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GCSE BUSINESS STUDIES THEME 2 – BUILDING A BUSINESS: KNOWLEDGE ORGANISER

Year 11 – Business / Building a Business – HT1

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

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

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

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

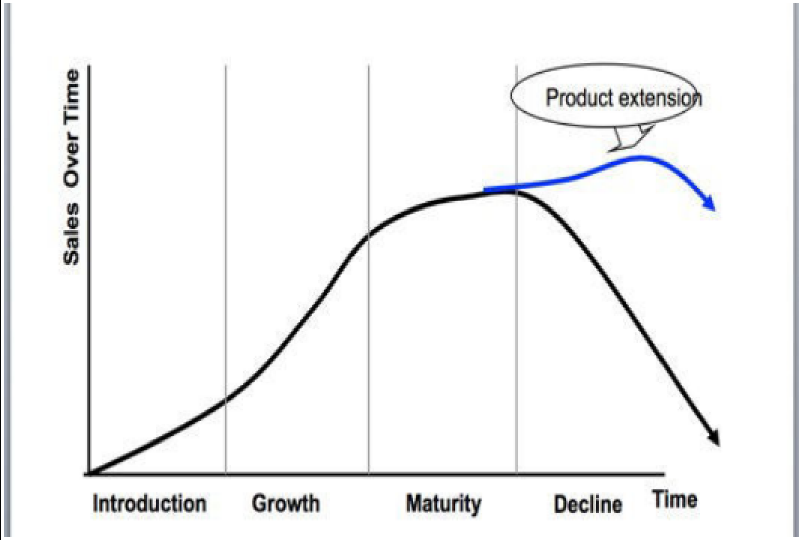
Decline

- **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



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

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	Retailers are only open during the day and customers may be too busy with work or family
Trying on clothes helps when buying	Customers may have to wait in a queue or carry heavy bags of shopping
Customers can have the product as soon as they have bought it – instant satisfaction	Customers may find it embarrassing to buy some personal items
Retailers win when a customer needs to see, touch, try or test a product first	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	Hard to establish trust with the customer as no face-to-face interaction
Can sell a much larger range than a physical shop	Website costs can be high
Can undercut competitors prices by being cheaper (no shops, less staff)	Security and fraud for online transactions are an issue
Lots of potential to grow rapidly and reach an global marketplace	Only as strong as your distribution / delivery if this is late then it may damage your reputation
Lower fixed costs as no shops to pay rent on	

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

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

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

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.

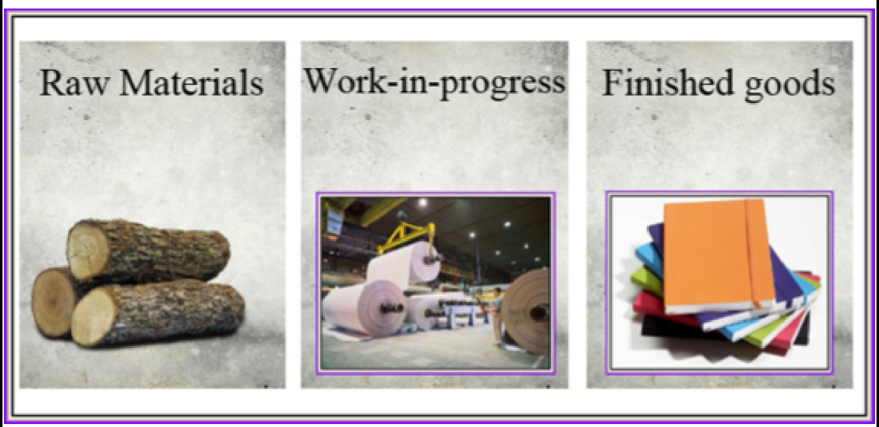
Improve in quality - Design used to be on paper now with CAD (computer aided design) designs can be completed on the computer and seen in 3D. Machinery and robots ensure there is no human error in production.

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.

