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NCFE Level 1 / 2 Technical Award in Business and Enterprise

Unit 1

Introduction to Business and Enterprise

Workbook

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Contents

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Learning Outcome 1: Understand entrepreneurship, business organisation and the importance of stakeholders

1.1 Entrepreneur

1.1.1 Being an Entrepreneur

An entrepreneur is a person who sets up a business or businesses, taking on financial risks in the hope of profit.

Thousands of people search for a definitive answer on what makes an entrepreneur, so what does it actually mean to be one? It doesn't mean you have to be setting up new business ventures every day; an entrepreneur is someone with the foresight, drive and ambition to take a risk and solve business or consumer problems

1.1.2 Entrepreneurial Characteristics and Skills

The definition of characteristic is a distinguishing feature of a person or thing. Characteristic is defined as a quality or trait. An example of characteristic is intelligence.

The definition of a skill is a talent or ability that comes from training or practice. For example, a skill could be knife skills as a chef.

Most entrepreneurs have some characteristics and skills in common:

- Confident
- Motivated
- Determined
- Results focused
- Initiative
- Decision making
- Analytical ability
- Communication

1.2 Business Aims and Objectives

An aim or objective is a statement of what a business is trying to achieve over a period of time. Usually, the owners decide on the objectives for the business. When a business first starts it needs to find customers and build a good reputation. The most likely objective for a start-up business is to survive. As the business starts to grow, the aim may shift towards expanding the business, for example, adding new services or products and ultimately it will aim to increase profits.

Different organisations have different objectives. Some businesses are run to make as much profit as possible However, not all businesses aim to make profit. Not for profit enterprises and charities are more concerned with raising funds to provide a service to others or promote an idea or ethical vision. In most businesses and enterprises, the owners or directors decide on the objectives for the business.

SMART targets

The best types of objectives are SMART. SMART stands for:

- **Specific:** clearly state what is to be achieved e.g. increased profits.
- **Measurable:** the desired outcome is a number value that can be measured, e.g. increase profits by 10%.
- **Agreed:** all staff are involved in discussing and agreeing an aim.
- **Realistic:** the target is possible given the market conditions and the staff and financial resources available.
- **Timed:** the target will be met within a given period of time, e.g. 12 months.

An example of a SMART objective is 'to increase profits by 10% within the next 12 months'. SMART objectives allow the performance of a business to be measured.

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1.2.1 Financial Aims and Objectives

If sales are low, a business may not be selling enough units for revenue to cover costs of the units and expenses to run the business. Therefore, a loss is made. As more units are sold, the total sales **revenue increases** and covers more of the costs. **The breakeven point is reached when the total revenue exactly matches the total costs and the business is not making a profit or a loss**. Once the firm can sell its units levels above this point, it will be making a profit.

Establishing the breakeven point helps a firm to plan the levels of production it needs to be **profitable**. Businesses aim to **maximise profits** by keeping costs low and sales revenue high.

1.2.2 Non-Financial Aims and Objectives

Customer satisfaction

It is a measure of how products and services supplied by a company meet or exceed customer expectation. Customer satisfaction can be defined as the number of customers, or percentage of total customers, whose reported experience with a business, its products, or its services exceeds specified satisfaction goals.

Customer service is the experience a customer gets when using products or services made by the business. Businesses want satisfied customers as they make repeat purchases and can recommend the product to friends and family leading to increased sales.

Successful businesses ensure they have aims and objectives defining the quality or standard of service needed to meet customer needs. For instance, a call centre may aim to pick up the phone within 3 rings.

Ensuring that quality standards are met requires:

- Training so that staff understand their role and responsibilities
- Innovation or introducing new ideas and methods.
- Listening to customers helps a business adjust its products or services to better meet consumer needs and respond to any issues or complaints.

Expansion

Business expansion has potential benefits and disadvantages. Some businesses choose to stay small as they reluctant to take the risk of growing the business.

Benefits of expanding a business
As a business grows it gains two major advantages over its smaller rivals

- Influence over market price – a big business may force competitors to lower their prices
- Economies of scales – larger companies may have lower unit costs as they can buy in bulk.

Employee engagement

Employee engagement is the emotional commitment the employee has to the organisation and its goals.

This emotional commitment means engaged employees actually care about their work and their company. They don't work just for their pay, or just for the next promotion, but work on behalf of the organisation's goals.

Businesses benefit from engaged staff as this will keep their staff retention high, lower their training costs, and lead to higher customer satisfaction and higher levels of profit. Therefore businesses often have aims and objectives for staff retention, staff feedback and staff engagement.

Diversification

Diversification is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market.

Dave has kept bees for twenty years and made a good income on the honey selling at local markets. However, he would like to have more products to sell so he decides to diversify away from food produce into beauty products making honey soap and lip balm.

Ethical responsibility

Some businesses believe that they have a responsibility to behave in an ethical manner. Many companies feel that they have a duty to act in an ethical manner and protect the environment they work in and the people they employ.
To do this they consider two questions:

- Impact: who/ what does my decision affect or harm?
- Fairness: will my decision be considered fair by those affected?

Using very cheap labour in countries with poor health and safety legislation may mean goods are cheaper but many consumers would prefer to buy more expensive items knowing the workers are paid properly and work in safe environments

Companies can use ethical and corporate responsibility to enhance their image, gain good publicity and increase their profits.

1.3 Structures

1.3.1 Legal structures

Sole Trader

A sole trader is a business that is owned and run by one person. The firms are usually small, and easy to set up. Usually, only a small amount of initial capital needs to be invested, which reduces the start-up cost. They may employ staff, for example, a childminder may hire an assistant. However, wage bills are usually low, because there few or no employees. Sole traders have overall control as they are usually running the business and have responsibility for decision making without needing to seek authority from anyone else. People like beauticians, electricians or web designees could also be sole traders.

There are disadvantages of being a sole trader, it can be difficult to take holidays or arrange time off if you are sole responsible for your business. You may not have all the skills required to be successful at business, for example, a beautician may not have the IT skills to manage their website successfully. Financially, a sole trader may have restricted investment opportunities as capital and access to loans is based solely on their personal circumstances.

Sole traders do not have a separate legal existence from their owner. The sole traders are personally liable for their company's debts, and may have to pay them out of their own money. For example, if the sole trader accumulated a large debt then the sole trader would have to pay this debt even if it meant them selling their own home.

This is called 'unlimited liability'.

How to set up as a sole trader

Sole traders must register for' Self Assessment' and file a tax return every year. Sole traders that run their own business are self-employed. Profits that have been made by the sole trader can be kept after tax has been paid on them. Sole traders are personally responsible for any losses that their business makes.

Key fact

What is a self assessment?

Self assessment is a system HM Revenue and Customs (HMRC) uses to collect Income Tax. Tax is usually deducted automatically from wages, pensions and savings. People and businesses with other income must report it in a tax return.

Partnerships

Partnerships are businesses owned by two or more people. The partnership usually has a contract called a deed of partnership.
This describes:

- the type of partnership it is
- how much capital each partner has contributed
- how profits and losses will be shared.

