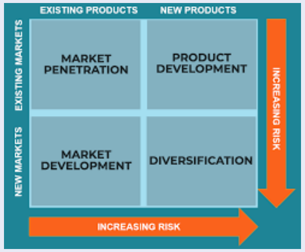
Theories of Corporate Strategy

- **Corporate Strategy –** The overall scope and direction of a business and the way is which its various business operations work together to achieve particular goals



<— Ansoff's Matrix

Igor Ansoff was a business professor, who back in the 1950's had a theory relating to how a company looking for growth can choose their marketing strategy

Uses	Limitations
- A business can identify all their current products or services and their markets, then consider their future options for expansion using the matrix, considering opportunities, associated costs, benefits and risks - Ansoff's matrix helps to identify potential new markets or marketing strategies for a business	- Only shows part of the picture - It oversimplifies the market - Large MNC's may need thousands of sub options and strategies

Porters' Strategic Matrix

Cost Leadership	Differentiation	Focus
Making products at the lowest cost, may include outsourcing, lean management, standard no frills low cost products Useful in highly competitive markets where there are homogenous products	**The product or service is unique and the USP adds value to the product** Useful strategy in highly technological markets where there are rapidly changing and evolving features of products	**The product or service will serve a very small specific niche, high costs are passed on to customers, no close substitutes** Useful strategy when the business wants to offer very low

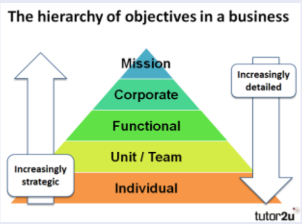
Differentiation Focus

Useful strategy when the business wants to offer products and services to aa small market segment, products or services will be differentiated and aimed at a niche market

Uses	Limitations
- Establishes a clear direction for the business to go in - Identifies when a business may be in trouble	- Not as relevant in very dynamic markets - May not be useful in a crisis situation - Over simplifies the market structure

Corporate Objective

Corporate Objective – Those that relate to the business as a whole They are usually set by the top management of the business and they provide the focus for setting more detailed objectives for the main functional activities of the business



Difference Between Small and Large Firms

The objectives of large firms generally ted to be financial. This is because they tend to have stakeholders to satisfy, especially the stakeholders

Small businesses can have a wide variety of objectives such as…
- To ensure that the company breaks even at the end of the tax year
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3 distinctive capabilities that could create added value and give a business competitive advantage
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Business Objectives & Strategy

Strategic	Tactical
What the business will do to meet its aims and objectives e.g long term direction of the business, pro-active decision making	**How the business will implement its strategy** e.g short or medium term decisions, reactive to competition actions

Impacts of Decisions on Human Resources

Strategic (Proactive)	Tactical (Reactive)
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SWOT Analysis

SWOT – Strengths, Weaknesses, Opportunities and Threats

Strengths	Weaknesses	Opportunities	Threats
Internal factors within a business that can help it achieve its	Internal factors that could prevent a business from achieve	External business circumstances that can help it achieve its	External problems that may prevent a business from

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- Threat of substitutes
- Rivalry among exiting businesses

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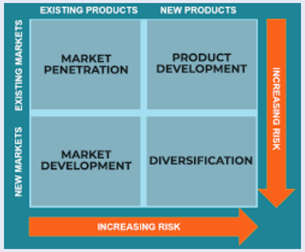

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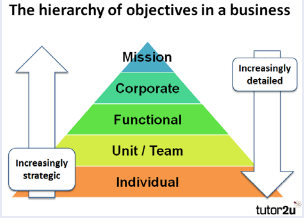
The hierarchy of objectives in a business



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3.1 Business Growth

- **Business Growth –** The point at which a business needs to expand and seek options to generate more profits

4 Main Objectives

- Achieve economies of scale
- Increased market power over customers and suppliers
- Increased market share and brand recognition

Economies of Scale	Market Power	Market Share	Profitability
Growth enables a business to benefit from economies of scale with a huge impact on the cost of production	Reducing the power of suppliers and customers is the short to medium term objective which flows from the longer term objective of the business to increase profitability	In dynamic and competitive markets, businesses may seek to grow to achieve increased market share	Many businesses seek to grow and expand to increase their profitability

Economies of Scale

- **Economies of Scale -** Occurs when unit costs or average costs fall as a result of an increase in the level of output of the business

The more they make the cheaper it gets per item

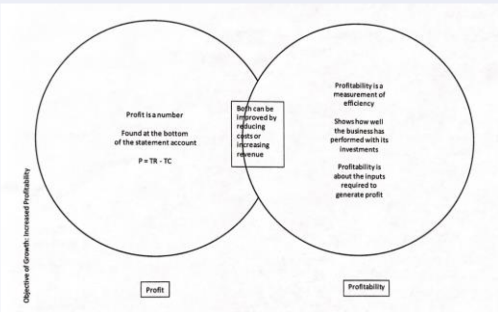
Benefits

- By having more funds to buy stock, so being able to get better deals by buying in bulk
- By having more power
- By having more funds to pay for specialist staff
- By having a better reputation

Calculation

- **Calculate the total costs of production for each of the 3 output levels (VC x Output + FC)**
- **Calculate the cost per unit (TC/Output)**
- **Identify at which level of output the business should operate**

Increased Profitability



Problems Arising from Growth

As a business grows this brings with it a set of problems, there are lots of industry specific ones

- Diseconomies of scale
- Internal communication
- Over trading

Diseconomies of Scale

- **Diseconomies of Scale –** As the business grows they may expand the scale of production beyond the minimum efficient scale

At this point the average costs per unit starts to rise as production rises

Internal DEOS – communication, co-ordination, motivation

External DEOS – overcrowding in industrial areas, traffic congestion

Lack of Motivation

Workers in large companies may feel demotivated, this can lead to powerlessness and alienation

