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Section 1

Understanding business activity

Added value: Difference between the selling price of a product, and the cost of bought-in materials and components

Division of labour: Production process gets split up into different tasks + Each worker performs one of these tasks. Form of specialisation.

Specialisation: When people + business focus on what they are best at

Startups: ↓ unemployment / ↑ competition / ↑ output

Governments may offer: Research, Labour,
Finance, Premises, Ideas

Size:

1. Number of people employed
2. Value of:
 - Output,
 - Sales,
 - Capital employed

Internal growth = Expanding

External growth = Takeover / Merger

Horizontal = Same industry + Stage of production

Vertical = Same industry, different stage of production

Conglomerate = Different industries

Section 2

People in business

Why work: Money, Security, Social needs, Esteem, Job satisfaction

Benefits of motivated employees: Higher output, Willingness to accept change, Low rates of strike action

Maslow

The one at the bottom needs to be achieved before moving upwards. Some levels do not exist for some people.

Self-actualisation needs
Esteem needs
Social needs
Safety/Security needs
Physiological needs

FW Taylor

Too simplistic – Motivated by more than just money. Problem if you cannot easily measure an employees output. Saw employees like machines.

Herzberg

Basic needs = Hygiene factors



Status
Security
Conditions
Salary
Relationship



Must be satisfied or else demotivated

Non-financial:

Job rotation: Doing / Rotating tasks for a limited time

Job enrichment: Adding asks that require more skill/responsibility

Teamworking: Group given respective tasks for a process, product, or development.

Training: Sense of achievement after learning skill

Opportunities for promotion: Will feel recognised + Higher status + Given challenging work



Maslow + Herzberg

To grow physiologically = Motivators



Achievement
Growth

Organisational structure

Chain of command: Levels of management which show how power + authority are passed down from the top to lower levels in the organisation

+ Employees are aware of which communication channel is used to reach them

→ Can identify who they have authority for / who they are accountable for. Can see who they should take orders from.

→ Show links + relationships between different departments

→ Everyone is in a department + Gives them a sense of belonging

Roles + Functions of management:

Planning → Organising → Coordinating → Commanding → Controlling

Styles of leadership: Autocratic – Democratic – Laissez faire

Trade unions: A type of pressure group which helps employees achieve improvements

Benefits: Strength in numbers + Benefits for members not working + Advice + Discounts + More secure employment when closed shop

Disadvantages: Costs money + Members need to take action even if against it

Methods of selection:

Interviews

Skills tests

Aptitude tests

Personality tests

Group situations

Types of training: Induction programmes, On-the-job, Off-the-job

Reduction: Workforce planning: Where a business decides the type + number of employees needed in the future

because of: relocation OR closure OR automation OR merge OR falling demand

Section 3

Marketing

Role: Identify + Satisfy customers needs + Maintain loyalty + Gain info about customers + Anticipate changes in needs

Responding to changes: Maintain customer relations, new products, improvements, low prices

Ways of segmenting: Socio-economic groups, age, location, gender, lifestyle, use of product

Internal sources of secondary data: Finance dept., Sales dept., Customer service dept., Distribution + PR personnel

External sources of secondary data: Government statistics, newspapers, trade associations, online resources

Who researches: Business themselves, specialist market research agency

Factors affecting: Phrasing, size of sample, bias, conductor, age of information, quota vs random

What, Where, Who. No more than 12 questions. **Table/Tally. Chart.**

Cost plus – Competitive – Penetration – Price skimming – Promotional – Psychological – Dynamic

Distribution channel: The means by which a product is passed from place of production to the customer

Agent: Independent person/business appointed to deal with sales + distribution of products/range of products

Aims of promotion: Create a brand image, Inform people, Increase sales to compete, Introduce new products, Improve image

Adverts:
informative OR
persuasive.