For example, each partner may have contributed an equal amount and profits will be shared equally. Alternatively, one partner may have contributed 75% of the capital and the other 25%; this may affect the share of the profits. Partnerships can also have a 'sleeping partner' who invests in the business but is not directly involved in the day to day management of the enterprise. They will, however, have a share of the profits.

A key strength of a partnership is shared responsibility. This allows for each partner's strengths to be utilised effectively supporting the business. For example, if a two plumbers are in then each partner can contribute to the businesses success; the plumbers would work together to provide the plumbing service to customers, however, one partner may have strengths in social media marketing to attract new customers and the other may have strengths in maths and bookkeeping.

Professionals like doctors, dentists and lawyers are good examples of people who may go into partnership together. They can benefit from shared expertise, someone less to rely on when they are on annual leave and someone to share the business expenses with. Another advantage is that there is more than one person who could invest in the business. There is someone else to discuss decisions with; however, this could lead to conflict if partners disagree on an aspect of running the business. Additionally, the division of profits can cause issues. The deed of partnership sets out how the profits are divided, but if one partner feels they are contributing more, and should therefore have a greater share, there can be disagreements.
However, like the sole trader, partnerships have **unlimited liability**.

How to set up a partnership

Business partnerships must:

- choose a name
- choose a ‘nominated partner’
- register with HM Revenue and Customs (HMRC)

The ‘nominated partner’ is responsible for managing the partnership’s tax returns and keeping business records.

Franchise

A franchise is a way of buying the right to use an existing business model.
A franchise is a joint venture between:

- franchisee
- franchisor

There are many famous brands of franchises, for example, McDonalds and Costa.

Many people choose this way of starting a new business venture as it can be seen as less high risk than starting from scratch:

- the business has a good reputation and a recognised name
- an existing customer base
- existing business model and financial planning
- new franchises are given lots of help and support in the early stages

However, the image of the company is very important and franchisees must abide by the strict rules of the franchise. This means that there can be limited innovation and creative development of the business outside the boundaries of the franchise. You also may have no control over pricing and choice of suppliers.

Advantages of owning a franchise
- Owners of the franchise have a level of independence
- There should be good brand recognition leading to a customer base
- Quality and consistency are determined by the franchiser (this could be a disadvantage too)
- Franchises offer support in setting up the franchise and ongoing support in marketing, operations and management

Disadvantages of owning a franchise
- The franchisee must operate their business to the procedures set by the franchiser which can limit creativity and innovation
- On-going royalties and advertising fees must be paid
- If the reputation of the brand is damaged then this can affect the franchise's profits
- Terms of the franchise are set by the franchiser and are not usually negotiable

Limited Company

A limited company is incorporated at Companies House which means it has own legal identity. Therefore, it can own assets in its own right and potentially sue others. The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of share is called a shareholder.
As limited companies have their own legal identity, their owners are not personally liable for the business' debts. The shareholders have **limited liability**, which is the major advantage of this type of business legal structure.

Private Limited Company

A private limited company (ltd) is usually a smaller business such as an independent estate agent. Shares do not trade on the stock exchange.
Every limited business will have at least one director or a board of directors who make the management decisions. Annually, financial accounts must be sent to Companies House and HMRC notified. Profits from the company are paid to shareholders in the form of dividends.

How to set up a private limited company

To set up a private limited company they need to register with Companies House. This is known as 'incorporation'.
Private Limited Company's will need:
- a suitable company name
- an address for the company
- at least one director
- details of the company's shares - you need at least one shareholder
- to check what their SIC code is - this identifies what their company does

In addition, the following is needed:

- shareholders to agree to create the company and the written rules (known as 'memorandum and articles of association')
- details of people with significant control over the company, for example anyone with more than 25% shares or voting rights

A private limited company is the most common form of company. The shares of a private limited company are not available to the general public to buy and sell on a recognised stock exchange. The company is owned by shareholders and they enjoy "limited liability" – i.e. the most they can lose is the amount they have invested in their shares.

Advantages

- Limited liability – this is the most important advantage of incorporation. Limited liability protects the personal wealth of the shareholders
- Easier to raise finance – both through the sale of shares and also easier to raise debt
- Stable form of structure – business continues to exist even when shareholders change
- Provides more privacy of information than an public limited company

Disadvantages

- Greater admin costs (though much cheaper than being a public company)
- Public disclosure of company information (annual report & accounts + annual return)
- Directors' legal duties (set out by Companies Act)

Like to know more?

Companies House is a useful website for further research and information:

https://www.gov.uk/government/organisations/companies-house

Public Limited Company

A public limited company (plc) is usually a large, well-known business such as Ford Motor Company. Shares trade on the stock exchange. PLC are the only business who can raise money from selling shares to the general public. The value of shares can go up and down affecting the value of the company and the dividends that are paid to shareholders. A hostile takeover can happened to a plc when another company buys more shares giving them more control over the company.

Key fact!

The London Stock exchange was founded in 1571.

To find out more visit:

http://www.londonstockexchange.com/home/homepage.htm

A public limited company ('PLC') is a company that is able to offer its shares to the public. They don't have to offer those shares to the public, but they can.
How to set up a public limited company
There are some specific requirements for a PLC which must be met:

- The minimum number of shareholders must be two (a private limited company only needs one shareholder)
- Accounts must be filed within 6 months of the year end (the limit is 9 months for a private company)
- The Company Secretary must be a qualified person (in a private company the secretary does not need to be qualified)
- The minimum number of Directors is two (just one needed for a private company)

Advantages of a public limited company:

- Better access to capital – i.e. raising money from existing and new investors
- Liquidity – shareholders are able to buy and sell their shares
- Value of shares – the value of the business is based on the share price (this could also be a disadvantage)
- The opportunity to more easily make acquisitions – e.g. by offering shares to the shareholders of the target business
- To give a company a more prestigious profile

Disadvantages of a public limited company

- Once on the stock exchange, the company will have a much larger number of external shareholders, to whom company directors will have to explain their actions to
- There will be more public scrutiny of the company's financial performance and actions
- There is greater risk of a hostile takeover when another company buys more shares giving them more control

Social enterprise and co-operations

How to set up a social enterprise

Organisations or individuals wishing to set up a social enterprise (if you’re starting a business that helps people or communities) must choose a legal business structure. Organisations or individuals who set up a business that has social, charitable or community-based objectives can set up as a:

- limited company
- charity, or from 2013, a charitable incorporated organisation
- co-operative
- community interest company (CIC)
- sole trader or business partnership

Those setting up a small organisation like a sports club or a voluntary group and don’t plan to make a profit, can form an ‘unincorporated association’ instead of starting a business.

A co-operative (co-op) is a different kind of business. A co-operative is owned by individual members and other co-ops, not big investors, and members get a chance to have a say in how they are run.