Means increased absenteeism and lateness;
-reduction in productivity
-lower output per worker
-means increased unit costs

Lack of Co-Ordination Through DEOS

As a company grows and takes on new staff, makes new products, buys new premises, all of this needs to be co-ordinated
All resources need to be controlled so that operations can run smoothly. Workers may need monitoring which can add to costs
May need more managers which increases average cost per unit
Overtrading can result in cash flow problems too
As the size of the workforce increases there will be less face-to-face communication

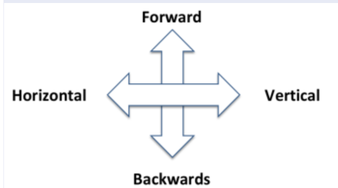
Mergers and Takeovers

- **Mergers –** A legal deal to bring 2 businesses together under one board of directors
- **Take Over -** A legal deal where one larger business purchases a smaller one
- **Hostile Take-Over** - If the deal is unwanted by the management or board of directors

There are lots of industry specific reasons that one business will merger or takeover another
Tactical = Attempt to ensure increased market share, Access to technology, staff or intellectual property
Strategic = Access to new markets, Improved distribution network, Improved brand awareness

- **Friendly Takeover –** A business may be struggling with cash flow problems and invite a takeover from a stronger business
- **Hostile Takeover –** The board of directors will try and resist the takeover, but if another business gets 51% shares they can takeover management and control

Horizontal and Vertical Integration



3 Sectors in Business;

- Primary (physical labour)
- Secondary (manufacturing raw materials)
- Tertiary (sells goods to customer)

Horizontal Integration	Vertical Integration
Businesses operating in the same sector, merge or takeover another business in the same sector	When one business in one sector takes over or merger with a business in another sector or part of the supply chain

Financial Risks of Mergers & Takeovers	Financial Rewards of Mergers & Takeovers
- Original purchase cost - Cost of change into a new business - Redundancies of duplicate staff	- Increased revenue - Economies of scale

Problems of Rapid Growth – Short Term

- The businesses that have merged may outgrow their premises in the short-term, they're may not be enough space for everyone to work efficiently
- Morale may drop if staff cannot cope with the extra work so productivity can decrease
- May be shortages of cash to meet expansion costs
- Taking on more ad more work to generate moe income places additional pressure on the premises and staff

Problems of Rapid Growth – Management Pressure

- Management may be under pressure, operating reactively rather than proactively
- The quality of the products and services could drop, causing an increase in customer complaints
- The business may even lose customers to their competitors

Problems with Mergers and Acquisitions

- Clash of culture
- Possible communication problems
- Unreliable merger partners
- Diseconomies of scale
- Lack of understanding of local markets leading to wrong promotional message
- 75% of mergers fail

Organic Growth

- **Organic Growth –** The process of business growth which comes from within the business, as opposed to mergers and takeovers

Methods of Organic Growth;

- New product launches
- Opening new stores/branches
- Expanding into foreign markets
- Expansion of the workforce

New Products	New Stores	Foreign Markets	Bigger Workforce
A business can grow from within by launching new products If the risk pays off then the business will be able to enjoy increased revenue and profits	A business can grow organically by operating a series of new stores or outlets	A business can grow organically through origin markets	A business can expand organically by taking on new staff

+	-
- This avoids all the risks and pitfalls of merging with another business - Cheaper than merging - Retains the company culture - Can be planned for unlike a takeover - Higher production means EOS and lower average costs	- This is a very high risk strategy, opening lots of stores and taking on thousands of new staff is very risky and capital intensive - Long period between investment and return on investment - Growth may be limited and is dependant on reliability of sales forecast

Reasons for Staying Small

- **Small Business –** Any business with fewer than 250 employees

Product Differentiation and USPs
Differentiation – Creates value, Non price competition, Brand loyalty, No perceived substitute

USP's – Promoting the features of the product or service of the business, Quality customer service, Price, Quality

A small business can gain significant competitive advantage over larger companies if it responds quickly to customer needs
A small business can survive through excellent customer service. Consumers appreciate businesses that give them more for their money, especially when times are tough

Quantitative Sales Forecasting

4 main components that a business wants to identify in time series analysis data

- Trend
- Seasonal Fluctuations
- Cyclical Fluctuations
- Random Fluctuations

Business Planning Examples

- Human resource plan
- Production/capacity plan
- Cash flow forecast
- Profit forecasts and budgets
- Part of regular competitor analysis and helps to focus market research

- **Inaccurate Predictions –** Situations where actual sales are most likely to be significantly different

e.g Business is new, Market subject to significant disruptions from technological change, Demand is highly sensitive to changes in price and income, Product is a fashion icon

Extrapolation

- **Extrapolation –** Involves the use of trends of historical data

+	-
- Simple method - Not much data is required - Quick and cheap	- Unreliable if there are significant fluctuations in historical data - Assumes past trends will continue - Ignores qualitative fluctuations

Payback Period

- **Payback Period –** The time it takes for a project to repay its initial investment (Measured in time, weeks, days, months and years)

- **Investment Appraisal –** The process of analysing whether investment projects are worthwhile

3 Main Methods

- Payback Period
- Average Rate of Return
- Discounted Cash Flow

Calculating Payback Period

- **Identify the net cash flows for each period**
- **Keep a running total of the cash flows**
- **Initial investment = an outflow**
- **When the total net cash flow becomes positive, that is the end of the payback period**

Calculating Precise Payback

= Remaining Balance / Amount Made in Following Year

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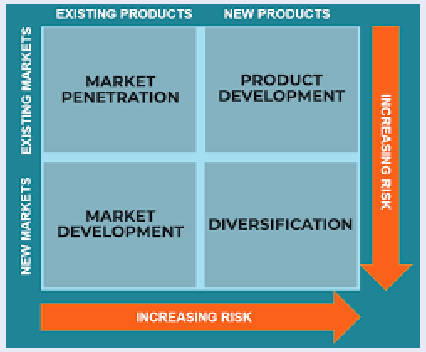