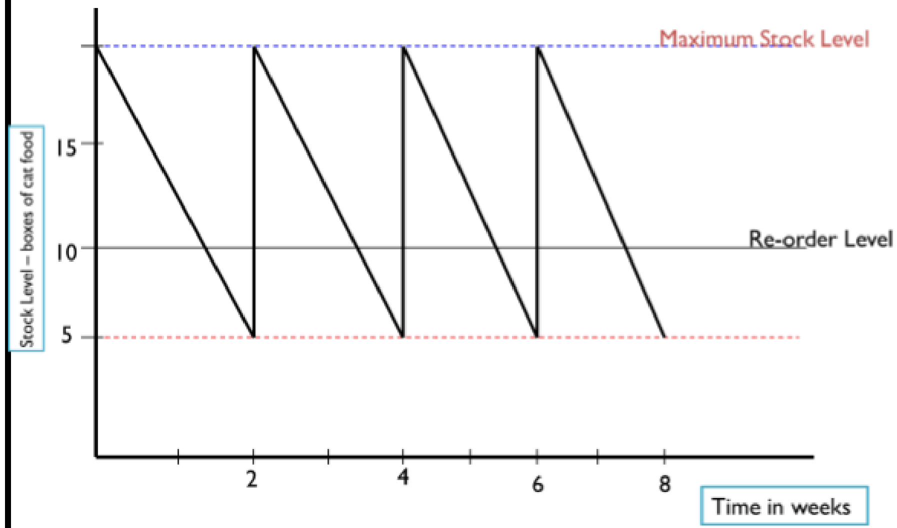
Improve in flexibility - Using CAM computer aided manufacture means that a business can use computers to very precisely control, monitor and adjust tools in manufacturing. It also means that a business producing products can be more flexible and produce a wide variety of products.

2.3.2 - Working with suppliers

Stock can be defined as:



2.3.2– Managing stock - bar gate diagrams



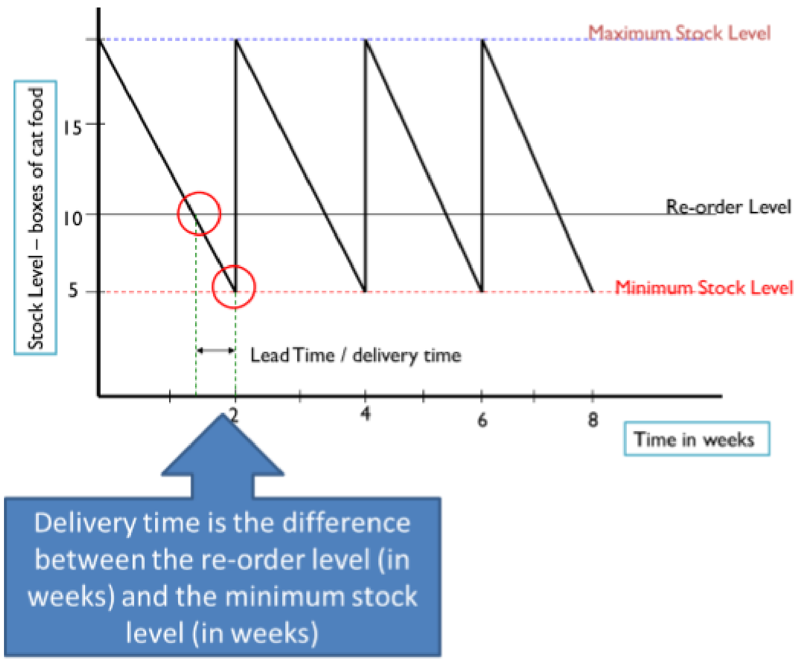
Max stock level - This is the most you an store in e.g. your shop/storage. You can't store more as you don't have the space and it will go out of date.
Min stock level - This is the least that you should store – any less and you will run out and not be able to meet customer demand. This is also called 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

2.3.2– Managing stock - bar gate diagrams

Working out delivery time



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

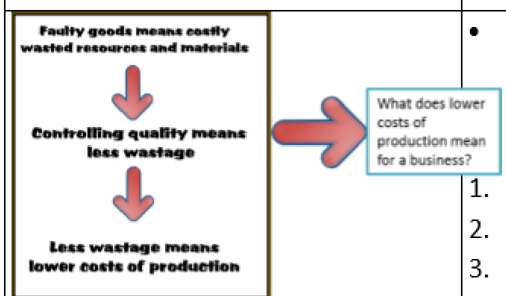
Trust - The best relationships work well when there is joint problem solving and open communication between the businesses. Trust can be built through reliable deliveries and quality products/services.

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