Profits mean members receive money, rewards and offers and a co-op can support its local community.

https://www.co-operative.coop/about-us/what-is-a-coop

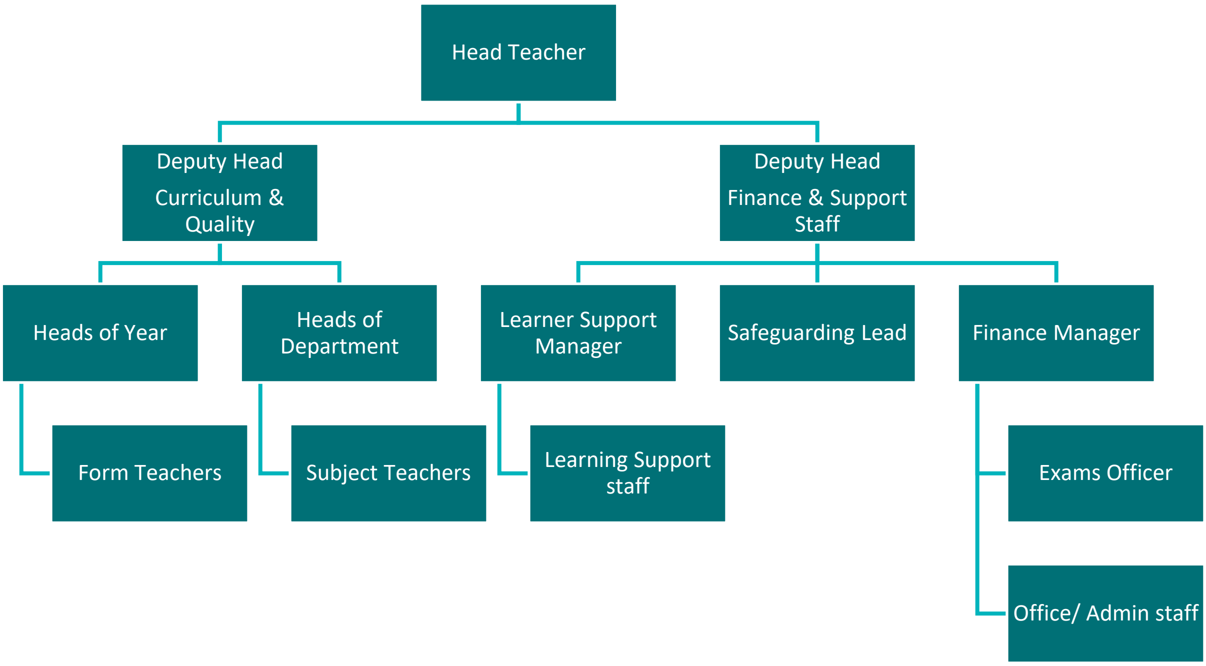
1.3.2 Organisational Structures

A hierarchy refers to the management levels within a business.

Senior managers manage line managers who are responsible for overseeing the work of other staff. Delegation is when managers entrust tasks or decisions to staff they manage (also called subordinates).

Types of Organisation

Tall organisations have many levels of hierarchy. The span of control is narrow and there are opportunities for promotion. Lines of communication are long, making the firm unresponsive to change.

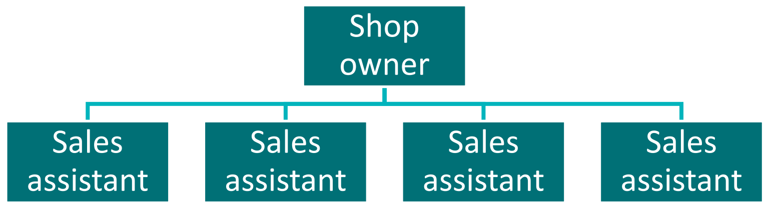


Flat organisations have few levels of hierarchy. The lines of communication are shorter which makes it easier for change to happen. A wide span of control means that tasks must be delegated and managers can feel overstretched.

In tall organisations, most decisions are taken by senior managers or line managers and then implemented down the organisational hierarchy.

Flat organisations delegate authority down the chain of command, therefore, reducing the speed of decision making.

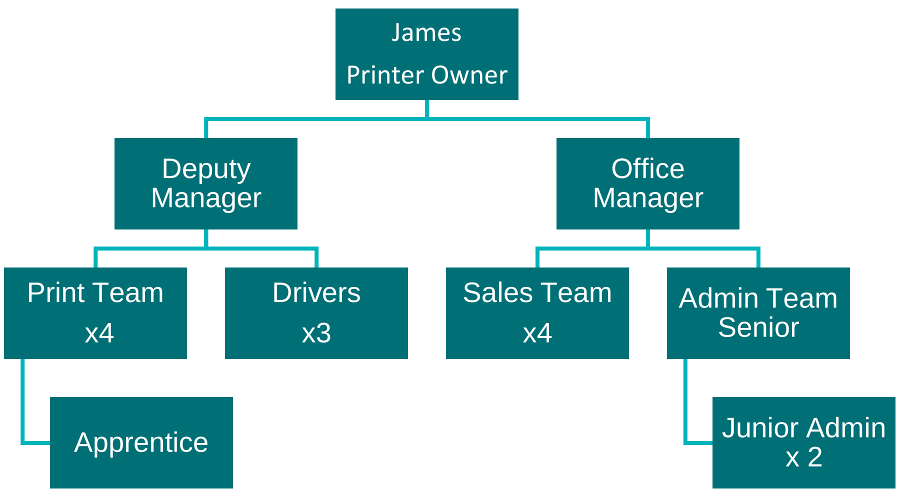
One method of reducing costs is to remove a layer of management in a hierarchy while expecting staff to produce the same level of output. This is called **delayering.**



1.3.3 Restructuring

There are two key ways of restructuring a business or organisation.

Delayering –This means reducing the size of a business hierarchy. This usually means a reduction in management. This creates a flatter (less layered) organisational structure.



Redundancies – elimination of a job role.

1.4 Stakeholder Engagement

All businesses and enterprises have stakeholders. A stakeholder is an individual, group or organisation who has an interest in the business or enterprise, and may be affected by the business.

Stakeholders can be… internal - within a business. This includes:

- Employees
- Managers
- Owners
- Workers

Stakeholders can be… external - outside a business. This includes:

- Customers
- Suppliers
- Shareholders
- Local community
- Government
- Finance providers

Owners have a major influence in how the aims of the business are decided, but other stakeholders also have an influence over **decision making**. For example, the **directors** who manage the day-to-day affairs of a company may decide to make a reduced wage bill a top priority rather than profits.

Customers are also key stakeholders. Businesses who neglect their customers' voice find themselves losing sales to rivals.

In a **small business**, the most important **stakeholders** are the owners, staff and customers. In a large company, **shareholders** are the key stakeholders as they can vote out directors if they believe they are not running the business successfully.

Stakeholders can have differing aims and objectives. For example customers want low process and good customer service, but business want reduced costs and high profit. Government may want to encourage business but may still raise taxes.

There are advantages in stakeholder engagement and support.