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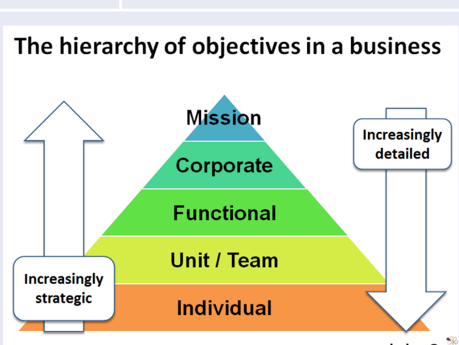

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- Business Objectives & Growth, Decision Making Techniques, Influences on Business Decisions, Competitiveness & Managing Change

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Threat of New Entrants

- If new entrants move into an industry, they will gain market share and rivalry will intensify

The positions of existing firms in stronger if there are barriers to entering the market

Threat of Substitutes

- A substitute product can be regarded as a similar product with similar specifications that meets the same purpose

Rivalry Among Existing Businesses

- The more intense the rivalry between existing firms within the industry, the more likely the prices are forced down by competitive pressure

Growth

- **Business Growth –** The point at which a business needs to expand and seek options to generate more profits

4 Main Objectives

- Achieve economies of scale
- Increased market power over customers and suppliers
- Increased market share and brand recognition
- Increased profitability

Economies of Scale	Market Power	Market Share	Profitability
Growth enables a business to benefit from economies of scale with a huge impact on the cost of production	Reducing the power of suppliers and customers is the short to medium term objective which flows from the longer term objective of the business to increase profitability	In dynamic and competitive markets, businesses may seek to grow to achieve increased market share	Many businesses seek to grow and expand to increase their profitability

Economies of Scale

- **Economies of Scale -** Occurs when unit costs or average costs fall as a result of an increase in the level of output of the business

The more they make the cheaper it gets per item

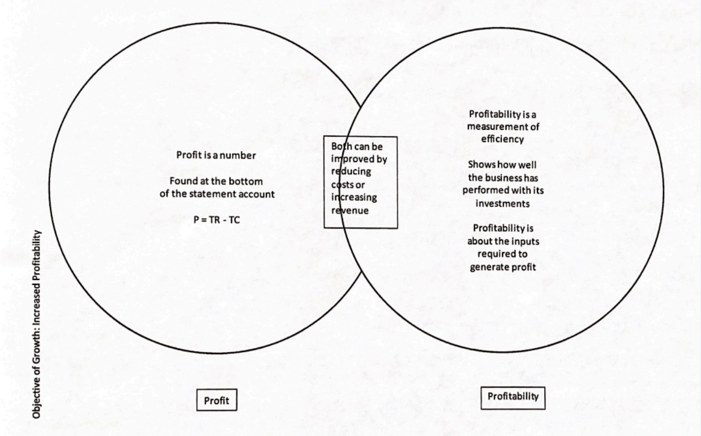
Benefits

- By having more funds to buy stock, so being able to get better deals by buying in bulk
- By having more power
- By having more funds to pay for specialist staff
- By having a better reputation

Calculation

- **Calculate the total costs of production for each of the 3 output levels (VC x Output + FC)**
- **Calculate the cost per unit (TC/Output)**
- **Identify at which level of output the business should operate**

Increased Profitability



Problems Arising from Growth

As a business grows this brings with it a set of problems, there are lots of industry specific ones

- Diseconomies of scale
- Internal communication
- Over trading

Diseconomies of Scale

- **Diseconomies of Scale –** As the business grows they may expand the scale of production beyond the minimum efficient scale

At this point the average costs per unit starts to rise as production rises

Internal DEOS – communication, co-ordination, motivation

External DEOS – overcrowding in industrial areas, traffic congestion

Lack of Motivation

Workers in large companies may feel demotivated, this can lead to powerlessness and alienation

Means increased absenteeism and lateness;
-reduction in productivity
-lower output per worker
-means increased unit costs

Lack of Co-Ordination Through DEOS

As a company grows and takes on new staff, makes new products, buys new premises, all of this needs to be co-ordinated
All resources need to be controlled so that operations can run smoothly. Workers may need monitoring which can add to costs
May need more managers which increases average cost per unit
Overtrading can result in cash flow problems too
As the size of the workforce increases there will be less face-to-face communication

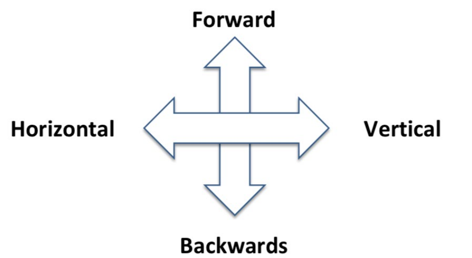
Mergers and Takeovers

- **Mergers –** A legal deal to bring 2 businesses together under one board of directors
- **Take Over -** A legal deal where one larger business purchases a smaller one
- **Hostile Take-Over** - If the deal is unwanted by the management or board of directors

There are lots of industry specific reasons that one business will merger or takeover another
Tactical = Attempt to ensure increased market share, Access to technology, staff or intellectual property
Strategic = Access to new markets, Improved distribution network, Improved brand awareness

- **Friendly Takeover –** A business may be struggling with cash flow problems and invite a takeover from a stronger business
- **Hostile Takeover –** The board of directors will try and resist the takeover, but if another business gets 51% shares they can takeover management and control

Horizontal and Vertical Integration



3 Sectors in Business;

- Primary (physical labour)
- Secondary (manufacturing raw materials)
- Tertiary (sells goods to customer)

