**- or company-led and the medium of **engagement** can be on or offline.

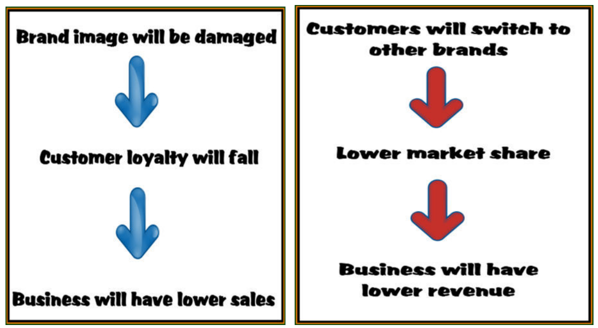
Responses to customer feedback - all customer feedback is important to a business – positive or negative as it will help them to provide a better product or service in the future. How a business responds to this feedback could be the difference between success and failure.

Post-sales service (or after-sales) - refers to various processes which make sure customers are satisfied with the products and **services** of the business. Examples of this include: Warranties, Repairs and maintenance.

The importance to a business of good customer service

A business needs to make sure it gets its customer service right . Unhappy customers will tell other potential customers and may "put them off". Happy customers spread positive 'word of mouth' and become advertising for your business and may come back to buy again

Poor customer service



GCSE Business Knowledge Organiser—Topic 2.4 Making Financial Decisions

ERASMUS DARWIN ACADEMY

2.4.1 - Business Calculations

Average Rate of Return, Gross Profit and Net Profit

Average Rate of Return—how much a business will make or lose as a proportion of the original investment

Step 1: Calculate the **average annual profit =**

total profit / number of years

Step 2: Calculate the **average rate of return % =**

(average annual profit / cost of investment) X 100

The bigger the average rate of return (%) the more successful the investment

Gross Profit—the profit a business makes after the costs of making the product (**costs of sales)** has been taken from the revenue. **Gross Profit =**

Revenue - Costs of Sales

Net Profit—the profit a business makes after all of the costs and **expenses** (wages, salaries, rent, bills) have been taken away from the revenue. **Net Profit:**

Gross Profit - (Other expenses + interest)

2.4.1 - Business Calculations

Profitability Ratios

Profit Margins - Measures how much out of every £1 a business makes in profit

Gross Profit Margin (%) =

(gross profit / sales revenue) X 100

Net Profit Margin (%) =

(net profit / sales revenue) X 100

It is hard to say if the business is performing well based just on the profitability ratios, you need to know the type of business and how long it has been established to see if it's a good or poor profit margin

2.4.2 - Business Data and Performance

Businesses collect data about:

- Competitors' finances
- Customers
- Sales
- The market

Data helps businesses to make decisions and justify these decisions.

Types of data used in businesses:

- Financial data—break even, profit margins, cash flow etc
- Marketing data - market research
- Market data - knowing about competitors

Financial Data Limitations:

- Has to be compared against a similar competitor or previous year
- Comparing is tough because no two businesses are exactly the same
- Lots of different variables can cause financial change to a business, both internal and external change
- Does not include qualitative data

GCSE Business Knowledge Organiser—Topic 2.5 Making Human Resource Decisions

2.5.1—Organisational Structures

Organisational Structure - how employees are organised within the business.

Businesses have layers in their structure, these are normally:

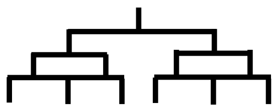
- Directors - manage the strategy
- Senior managers - implement the directors' strategy
- Supervisors - manage small teams under the managers
- Operational staff - not responsible for any staff and carry out tasks given by supervisors and managers

Chain of command - link from the directors to the operational staff

Span of control - the number of employees who report to one manager or supervisor

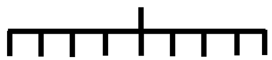
Hierarchical Structure

- Long chain of command
- More layers
- Communication difficult and slow
- Narrow span of control



Flat Structure

- Short chain of command
- Wide span of control
- Fewer layers



Centralised Structure - when decisions are made by one or a few managers

- Decisions are made by people who see the whole business
- Senior managers usually have lots of experience
- Communication can take a long time to filter down the chain of command

Decentralised Structure - authority is shared between all employees

- Employees can make decisions straight away that affect them
- Authority is shared out which can empower and motivate employees
- Inconsistencies can exist in the business when decisions are different

2.5.1—Communication

Businesses need to communicate internally and externally with all stakeholders.