- Staff motivation/retention
- Improved reputation
- New Ideas
- Increased share prices

Learning Outcome 2: Understand the marketing mix, market research, market types and orientation types

2.1 Marketing Mix

2.1.1 Product Types

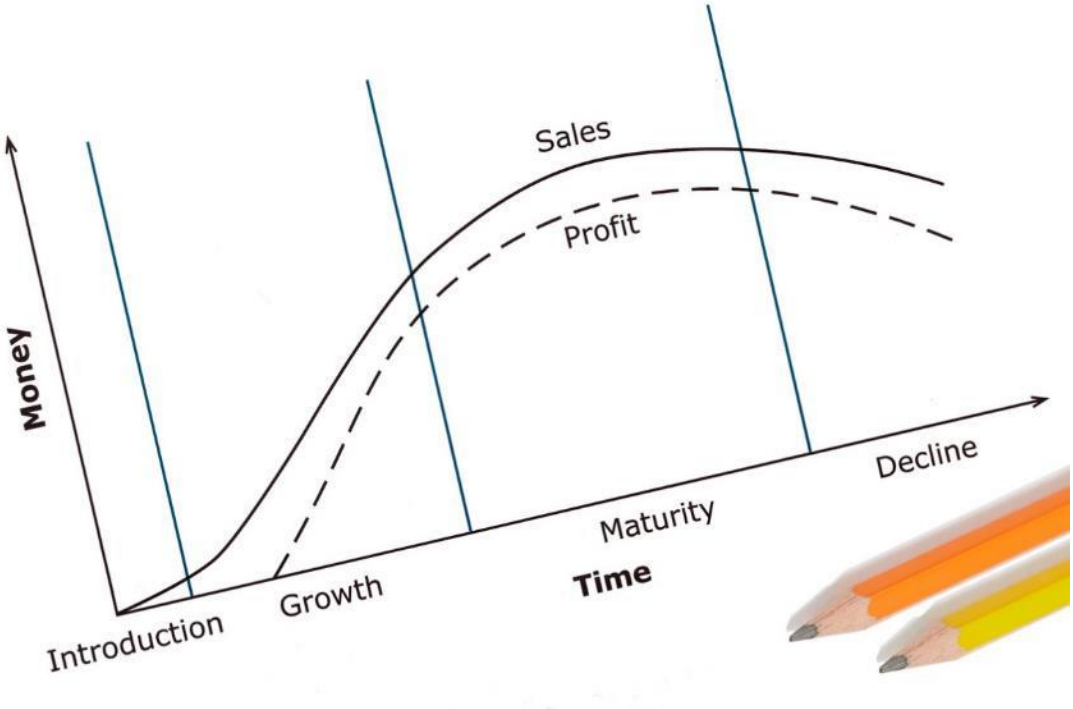
A product is **goods** or a **service** that is sold to customers or other businesses. Customers buy products to meet their **needs**.

A product is goods or a service that is sold to customers or other businesses.

Goods are a tangible product – something you can touch.

Services are intangible products – something you cannot touch.

2.1.2 Product lifecycle



When a product is **introduced or launched** the company has many issues to consider; if customer knowledge of the product is low therefore sales are low.

Other issues to consider are:
- advertising costs are high
- profit low or loss being made on the product
- market share low

Growth
- sales increase
- customer knowledge increases
- profit may begin/rise
- competitors may enter the market

Maturity
- sale at the maximum
- profit is maximized
- competition levels very high
- customer interest peaks
- no further room for sales expansion

Decline
- sales decrease
- customer interest drops
- customer switch to substitute products
- product becomes unfashionable or undesirable

Extension strategies

- New advertising campaigns, for example, a new TV campaign
- New pricing strategies, for example, 2 for 1 offer
- New product features, for example, upgraded software on mobile phone

Development and innovation

- Remaining competitive
- Entering new markets
- Increase market share

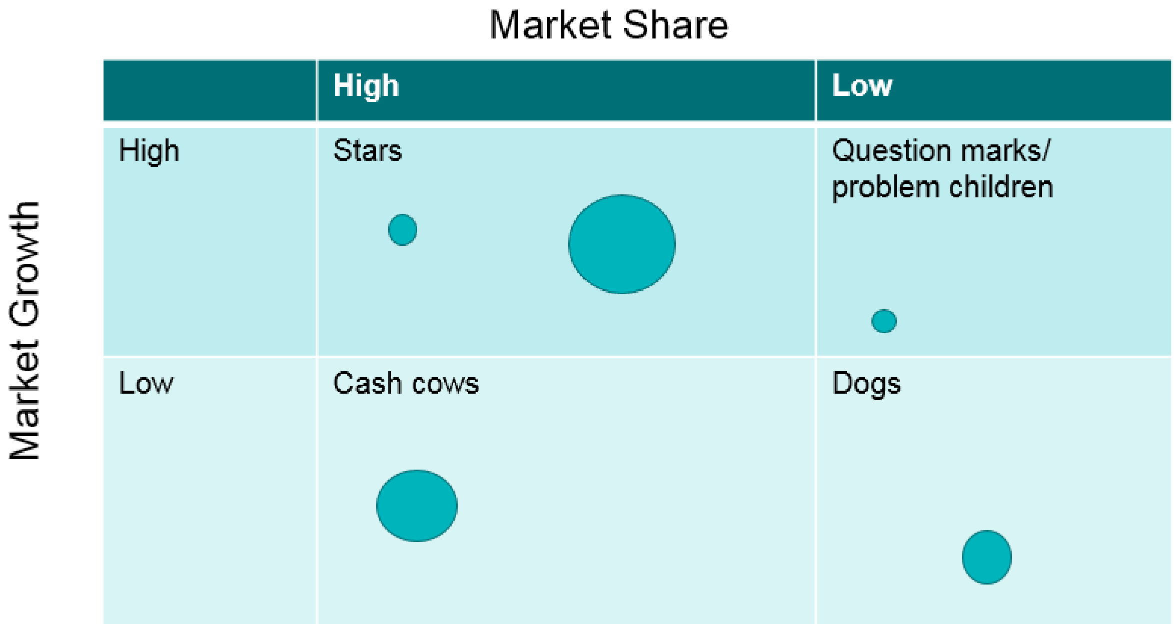
2.1.3 Boston Matrix

What is market share?

Market share is the percentage of business or sales a company has out of total business or sales by all competitors combined in any given market.

What is market growth?

The increase in size or sales recorded within a given consumer group over a specified time frame.



Star products have a high market share in a fast growing market
(The size of the circle indicates the size of the market share; the bigger the circle, the more market share it has)

Cash Cows have a high market share in a slow growing market.

Question marks or problem children products have a low market share in fast growing markets.

Dogs are products with a low market share in slower growing markets.

2.1.4 Place

Factors affecting place:

- customer location
- location of raw materials
- transport and infrastructure links
- availability of staff

Channels of distribution

Agent – do not own the products, they sell on behalf of manufacturer and then usually get a commission from the sale.

Wholesaler – buys in bulk and re-sells smaller quantities to retailers. This means lower profit margins for the manufacturer.