Horizontal Integration	Vertical Integration
Businesses operating in the same sector, merge or takeover another business in the same sector	When one business in one sector takes over or merger with a business in another sector or part of the supply chain

Financial Risks of Mergers & Takeovers	Financial Rewards of Mergers & Takeovers
- Original purchase cost - Cost of change into a new business - Redundancies of duplicate staff - Cost if all goes wrong	- Increased revenue - Economies of scale

Problems of Rapid Growth – Short Term

- The businesses that have merged may outgrow their premises in the short-term, they're may not be enough space for everyone to work efficiently
- Morale may drop if staff cannot cope with the extra work so productivity can decrease
- May be shortages of cash to meet expansion costs
- Taking on more ad more work to generate moe income places additional pressure on the premises and staff

Problems of Rapid Growth – Management Pressure

- Management may be under pressure, operating reactively rather than proactively
- The quality of the products and services could drop, causing an increase in customer complaints
- The business may even lose customers to their competitors

Problems with Mergers and Acquisitions

- Clash of culture
- Possible communication problems
- Unreliable merger partners
- Diseconomies of scale
- Lack of understanding of local markets leading to wrong promotional message
- 75% of mergers fail

Organic Growth

- **Organic Growth –** The process of business growth which comes from within the business, as opposed to mergers and takeovers

Methods of Organic Growth;

- New product launches
- Opening new stores/branches
- Expanding into foreign markets
- Expansion of the workforce

New Products	New Stores	Foreign Markets	Bigger Workforce
A business can grow from within by launching new products If the risk pays off then the business will be able to enjoy increased revenue and profits	A business can grow organically by operating a series of new stores or outlets	A business can grow organically through origin markets	A business can expand organically by taking on new staff

+	-
- This avoids all the risks and pitfalls of merging with another business - Cheaper than merging - Retains the company culture - Can be planned for unlike a takeover - Higher production means EOS and lower average costs	- This is a very high risk strategy, opening lots of stores and taking on thousands of new staff is very risky and capital intensive - Long period between investment and return on investment - Growth may be limited and is dependant on reliability of sales forecast

Reasons for Staying Small

- **Small Business –** Any business with fewer than 250 employees

Product Differentiation and USPs
Differentiation – Creates value, Non price competition, Brand loyalty, No perceived substitute

USP's – Promoting the features of the product or service of the business, Quality customer service, Price, Quality

A small business can gain significant competitive advantage over larger companies if it responds quickly to customer needs
A small business can survive through excellent customer service. Consumers appreciate businesses that give them more for their money, especially when times are tough

Quantitative Sales Forecasting

4 main components that a business wants to identify in time series analysis data

- Trend
- Seasonal Fluctuations
- Cyclical Fluctuations
- Random Fluctuations

Business Planning Examples

- Human resource plan
- Production/capacity plan
- Cash flow forecast
- Profit forecasts and budgets
- Part of regular competitor analysis and helps to focus market research

- **Inaccurate Predictions –** Situations where actual sales are most likely to be significantly different

e.g Business is new, Market subject to significant disruptions from technological change, Demand is highly sensitive to changes in price and income, Product is a fashion icon

Extrapolation

- **Extrapolation –** Involves the use of trends of historical data

+	-
- Simple method - Not much data is required - Quick and cheap	- Unreliable if there are significant fluctuations in historical data - Assumes past trends will continue - Ignores qualitative fluctuations

Payback Period

- **Payback Period –** The time it takes for a project to repay its initial investment (Measured in time, weeks, days, months and years)

- **Investment Appraisal –** The process of analysing whether investment projects are worthwhile

3 Main Methods

- Payback Period
- Average Rate of Return
- Discounted Cash Flow

Calculating Payback Period

- **Identify the net cash flows for each period**
- **Keep a running total of the cash flows**
- **Initial investment = an outflow**
- **When the total net cash flow becomes positive, that is the end of the payback period**

Calculating Precise Payback

= Remaining Balance / Amount Made in Following Year

+	-
- Simple and easy to calculate and easy to understand the results - Focuses on cash flows - Emphasises speed of return; good for markets which change rapidly - Straightforward to compare competing projects	- Ignores cash flows after payback has been reached - Takes no account of the 'time value of money' - May encourage short term thinking - Ignores qualitative aspects of a decision - Doesn't make a decision for the investment

Investment Appraisal - ARR

- **Average Rate of Return –** Looks at the total accounting return for a project to see if it meets the target returns
(Measured in percentage return)

Calculating ARR

- **Calculate average annual profit from the investment project**
- **Divide the average annual profit by the initial investment ("outlay")**
- **Compare with the target percentage return**

+	-
- Simple to understand and easy to calculate - Focuses on the overall profitability of an investment project - Uses all the returns generated by a project	- Ignores the timing of returns - Focuses on profits rather than cash flows - Doesn't adjust for the time-value of money

Discounted Cash Flows

- **Discounted Cash Flows –** Net present value (NPV) calculates the monetary value now of a projects future cash flows
(Measured in monetary value £)
- **Discounting –** The method used to reduce the future value of cash flows to reflect the risk that they may not happen

Time Value of Money

- Better to receive cash now rather than in the future
- Future cash flows are worth less
- Use discount factors to bring cash flows back to their 'present value'
- Relevant discount factor determined by required rate of return

Calculating Net Present Value

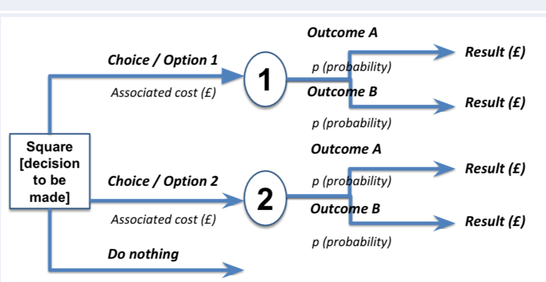
Cash Flow x Discount Factor = Present Value

Add together all the present values of future cash flows
If the figure is positive —> ACCEPT IT
If the figure is negative —> DENY IT

+	-
- Considers all future cash flows - Reflects the risk that future cash flows will not be as expected - Different levels of risk can be accounted for by adjusting the discount rate - Creates a straightforward decision	- The most complicated method compared with payback period and ARR - Choosing the discount rate is hard, particularly for long projects - Result can be influenced or manipulated

Decision Tree

- **Decision Tree –** A decision tree is a mathematical model used to help managers make decisions. It uses estimate and probabilities to calculate likely outcomes and helps to decide whether the net gain from a decision is worth while



What is Probability?