Barriers to effective communication:

- **Noise**—people cannot communicate when it's too noisy in the background
- **Personal relationships** - employees will not want to communicate if they do not get along with a person
- **Distance** - long distance makes it challenging to communicate face-to-face
- **Jargon** (technical language) - people may not understand specialist language

Too much communication causes…

- **Inefficiency** because it wastes time employees could be generating revenue for the business
- **Confusion** over different issues if lots of people are delivering the same message
- **Demotivation** because employees are overwhelmed by all the information

Too little communication causes:

- **Inefficiency** because employees may not receive important messages about tasks they should be completing
- **Demotivation** because they may be annoyed that a lack of communication is causing them not to complete their job properly

GCSE Business Knowledge Organiser—Topic 2.5 Making Human Resource Decisions

ERASMUS DARWIN ACADEMY

2.5.1—Different Ways of Working

Contract of Employment - a legal agreement between the employee and the employer. The contract states:

- Working hours
- Location
- Remuneration (pay)

Full-Time/Part-Time

- Full time hours = 37.5 hours per week (approximately)
- People work part-time to spend time with family or for other interests
- Part-time staff are useful if there is only a limited amount of work in the business

Flexible Hours

- When employees have some influence over the hours and location they work. For example:
  - ⇒ Working their 37.5 hours over 4 days, not 5
  - ⇒ Working from home for 1 day per week
  - ⇒ Starting later and finishing later
- Zero hour contracts: when employees to do not have any contracted hours so they employer and employee choose if and when they work on a weekly basis

Permanent employment - the employee will stay at the business, unless:

⇒ They leave

⇒ They are dismissed

⇒ They are made redundant

Temporary employment - the employee stays at the business for a fixed period of time (such as 12 months)

Freelance employment - a self-employed person is recruited by a business to work on a very specific job or project over a fixed period of

2.5.2– Effective Recruitment

Recruitment - the process a business goes through to bring in new employees

Candidate - a person who is applying for a job in a business

Recruitment Process:

1. **Job Analysis** - the business looks at the job role in great detail
2. **Job Description** - document that includes the main duties, line manager, location of job and wage
2. **Person Specification** - Lists the skills, experience, qualifications and characteristics of the ideal person for the job
3. **Job Advertised** - either **internally** (inside the business) or **externally** (outside the business). Candidates apply with their **CV** (summary of a candidate's experience, skills and qualifications) and **application form** (made by the business and asks for the information the business needs)
4. **Shortlisting** - once candidates have applied to the job, they are compared to the criteria on the person specification
5. **Interviews** - shortlisted candidates are interviewed
6. **Job Offer -** the job is offered to the most suitable candidate

Internal Recruitment	External Recruitment
Recruiting current employees • Cheaper • Quicker • Already have knowledge of business BUT… • No new ideas • Could have bad habits • Leaves a previous vacancy to fill	Recruiting from outside the business • Advert seen by lots of people • Lots of applicants • New ideas BUT… • Takes a long time • Expensive
Vacancies could be advertised via internal email or on a notice board	Vacancies could be advertised in local and national press, job centres, job websites, social media

ERASMUS DARWIN ACADEMY

GCSE Business Knowledge Organiser—Topic 2.5 Making Human Resource Decisions

ERASMUS DARWIN ACADEMY

2.5.3—Effective Training

Training - Giving employees the skills and knowledge to do their jobs effectively

Employees may need training because:

- The business introduced new technology
- To develop their skills
- The business has new processes

Informal Training / On-the-job training	Formal Training / Off-the-job training
• Training is delivered by other employees at the workplace • Cheaper because employees learn and work • Bad habits can be	• Training is delivered by experts or specialists outside of the workplace • Expensive • Higher quality because it's taught by experts

Benefits of training the workforce:

- Makes staff more productive
- Staff stay up to date with changes in the business
- Staff are more motivated
- Encourages staff retention

2.5.4—Motivation

Businesses need motivated staff because:

- Motivated staff are more productive
- They are more likely to stay at the business so reduces recruitment costs
- Attracts new employees to the business

Methods of motivation:

Financial Motivators	Non-Financial Motivators
Wages (per hour) or **Salary** (fixed)	**Job rotation** - moving the employee around the business so they complete lots of different tasks
Commission - staff earn per product they sell **Bonus** - extra lump sum when an employee meets targets	**Job Enrichment** - Giving an employee more responsibility in the business
Fringe Benefit - not part of an employees main income, such as a car or staff discount	**Autonomy** - giving employees freedom to make their own decisions
Promotion - An employee is given more responsibility and paid more for this	

2.5.3 - Performance Reviews

Performance Review - when a business sets employees targets and assesses the employee's performance in the business

1. Manager and employee agree targets
2. Employee is given support to meet targets
3. Performance against targets is reviewed
4. Employees are offered further training, promotions or pay rises
5. Process starts again!