Retailer – retailers can a purchase product to sell from wholesalers or manufacturers. They sell directly to the end-users.

Direct – the manufactures sells directly to the customers; often via mail order or online (e-commerce).

Channels of distribution	**Advantages for the manufacturer**	**Disadvantages for the manufacturer**
Agent	• will promote products, saving the manufacturer advertising costs • can replace the cost of the sales team for the manufacturer • saves the manufacturer time and energy as they only have to deal with the agent and not all the people they sell the product too	• No control over the marketing of their product • Retailer may change the price which can affect the image of the product
Wholesaler	• can buy in bulk so less deliveries • can promote products, saving the manufacturer advertising costs	• No control over the marketing of their product
Retailer	• Retailers will promote and advertise the product at no cost to the manufacturer • No overhead costs for manufacturer for retail premises	• Retailer may change the price which can affect the image of the product • The product will have competition from other similar products that the retailer may stock
Direct/ e-commerce	• Available 24/7 • A website shop is cheap and relatively easy to set up • Online sales have lower costs as there are no premises overheads	• Online shopping may put off some potential customers that would like to try products before buying or if they are not confident using the internet • Customers have to wait for their delivery • Manufacturer is dependent on a delivery service which they do not control

Ecommerce

Electronic commerce or e-commerce is a term for any type pf business that involves the transfer for information across the internet. It is currently one of the most important aspects of the internet. Ecommerce enables businesses to sell their products to customers which no barriers of time or distance. An online store enables customers to purchase products and services and you can place the items in a virtual shopping basket, check out and complete the transaction by providing payment information.

How much do consumers in the UK spend online?

- UK households spent the equivalent of $5,900 (£4,611) using payment cards online in 2015 (UK Cards Association).
- Online shoppers in the UK spend more per household than individuals in any other country, (Research from the UK Cards Association).

2.1.5 Price

Price = manufacturing costs + marketing costs + design costs + packaging costs + distribution costs + testing & market research costs + staff costs + taxes + bank charges + website costs + **PROFIT**

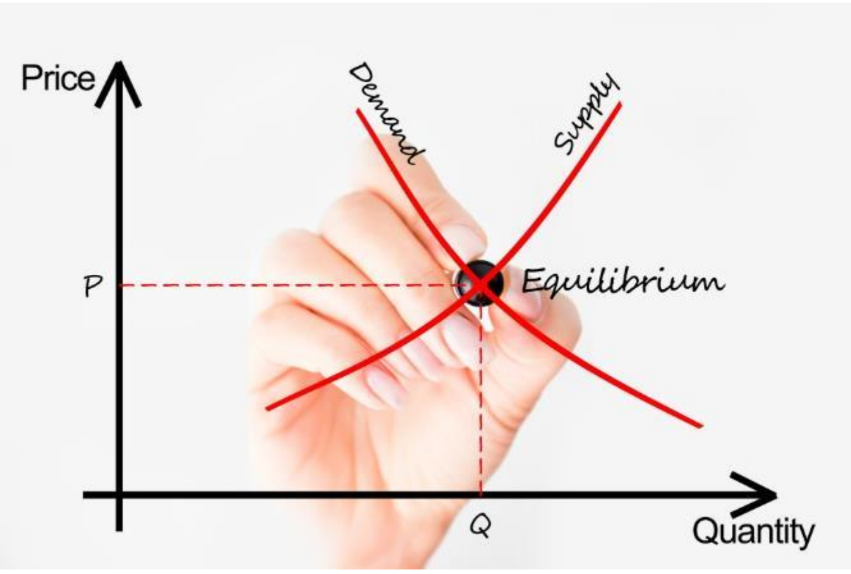
Cost plus pricing
For example, The Sweet Factory has produced a new product, Chomp Bar – a delicious mix of chocolate, nuts, raisons and caramel.

The cost of this product (before profit) is 50p.
You could simply decide on the amount of profit you want to make for each bar and add this to the cost. There are two ways doing this:

- Using a **mark-up** – eg work out the cost and add a percentage, so if you wanted a 100% mark up the bar would cost £1.00
- Using a **profit margin** – eg work out the cost and add the percentage profit margin, so if you wanted a 20% mark up and the product costs 50p to make then 80% = 50p, therefore 100% = 62.5p which would be rounded up to 63p

Equilibrium Price

The market price (the price we pay) is based on the supply and the demand for the product or service. If supply is low and consumer demand is high then this will make the product more expensive. If there is a large supply of the produce and people do not want to buy it (low demand) then the price will be low. The equilibrium price is the price where supply and demand cross.



Price skimming

This is where you charge a high price to begin with as you expect there to be a high demand for this new product. This works well for established firms with a good customer base, who are will to pay more. Sometimes a higher price can make a product more desirable and improve the firms' image. After it's established, the price is lowered to help it become a mass market product.

Penetration pricing

This is where you charge a very low price, as the product is new, to encourage customers to try it. This is a good way to gain a market share in a competitive market. Once the product is established the price rises as loyal customers continue to buy.

Psychological pricing

Psychological pricing is where the product is priced a figure that may appeal more to a consumer, for example 99p appears to be better value than £1.

Loss leaders

The products price is set below the cost of producing it – there is no profit made on the product. This is usually used when the consumer will buy another product at the same time which makes a profit. For example, games consoles may not make a profit, however, there is profit in the actual games for the consoles.

Competitive pricing

This is where the business charges similar or the same prices for their products as their competitors. For example, petrol stations usually charge very similar prices.

Promotional pricing

Promotional pricing is usually time limited to create a surge in demand for a product. They can appear to be more valuable than similar products on the market. For example, buy one get one free or 50% discount.

2.1.6 Promotion

How do businesses **advertise –** what are the advantages and disadvantages if each?

	Advantages	Disadvantages
Newspapers (local & national)	Local advertising in newspapers can be focused to a geographical area Local newspaper advertising is comparatively cheap Newspapers can provide information about the people that purchase their papers so it may be targeted	Local may not be read by many people Advertising space is expensive in national newspapers
Magazines	Magazines can be used to target people for particular interests, for example Fisherman's Weekly can be used to advertise fishing hooks.	Can be expensive to purchase advertising space High quality photographs need to be taken which can be expensive
Posters & bill boards	Can reach the local population easily Cost effective	Limited to people walking or driving past the bill board or poster Posters/ billboards can be removed or damaged People seeing it may not be your target customer
Leaflets & flyers	Relatively cheap to print and produce Useful at targeting sales events	People need to be paid to deliver them May waste time and effort as the people receiving leaflet may put in the bin May not be delivered to target customer
TV adverts	Reach a wide population Prestigious and will help to raise	Very expensive to buy advertising space for slots on TV

	the profile of the product	Needs to be produced by professionals which costs a lot of money Many people now watch catch up without the adverts
Radio adverts	Reach a wide population Prestigious and will help to raise the profile of the product	Very expensive to buy advertising space for slots on the radio Needs to be produced by professionals which costs a lot of money Many people now listen to pop casts without the adverts
Internet	Adverts can be produced by an in house team (no expert required) Relatively inexpensive Can be very focused on target audience	If produced in house, it can look unprofessional This will only reach those using the internet and not whole target audience.