- **Probabilities -** The percentage chance or possibility that an event will occur
Ranges between 1 (100%) and 0
If all the outcomes of an event are considered, the total probability must add up to 1

- **Expected Value -** The financial value of an outcome calculated by multiplying the estimated financial effect by its probability
- **Net Gain -**The value to be gained from taking a decision

Calculated by adding together the expected value of each outcome and deducting the costs associated with the decision

+	-
- Choices are set out in a logical way - Potential options & choices are considered at the same time - Use of probabilities enables the "risk" of the options to be addressed - Likely costs are considered as well as potential benefits - Easy to understand & tangible results	- Probabilities are just estimates – always prone to error - Uses quantitative data only – ignores qualitative aspects of decisions - Assignment of probabilities and expected values prone to bias - Decision-making technique doesn't necessarily reduce the amount of risk

Critical Path Analysis (CPA)

- **Critical Path Analysis -** A project analysis and planning method that allows a project to completed in the shortest possible time

Why Businesses Need to Plan Complex Projects

- Many larger businesses get involved in projects that are complex and involve significant investment and risk
- As the complexity and risk increases it becomes even more necessary to identify the relationships between the activities involved and to work out the most efficient way of completing the project

Information Needed for CPA

- A list of all activities required to complete the project
- The time (duration) that each activity will take to completion
- The dependencies between the activities (e.g. activity D cannot be completed until activity B&C done)

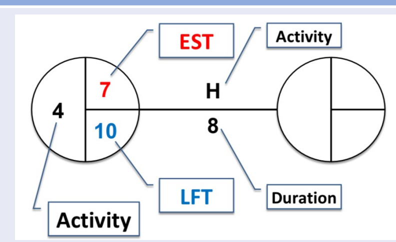
CPA Calculates

The longest path of planned activities to the end of the project
The earliest start time (EST) and latest finish (LFT) time that each activity can start and finish
Which activities are "critical"

Critical Path

- **Critical Path -** The sequence of project activities which add up to the longest overall duration, this determines the shortest time possible to complete the project

Why is the Critical Path so Important?



Any delay of an activity on the critical path directly impacts the planned project completion date (i.e. there is no float on the critical path)

Calculating ESTs

ESTs are calculated from left to right
Add the duration of an activity to the EST of a previous node
If more than one activity leads to a node, the highest figure becomes the new EST

Calculating LFTs

Give the last node of the project an LFT = to the EST
Work backwards from right to left
Subtract the duration of the activity from the LFT

Calculating the Float

- **Float -** The float is the duration an activity can be extended or postponed so that the project still finishes within the minimum time

LFT – Activity Duration - EST

Identifying the Critical Path

Activities with a float of 0 (zero) cannot be delayed without delaying the entire project
Such activities represent the "critical path"
On the critical path, activities have an equal EST and LFT

Uses of Critical Path Analysis

Estimate and minimise project time
Support project costing and evaluation
Prioritise tasks
Help provide direction
Plan and organise resources

+	-
Helps reduce the risk and costs of complex projects Encourages careful assessment of the requirements of each activity in a project A decision making tool and planning tool all in one	Reliability is largely based on accurate estimates and assumptions made CPA does not guarantee the success of a project Too many activities make the diagram complicated

Corporate Influences

- **Corporate Influences -** Internal factors affecting decisions including short verses long-term horizons and scientific verses intuitive approaches to decision making

Corporate Timescales

- **Corporate Timescales –** Refers to strategy and the expectation of when a return will be achieved
- 2 Timescales ; Short Termism & Long Termism

Short Termism	Long Termism
Where a business prioritises short term rather than long term performance	More a holistic approach to business strategy incorporating aspects such as CSR and ethics

Causes of Short - Termism	Long Term Thinking
- PLC structure - Earning per share as a way of judging the bonus level paid - Threat of takeover - Short term financial objectives - Understanding or ignoring the opportunities	- Market share - Quality including reputation - Innovation - Brand awareness and strength - Employee skills and experience - Social responsibility and sustainability

Mittelstand Sector

- **Mittelstand Sector -** Focus on long term investments, research and development, investment into workforce, innovation and customer service and take corporate social responsibility seriously

Decision Making

Influences on Decision Making
- Business objectives/budgets
- Organisational structure
- Attitude to risk
- Availability and reliability of data
- External environment

Evidence Based Decision Making

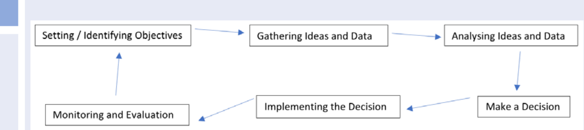
- **Evidence Based Decision Making –** Requires a systematic and rational approach to researching and analysing all available information

Scientific decision - making involves the use of …

- Data mining and big data to source relevant data to inform decisions
- Applications of software logic and predictive models to analyse scenarios
- Forecasts possible implications of business decisions

Why Evidence Based Decision Making is Becoming Popular

- More widespread availability of data
- Greater sophisticated data analytics and skills
- Management expectation that data will be used wherever possible



Subjective Decision Making

Subjective Decision Making – Where the personal opinions of the key decision making strongly influence the course of action chosen