Television – Radio – Newspaper – Billboards – Posters – Magazines – CD – Leaflets – Internet – Delivery vehicles – T-shirts – Neon signs

Legal controls: Weights and measures / Sale of goods / Supply of Goods and Services Act / Consumer Contracts Regulations

Section 4

Operations management

Productivity = Output / Quantity of input

Labour productivity = Output over period of time / Number of employees

Introduce new tech / Motivation / Replace with machines / Training

→ **Benefits:** Less inputs needed for equal output level, lower costs, less workers needed, higher wages.

Maximum inventory level, reorder level, minimum/buffer inventory level

Lean production: Variety of techniques to cut down waste

Overproduction: Producing before ordered, high storage costs, possible damage

Waiting when goods aren't being moved or processed

Transport moving goods around unnecessarily. Goods may be damaged

Unnecessary inventory: too much inventory takes up space. Gets in way of production, costs money

Motion any actions, movement of employees. Unnecessary movement of machinery

Overprocessing complex machinery for simple tasks

Defects and faults, causing waste of time to fix them

Benefits: Saved costs:

Cuts processes, better equipment use, no need to repair defects, improved health and safety, quicker production

Types of lean production

Kaizen: Reorganisation of floor plan, reducing time.

JiT: Raw materials/components delivered just in time to be used in the next step of production

Warehouse space is not needed. Product sold quickly. Needs very reliable suppliers + efficient system of ordering raw materials/components.

Cell production: Production line is divided. Each self-contained unit makes a part.

Methods of production

Job production: Made specifically to order

Batch production: Quantities in blocks/batches. Number of one product, then next, etc.

Flow production: Continuous process. Standardised product.

Factors: Type of product, size of market, size of business, nature of demand

Economies of scale:

Purchasing

Marketing

Financial

Managerial

Technical

Diseconomies of scale:

Poor communication

Weak coordination

Lack of commitment from employees

Uses + Limits of break-even

Show break-even output

Show margin of safety

Helps in decision making

Shows area of profit or loss

Uses

Break-even charts

Limitations

Assumes no inventories

“Straight line” assumptions

Fixed costs not always constant

Concentrate on break-even

Break-even level of production = Total fixed costs / Contribution per unit

Quality control: Regular intervals

Quality assurance: All aspects of production

Total Quality Management: Continuous check at each and every stage of production

Section 5

Financial information and financial decisions

Starting a business. Expansion. Additional working capital.

Working capital: Finance needed to pay for day-to-day activities

Capital expenditure: Spent on non-current assets. Lasts for more than a year. Needed at start of a business

Revenue expenditure: spent on day-to-day expenses such as wages or rent.

Internal finance:

Retained profit

Sale of existing assets

Sale of inventory

Owner's savings

External finance:

Issue of shares

Bank loans

Selling debentures

Factoring of debts

Grants + Subsidies

Microfinance

Crowdfunding

Short term:

Overdraft

Trade credit

Factoring of debts

Long term:

Bank loans

Hire purchase

Leasing

Issue of shares

Long term loans

Debentures

Purpose + Time period / Amount needed / Legal form and size / Control / Risk + Gearing

Cash flow forecast / Income statement + Forecast / Existing loans details / Collateral / Business plan

Insolvency: When a profitable business runs out of cash

Gross profit = Revenue – Cost of goods sold

Net cash flow = Cash inflow – Cash outflow

Working capital = Current assets – Current liabilities

Net profit = Gross profits – Overhead costs

Assets: Items of value owed by the business. Non-current = fixed. Current = short-term.

Liabilities: Debts owed by the business. Non-current = long-term. Current = short-term.

Current assets: Owned by a business + Used within one year

Non-current assets: Owned by a business + Owned for more than one year

Current liabilities: Repaid in less than a year

Non-current liabilities: Repaid over more than one year

Return on Capital Employed (**RoCE**) = (Net profit / Capital employed) x100

Gross profit margin = (Gross profit / Revenue) x100

(Net) **Profit margin** = (Net profit / Revenue) x100

Liquidity ratios

Current ratio = Current assets / Current liabilities = 1.5 to 2 is optimum

Acid test ratio = ([Current assets – Inventories] / Current liabilities) x100