How many more advantages and disadvantages can you think of?

Examples of **sales promotion** include,

- Competitions
- for 1 offers
- Free samples
- Coupons
- Point of sale displays
- Free gifts e.g. comes with free toy

Personal selling is a face-to-face selling technique by which a salesperson uses his or her interpersonal skills to persuade a customer in buying a particular product.

Direct marketing is a form of advertising in which companies provide physical marketing materials to consumers to communicate information about a product or service.

What is the difference between Personal Selling and Direct Marketing?

- Personal selling is more for products and services that are complex in nature and cannot sell off the shelves on their own such as financial products.

- Direct marketing is a selling technique that involves making direct contact with the intended customer through phone calls, emails, offers through newspapers and magazines etc.

- Direct marketing is more aggressive than personal selling that appears like an attempt to arm the client with important information at first.

- There is an emphasis on building up a relationship with the customer in personal selling whereas direct marketing seeks to impress upon the benefits of the offer.

- Personal selling is the oldest form of selling while direct marketing is being used increasingly by small and big companies to increase their sales.

Businesses have a range of **promotional objectives:**

- increasing consumer knowledge
- increasing market share
- communicating with customers
- encouraging purchasing
- developing customer loyalty

2.2 Market Research and Markets

2.2.1 Data Types

Qualitative data cannot be expressed as a number. Data that represent nominal scales such as gender, religious preference, opinions and preferences are usually considered to be qualitative data.

Quantitative data is anything that can be expressed as a number, or quantified. Examples of quantitative data are scores on tests, number of hours of study, or weight of a person.

2.2.2 Primary Research

Primary research (field research) involves gathering new data that has not been collected before. For example, surveys using questionnaires or interviews with groups of people in a focus group.

Advantages and disadvantages of primary research:

- data has been collected personally to its relevant to the research
- sample size can be selected by the researcher
- research has full control of how and where they collect information from
- information is up to date
- it belongs to the business, so they don't need to share to with competitors
- expensive to collect
- it can take all long time to process information
- if researcher makes a mistake it's hard to tell as there is nothing to compare to with

2.2.3 Secondary Research

Secondary research (desk research) involves gathering existing data that has already been produced. For example, researching the internet, newspapers and company reports.

Advantages and disadvantages of secondary research:

- not expensive
- easily accessible
- immediately available
- provides good background information
- not always recent
- not always specific
- may get ‘false’ results as lack of control over the data

2.2.4 Market types

Mass Market

Mass market is a large, general market consisting of consumers belonging to various age groups, lifestyles and preferences. If a company manufactures a product which is useful to a wide range of consumers across various sectors and appeal to a large group of people.

- high number of sales
- large number of competitors
- wide customer base
- profit margins low

Niche Market

A niche market is the subset of the market on which a specific product is focused. Niche markets are usually a small, specialised market for a particular product or service.

- sales volume low
- small number of customers
- specialized products
- high profit margins

2.2.5 Orientation types

Product orientation

A company that follows a product orientation chooses to ignore their customer's needs and focus only on efficiently building a quality product. This type of company believes that if they can make the best 'breakfast cereal,' their customers will come to them.

Market orientation

A market orientated company is one that organises its activities, products and services around the wants and needs of its customers.

Learning Outcome 3: Understand Operations Management

3.1 Operations Management

3.1.1 Outsourcing

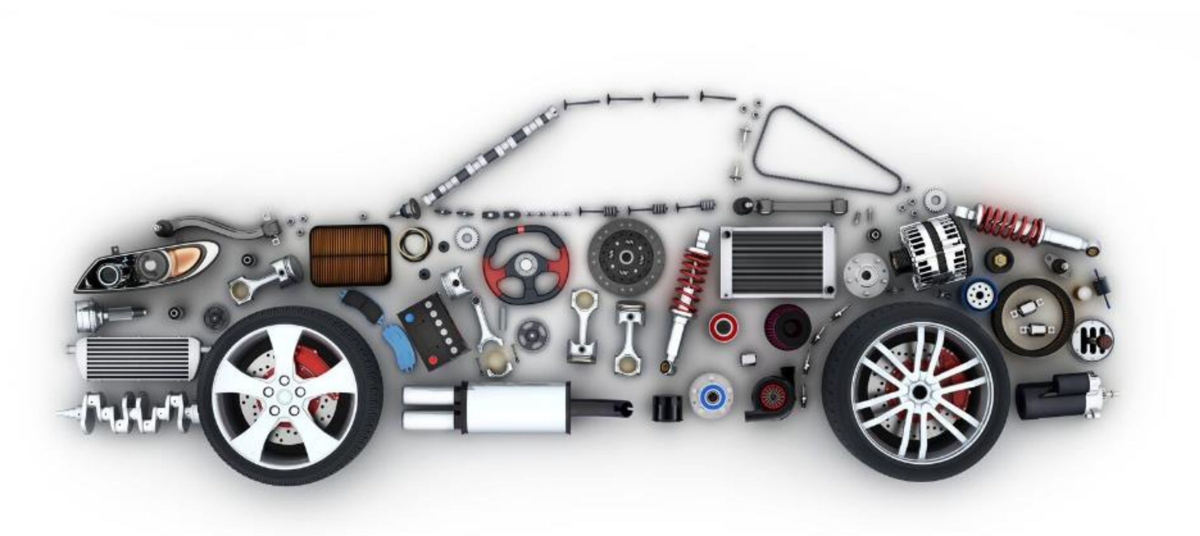
Outsourcing (also sometimes referred to as "contracting out") is a business practice used by companies to reduce costs or improve efficiency by shifting tasks, operations, components, jobs or processes to an external contracted third party for a significant period of time.

Advantages for outsourcing include

- improved focus on core business activities - outsourcing can free up your time to spend on other aspects of the business
- increased efficiency - choosing an outsourcing company that specialises in the process or service you want means its more efficient and may be of higher quality.
- increased reach – you can do have access to new equipment of skills so you can do more things or make new products

Disadvantages of outsourcing include

- service delivery - which may not be to your expected standard
- confidentiality and security – the outsourcing company will have access to your information
- lack of flexibility – may be hard to adjust to your way of working.
- instability - the outsourcing company could go out of business



3.1.2 Lean Production

Lean production is a strategy businesses can use to make production more efficient.

In lean production, the businesses aims to use as few as resources as possible and to have as little waste as possible.

Workers can also be encouraged to think about ways to improve their productivity too.

In traditional production, products were manufactured in separate areas and workers were own their own.

In **cell production**, workers are organised into multi-skilled teams.

Each team is responsible for a particular part of the production process including quality control and health and safety.

Each cell is made up of several teams who deliver finished items on to the next cell in the production process.

Just in Time (JIT) means that stock arrives on the production line just as it is needed. This minimises the amount of stock that has to be stored (reducing storage costs). JIT has many benefits and may appear an obvious way to organises production but it is a complicated process which requires efficient handling.