Some might argue that subjective decision making is too risky when making strategic decision

If there is a lack of current, accurate and meaningful information relating to a decision, decision makers can be forced to take a subjective approach

Contextual Analysis

S	C	O	R	E
Size and sector	Competitive environment	Ownership and objectives	Resources	External environment
e.g revenues, profits	e.g market, competitors	e.g private/public, profit/sales	e.g finance, IP	e.g legislation, economy

Corporate Culture

- **Corporate Culture –** The way we do things round here

A company culture is the norms and values of a business

2 Types…

- Strong Cultures & Weak Cultures

Strong and Weak Cultures

Strong Cultures	Weak Cultures
• **Strong Cultures –** Have good communication with their employees	• **Weak Cultures –** Often leads to business failure, it will exhibit a demotivated workforce
They have a focus on core values The culture is usually based around the history, traditions and founders of the business	• There will be inconsistent customer service and it may be poorly managed
Features - A source of competitive advantage - Clear set of values, missions and goals - Performance orientated - Encourages suitable risk – taking and innovation - Strong internal communication - Engaged employees: higher motivation and loyalty - Not easily copied	**Features** - Little alignment with business values - Inconsistent behaviour - A need for extensive bureaucracy and procedures

Classification of Company Cultures

- **4 Types ;** Power Culture, Role Culture, Task Culture and Person Culture

Power Culture

- Control radiates from the centre
- Concentrates power among a few
- Few rules and little bureaucracy
- Swift decisions are possible

Role Culture

- People have clearly delegated authorities within a highly defined structure
- Hierarchical bureaucracy, power derived from a persons position

Task Culture

- Teams are formed to solve particular problems
- Power derives from expertise as long as a team requires expertise
- No single power source, matrix organisation, team may develop own objectives

Person Culture

- People believe themselves to be superior to the business
- Business full of people with similar training, background and expertise
- Common in firms of professionals e.g lawyers

How Corporate Culture is Formed	- Strong cultures are hard to change because a culture consists of interlocking…
- Artefacts (uniform) - Company song - Hero's / founders - Rituals - Language - Mottos - Norms - Symbols	- Set of goals - Roles - Process - Values - Communication practices - Attitudes - Assumptions

Key Factors of Corporate Culture

- The role of the founders and owners, are key decisions still based around their ethos and influence
- The nature of the business and the products it sells
- The degree to which products sold have changed over time
- The business environment when it started
- The recruitment and process of key staff
- Working hours
- Attitude to customer service

Stakeholders	Shareholders
Anyone who has an interest in the business, or who may be affected by the activities of the business	A person, business or organisation that owns at least one share of a company

Ethics

- **Ethics –** Moral principles that govern a persons behaviour or the conducting of an activity
- **Morals –** Standards of behaviour ; principles of right and wrong

Ethics of Strategic Decisions

Businesses want to appear to be doing 'the right thing' but this is not always possible if they wish to make a product

Often there is a trade –off between ethics and profitability

Ethics vs Profitability

BP 2010 oil rig Deepwater Horizon caught fire, 11 men lost their lives, Millions of gallons of oil spilt into the Gulf of Mexico, All due to cost cutting by BP

Pay and Rewards

People higher up in the hierarchy receive way more than the lower people

Bankers are set to be awarded £5 billion in bonuses, including £2.2 billion for staff at HSBC

Sponsorship allows famous people to gain lots of money

Corporate Social Responsibility

- **Corporate Social Responsibility (CSR) –** A business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders

- CRS considers the impact that is decisions have on us citizens
- The business also considers what responsibility they have towards society and stakeholders
- However, many businesses now use CSR as a selling point

+	-
- Happy customers, staff, investors, community and suppliers - New products, new markets - Good PR - Cost reductions	- Trends with consumers buying products - If the business motive is suited - If the cost is larger than the benefits for the business - Do consumers care?

Income Statement

- **Income Statement -** This measures the business' performance (income & costs) over a given period of time, usually one year

What is the Income Statement?	Basic Structure (RCGOOFP)
- A historical record of the trading of a business over a specific period (normally one year) - Shows the profit or loss made by the business – which is the difference between the firm's total income and its total costs - Also known as the statement of comprehensive income, or profit and loss account	**R** = Revenue **C** = Cost of Sales **G** = Gross Profit **O** = Overheads **O** = Operating Profit **F** = Finance Costs **P** = Profit before Tax

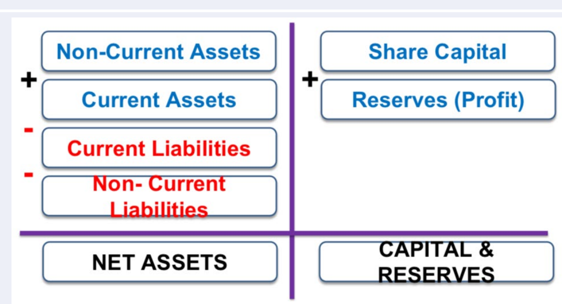
Revenue, Cost of Sales & Gross Profit	Net Profit
• **Revenue -** Revenues (sales) during the period • **Cost of sales -** Direct costs of generating revenues go into "cost of sales" • **Gross profit -** The difference between revenue and cost of sales	• **Finance Costs & Income -** Interest paid on bank and other borrowings, less interest income received on cash balances • **Profit before Tax -** Calculated as operating profit less finance expenses • **Tax -** An estimate of the amount of corporation tax that is likely to be payable on the recorded profit before tax • **Profit Attributable to Shareholders -** The amount of profit that is left after the tax has been accounted for. Shareholders then decide how much of this is paid out to them in dividends and how much is left in the business
Overheads & Operating Profit	
• **Distribution & Administration Expenses -** Operating costs and expenses that are not directly related to producing the goods or services are recorded here • **Operating Profit -** A key measure of profit, records how much profit has been made in total from the trading activities of the business before account is taken of how the business is financed	

Who is Interested in the Income Statement?

- Shareholders = How much profit is our business making?
How much profit can be distributed to us in dividends?
Competitors = What is the profit (amount) and profitability (% margin)?
- Is the business more efficient or does it add more value?
- Government = How much tax should this business pay on its profits
- Employees = How secure is the business in terms of profit or loss If bonuses are based on profit, has it been achieved?

Balance Sheet

- **Balance Sheet –** A snapshot of the business' assets and its liabilities on a particular day



- Net - Current Assets = Land & Buildings, Plant & Machinery, Goodwill
- Current Assets = Cash Balances, Trade Debtors, Inventories
- Current Liabilities = Trade Creditors, Short-term Borrowings, Accruals & Provisions
- Non – Current Liabilities = Long-term Borrowings, Other Long-term Liabilities

Who is Interested in the Balance Sheet?

- Creditors = What is the liquidity position of the business?
Is the business able to pay its debts as they fall due?
- Banks & other lenders = How much debt does the business have (gearing)?
Is it able to finance its debt
What cash and other liquid balances does it have?
- Employees = Is the business solvent?
Does the business have a suitably strong liquidity position?

ROCE Analysis

- **ROCE –** Return On Capital Employed

ROCE is Useful For…	Calculating ROCE
Evaluate the overall performance of the business Provide a target return for individual projects Benchmark performance with competitors	**Operating Profit (or Net Profit) / Total Equity + Non – Current Liabilities x100**

Gearing

- **Gearing -** Measures the proportion of a business' capital (finance) provided by debt

Why is the Gearing Ratio Useful

- Measure of the financial health of a business
- Focuses on the level of debt in the financial structure of a business
- High gearing can mean high business risk (but not always)

2 Ways of Measuring Gearing = Debt/Equity Ratio and Gearing Ratio

What is the Capital Structure of a Business?

The capital of a business represents the finance provided to it to enable it to operate over the long-term. There are TWO PARTS to the CAPITAL STRUCTURE

Equity	Debt
Amounts invested by the owners of the business Share Capital Retained Profits	Finance provided to the business by external parties Bank Loans Other Long-term Debt

Calculating Gearing

Non – Current Liabilities / Total Equity + Non-Current Liabilities x 100

Capital Structure Objectives

Reasons for higher equity in the capital structure
- Where there is greater business risk (e.g. a startup)
- Where more flexibility required (e.g. don't have to pay dividends)

Reasons why high levels of debt can be an objective
- Where interest rates are very low = debt is cheap to finance
- Where profits and cash flows are strong; so debt can be repaid easily

Evaluating the Gearing %

Gearing ratio of 50% + normally said to be high

Gearing of less than 20% normally said to be low

But level of acceptable gearing depends on business & industry

Benefits of High Gearing	Benefits of Low Gearing
• Less capital required to be invested by the shareholders • Debt can be a relatively cheap source of finance compared with dividends • Easy to pay interest if profits and cash flows are strong	• Less risk of defaulting on debts • Shareholders rather than debt providers "call the shots" • Business has the capacity to add debt if required

Ratio Analysis

- **Ratio Analysis -** Involves the comparison of financial data to gain insights into business performance

Ration Analysis Uses

Why is one business more profitable than another?

What returns are being earned in investment in a business?

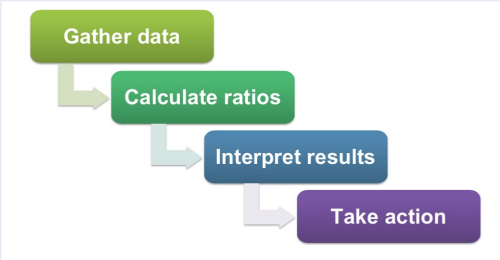
Is a business able stay solvent?

How effectively is a business using its assets?

Where Does the Information for Ratio Analysis Come From?

Statement of Comprehensive Income	Statement of Financial Position
Revenues Cost of Sales Gross Profit Operating Profit Net Profit (Profit for the Year)	Current assets Current liabilities Inventories Trade receivables & payables Long-term liabilities Capital & reserves

Key Stages in Ratio Analysis



The Main Groups of Ratios

Profitability	Liquidity	Financial Efficiency
Gross profit margin Operating profit margin Return on Capital Employed	Current ratio Acid-test ratio	Payables Days Receivables Days Inventory turnover Gearing
Shareholders Government Competitors Employees	Shareholders Lenders Suppliers	Shareholders Lenders Competitors

Why Might Ratio Data Not be Entirely Reliable?

- Financial information involves making subjective judgements
- Different businesses have different accounting policies
- Potential for manipulation of accounting information (e.g. window-dressing)

The Importance of Effective Comparison

One ratio is rarely enough–
- Need to compare with competitors
- Need to analyse over time (trends)

Circumstances change over time
- Markets and industries change
- Different economic and market conditions

Liquidity Ratios

- **Liquidity Ratios** - Assess whether a business has sufficient cash or equivalent current assets to be able to pay its debts as they fall due

Calculating Liquidity

Current Assets / Current Liabilities

Evaluating Liquidity

– Ratio of 1.5 - 2.5 = acceptable liquidity & efficient management of working capital
– Low ratio (e.g. well below 1) = possible liquidity problems
– High ratio = too much working capital tied up in inventories or debtors

Calculating Acid Test Ratio

Current Assets (Excluding Inventories) / Current Liabilities

Human Resources

- **Staff Turnover** - % of staff who leave during a period
e.g retirement, unsuitability, changes in strategy, maternity, death
- **Absenteeism** - % of staff who are absent from work
- **Employee Retention** – The ability of a business to convince its employees to remain with the business