Kaizen is a Japanese word for an approach to work where workers are told they have two jobs to do:

Firstly, to carry out their existing task; and Secondly to come up with ways of improving the task. The concept known as "continuous improvement”, therefore implies a process where the overall progress and gains in productivity within a firm, come from small improvements by workers being made all the time.

3.1.3 Maintaining and Improving Quality

Quality is about meeting the minimum standard required to satisfy customer needs. High quality products meet the standards set by customers.

For example, a high quality washing powder can claim that one scoop is sufficient to clean a washing load. A budget/standard quality washing powder may require 2 or 3 scoops.

Poor quality can impact on:

- Reputation
- Repeat business
- Profit for the manufacturer

Quality Standard

In many industries a quality standard is laid down by independent organisations such as the British Standards Institution (BSI). Firms benefit by adjusting the way they work to meet these standards. Businesses hope that the cost of improving quality will be more than covered by extra sales.

3.1.4 Production methods

Job production or one-off production, involves producing custom work, such as a one-off product for a specific customer or a small batch of work in quantities usually less than those of mass-market products.

Batch production is when a small quantity of identical products are made. For example, a baker makes a batch of rolls.

Flow production (often known as mass production) involves the use of production lines such as in a car manufacturer where doors, engines, bonnets and wheels are added to a chassis as it moves along the assembly line.

Mass customisation is a marketing and manufacturing technique that combines the flexibility and personalisation of custom-made products with the low unit costs associated with mass production.

Learning Outcome 4: Understand Customer service and internal influences on Business

4.1 Customer Service and Internal influences and Challenges of growth

4.1.1 Customer service

Good customer service has the following advantages:

- Provides word of mouth promotion, for example, customers will tell other people about their good experience, this could be verbally to friends or family or publically online
- Improves business reputation, for example, good customer service will give a professional image of the business
- Encourages repeat business; happy customers are likely to come back again
- Sets the business apart from competitors; customer service can be poor and a business that provides good customer service will stand out against their competitors
- Brand awareness; business want their brands to be linked with positive images – having good customer service will help to promote the brand
- Customer loyalty; all business want their customers to come back again and again. They also want their existing customers to tell new and potential customers about their great service.

4.1.2 Customer service measurements
4.1.3 How customer service is measured

Why do businesses measure customer service?

- To inform future product development it is important that business always know what their customers want. This allows them to feedback to the product development team. For example, customers might tell a mobile phone company that they want to reduce the time it takes to fully charge their phone.

- To increase customer retention; once businesses have new customers they want they to keep coming back! Companies should record how many customers come back and give them repeat business. They should then set targets to aim for even higher customer retention.

- To become even more competitive. Customers need to feel listened to. If businesses ask the customers what they want and then act on this information, they will have the 'competitive edge'.

- To identify areas of strength and weakness so they can improve their business. Businesses should never stand still! There is always something they can do better. If businesses listen to the feedback their customers give the then this will help them to recognise both their strengths and weaknesses so that their business can improve, grow and ultimately be more profitable.

There are many ways to measure customer satisfaction;

- Customer satisfaction scores, for example, customers rank the business and give feedback about how satisfied they are. For example, at the airport there are stands with a thumb up and thumb down buttons to be pressed when you leave the airport to give instant feedback on how satisfied you are as a customer.
- Repeat business data – after you purchase an item online, you can be tracked as a repeat customer. Reward cards issued by shops, e.g. Tesco Club Card Points, track purchases and spending habits.
- Levels of complaints/compliments - business track and monitor the number of positive and negative comments so they can monitor how satisfied their customers are
- Customer surveys -businesses ask customers to complete surveys, sometimes they are entered into a prize draw to encourage them to complete the survey. This gives the business feedback from customers.
- Mystery shoppers- businesses employ 'mystery shoppers' who visit businesses undercover to assess the level of customer service provided.

4.2 Internal Influences

Why does the financial position of the business effect customer service?

- May not be able to invest in staff training
- May have low number of staff
- Slow staff response to communications upsetting customers who are now receiving poor customer service
- Low wages effecting morale - miserable staff!
- Lack of focus on customer service

* Small businesses may not see it as a priority so staff will not prioritise this either

Motivation is about the ways a business can encourage staff to give their best. Motivated staff care about the success of the business and work better.

A motivated workforce results in:

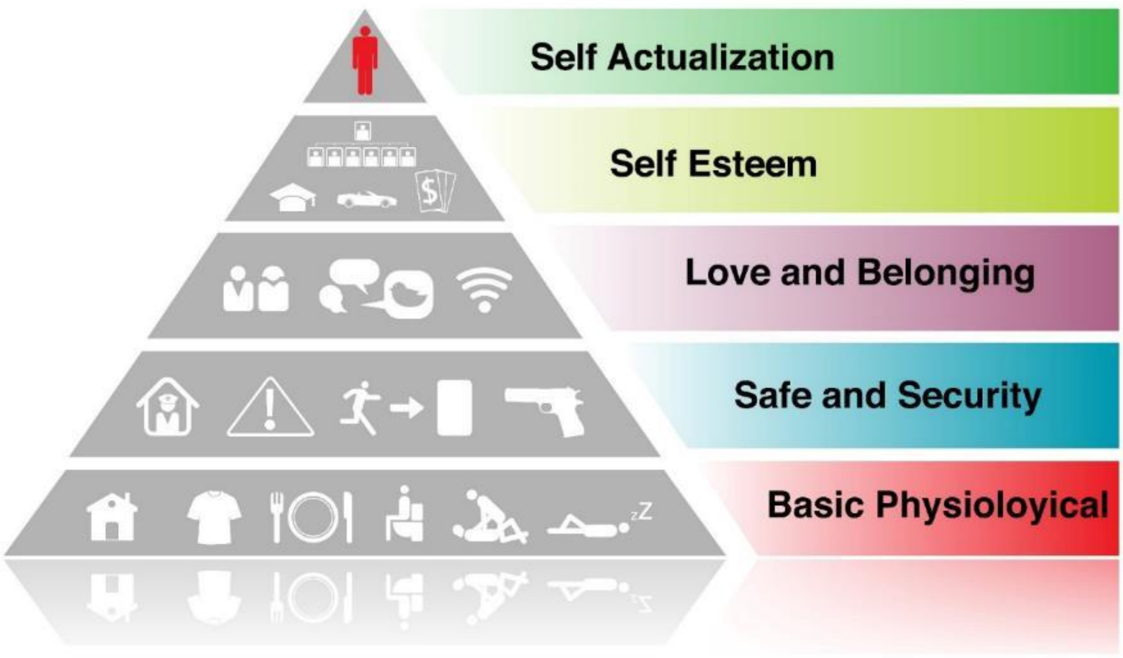
* Increased output caused by extra effort from workers.
* Improved quality as staff take a greater pride in their work.
* A higher level of staff retention. Workers are keen to stay with the firm and also reluctant to take unnecessary days off work.

Motivational theories

Managers can make use of a number of motivational theories to help encourage employees to work harder.

Maslow

Maslow suggests there are five hierarchies or levels of need that explain why people work. Staff first want to meet their survival needs by earning a good wage. Safety needs such as job security then become important, followed by social, self-esteem and self-fulfilment needs. Moving staff up a Maslow level is motivational.



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- Better communication between managers and workers
- Greater manager involvement in employees working lives
- More working in groups or teams

In practice therefore, businesses should re-organise production to encourage greater use of team working and introduce personnel departments to encourage greater manager involvement in looking after employees' interests.

Herzberg’s Motivation Hygiene Theory

Herzberg theory believed there were two strands to motivating staff and improving employee satisfaction. He found that specific characteristics of a job were consistently related to job satisfaction.

Motivational factors:

- interesting & challenging work
- utilisation of staff capabilities
- opportunity to do something meaningful
- Recognition for achievement
- Sense of importance to organisation
- Access to information
- Involvement in decision making

Hygiene maintenance factors:

- Nice people to work with
- Good working conditions
- Pensions
- Paid insurance
- Job security
- Holidays
- Good pay

4.3 Internal Challenges of Growth

The impact of growth on customer service

When a small business suddenly gets bigger they may not be able to meet the customer service levels they were previously offering.

For example;

- Staff may be overworked so their service may be rushed or appear rude
- Delivers may be delayed or incorrect
- Goods may not be of the same high quality causing more complaints
- Complaints may not be handled swiftly or effectively
- Telephone calls and emails may not be responded to in the same quick timeframe as before

What are economies of scale?

Large firms often enjoy economies of scale. Larger businesses often benefit from economies of scale because they can buy their materials at lower unit costs because the buy such large quantities.

In the same way of you buy a small bag of crisps it may cost you 50p.
But if you bought a bag of 6 for £2 each bag would be 33p

They can spread the costs of overheads e.g. administration and staff costs over more items.

For example, if a larger business can produce a chocolate bar for 20p while it costs its smaller rival an average of 30p, then the larger firm has a 10p per unit cost advantage.

This allows larger firms to charge lower prices or enjoy a higher profit margin than smaller businesses. Economies of scale are a major advantage for large firms.

It's a big decision to expand. Owners can face a dilemma in deciding whether to expand. Expansion is not a guarantee of success. It’s always possible any expansion plans can fail and that this could lead to losses rather than increased profit. The risk of expansion means that some owners are reluctant to invest or borrow money. They may decide to stay small and be satisfied with a lower risk profit.

However, avoiding growth this could be a risk too. A smaller business could be at a cost disadvantage compared to their larger businesses who have economies of scale.

Small firms cannot compete with the low prices set by their larger rivals, so customer service or quality of product can be their competitive point.

Diseconomies of scale occur when a business grows so large that the costs per unit increase. As output rises, it is not inevitable that unit costs will fall. Sometimes a business can get too big!

Diseconomies of scale occur for many reasons, but all are linked to the issues of employing and managing a larger workforce.
Levels of customer service can decline rapidly leading to major issues for the company in levels of customer satisfaction, complaints and reputation.

Diseconomies of scale affect:

- control
- co-ordination
- communication

Learning Outcome 5: Understand External influences on Business

5.1 External influences

- **Gross Domestic Product** (GDP) is total value of goods and services provided in a country during one year. Interest rates are set by the Bank of England and affect the interest paid on savings and borrowing, for example, mortgages and loans. If interest rates are 2% this means on every £100 the bank would pay you 2% or £2 per year on your savings.

- Changes in **living wage**. The national living wage is set by the Government for all worker 25 and older. This is the minimum that any employer can pay workers of this age. If you are 24 or under you will receive the national minimum wage, which is also set by the government. It is an offence to be paid less than this. The rates are reviewed and changed regularly. Find out the lasts information at www.gov.uk/national-minimum-wage-rates

- **Changes in fashions and trends** happen over time as new products and advances in technology come onto the market. Marketing and celebrity endorsements can also influence consumer behaviour, fashion and trends.

- **Changes in the competitive environment.** If more companies offer the same goods at different prices, or a wider range of the product, this can influence the market. If a large competitor using its economics of scale to undercut existing suppliers then this can impact on the profits of others. If raw material prices increase or transport or rent costs increase or decrease this can affect the competitive environment.

- **Level of employment** and **availability of skills** locally vary across the country depending on the populations and transport links. The number of skilled or experienced employees can also vary across regions depending on the available training and transferable skills they may have. If a particular industry is based on a part of the country. For example, in Aberdeen there would be a source of suitable employees for the oil rigs and transport of material then there may be a high level of suitable employees in the locality.

- Changes to legislation must be applied to business or there can be financial or legal penalties. The could be supportive of the business or its industry, for example, free trade agreements or tax exemptions but, they could also place restriction on trade or sources of material. Health and safety legislation is crucial to the wellbeing of employees and customer and is highly regulated in the UK.

- Changes in tax rates. The Government controls the amount of tax business and individuals pay to contribute to the state. **VAT** means Value Added Tax and is added to the sale of goods and services of UK businesses. Some items are exempt from VAT for examples postage stamps and children's clothes.

Businesses must be registered for VAT and charge VAT to all customers if they have an income of more than £80000 per year.

- Every limited company has to pay **corporation tax** on the profit in their company. Currently (2018) the corporation tax rate for companies is 19%

- Every worker who earns over a set amount must pay **income tax** on their wages. Income tax is paid by an individual whether they are self-employed of paid by an employer.

5.2 Challenges of Growth

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However, avoiding growth this could be a risk too. A smaller business could be at a cost disadvantage compared to their larger businesses who have economies of scale. Small firms cannot compete with the low prices set by their larger rivals, so customer service or quality of product can be their competitive point.

When businesses expand they need to consider the following:

- Additional physical resource requirements – can they find suitable premises within the budget? Do they need to borrow more funds or use reserves? How long is the lease? Do type need to make improvements to the building? What are transport links like? Where will staff park?

- Additional human resource requirements- are there suitable employees in the vicinity? Will they require training? Are there suitable transport links to get them to your premises? What training is available locally to upskills your staff?

- Local cultural sensitivities – is there anything locally that the business should be aware of? Are local people against growth in an industrial area? Are local people complaining about large lorry congestion on their roads?

- Understanding of local legislation – is there any local legislation to be aware of? Are there incentives for new businesses coming to the area?

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Useful websites:

http://www.markedbyteachers.com/gcse/business-studies/bmw-operations-management.html

https://www.mbaskool.com/marketing-mix/services/16731-tesco.html

https://research-methodology.net/tesco-marketing-mix/

http://businesscasestudies.co.uk/

https://www.bbc.co.uk/education/subjects/zpsvr82

http://bizkids.com/business-resources

http://www.beebusinessbee.co.uk/index.php/business-topics

https://www.princes-trust.org.uk/help-for-young-people/tools-resources/business-tools/business-plans

https://disneyinstitute.com/

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