Calculating Labour Turnover

Number of Employees Leaving During Period / Average Number Employed During Period x 100

Problems of High Staff Turnover	Factors that Affect Staff Turnover
- Higher costs - Increased pressure on remaining staff - Disruption to production/productivity	- Type of business - Pay and other rewards - Working conditions

Ways to Improve Staff Turnover

- Effective recruitment and training
- Provide competitive pay and other incentives
- Job enrichment
- Reward staff loyalty

Labour Productivity

- **Labour Productivity** – Output per employee

Factors Influencing
- extent amend quality of fixed assets
- Skills, ability and motivation of the workforce
- Methods of production organisation

Calculating Labour Productivity

Output per Period / Number of Employees at Work

Ways to improve labour productivity are…
Measuring performance and setting targets, streamline production process, invest in employee training and make the workplace conductive to productive effort

Calculating Absenteeism

Number of Staff Absent During Period / Number Employed During Period

Number Days Taken off for Unauthorised Absence / Total Days Worked by Workforce Over the Period x 100

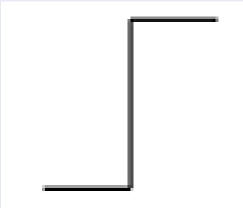
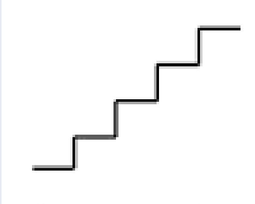
Tackling Absenteeism

Understand the cause
Set targets and monitor trends
Have a clear sickness and absence policy
Rewards for good attendance

Change Causes

- **Change Management –** Involves the process that ensures a business responds to the environment in which it operates

Management is about coping with complexity whereas leadership is about coping with change

Step Change	Incremental Change
	
- Significant and occurs rapidly - Often involves significant attention in the business - Gets it over with quickly/decisively - May require some coercion to overcome resistance • **Step Change –** Dramatic or radical change in one fell swoop, often required when a business has suffered from strategic drift	- Change occurs over a period of time in incremental, small stages - Usually involves little resistance - Arises as strategy develops • **Incremental Change –** Many small changes which take place as a business develops and responds to subtle changes in the external environment

Distinguishing Between Internal and External Causes of Change

- **Internal Causes –** Arise from factors within the control of the business
e.g the decision taken by business management
- **External Causes –** Arise from factors outside the control of the business
e.g as a result of changes in the external environment
- **Disruptive Change –** This is a form of step change that arises from changes in the external environment

Disruptive change impacts the market as a whole, rapid improvements in technology are the main driver of disruptive change

The Value of Change

Whilst change is often viewed with concern by those affected, it is an essential part of business life
The external environment, in particular, is constantly changing which makes change a constant tool

Effects of a Business Embracing Change

Helps sustain a competitive advantage, Aligns business strategy with evolving nature of customer needs and wants, Business can take advantages of developing technologies

Managing Change

Why change organisational culture improves business performance…	Respond to Significant Change…
- Declining profits and sales - Inadequate returns on investment - Low quality or standards of customer service	- Market changes - Political and legal environment - Change in societal views - Change of environment

Ed Schein on Cultural Change

Never start with the idea of changing a culture – start with the issues that the organisation faces and assess whether the existing culture gets in the way of resolving those issues. Always think first of the organisational culture as a source of strength even if some elements are dysfunctional. If major changes are needed, try to build on existing cultural strengths

Resistance to Change

Kotter and Schlesinger suggest that there are 4 main reasons why change is resisted, those reasons are…
- Self Interest
- Different Assessment of the Situation
- Low Tolerance for Changes and Inertia
- Misinformation and Misunderstanding

Self Interest	Misinformation and Misunderstanding
- A powerful motivator arises from a perceived threat to job security, status and financial position	- People don't understand why change is needed, perhaps because they are misinformed about the real strategic position of the business
Different Assessment of the Situation	**Low Tolerance and Inertia**
- Here there is disagreement about the need for change or what that change needs to be	- Many people suffer from inertia or reluctance to change, preferring things to stay ' the way they are'

Overcoming Resistance to Change

Kotter and Schlesinger suggest that there are 6 ways of overcoming resistance to change, they are…
- Education and Communication
- Participation and Involvement
- Facilitation and Support
- Manipulation and Co-option
- Negotiation and Bargaining
- Explicit and Implicit Coercion

Education and Communication	Participation and Involvement
- A the starting point for successful change is to communicate effectively the reasons why change is needed	- Involvement in a change programme can be an effective way of bringing 'on – board' people who would otherwise resist
Facilitation and Support	**Manipulation and Co - Option**
- Kotter and Schlesinger identified what they called 'adjustment problems' during change programmes	- Co – option involves bringing specific individuals into roles that are part of change management
Negotiation and Bargaining	**Explicit and Implicit Coercion**
- The idea here is to give people who resist an incentive to change or leave	- This approach is very much the 'last resort' if other methods of overcoming resistance to change fail

Scenario Planning

• **Risk Management** – Identifying and dealing with the risks threatening a business	• **Scenario Planning** – Planning for unforeseen events	• **Crisis Management** – Handling potentially dangerous for a business

What is Risk in Business?	Ways a Business Deals with Risk
The possibility of loss or business damage A threat that may prevent or hinder the ability to achieve business objectives The change that a hoped for outcome will not occur	Ignore it / Make scenario plans Reduce possibility of risk Treat risk as an opportunity Share or deflect the risk

Common Approaches to Day – to – Day Risk Management

Marketing = Avoid over reliance on customers or products, Develop multiple distribution channels
Operations = Hold spare capacity, Quality assurance and control
Finance = Insurance against bad debts, Investment appraisal techniques
People = Key man insurance, Rigorous recrutiment

Scenario Planning

- **Scenario Planning –** preparing for predictable and quantifiable problems, preparing for unexpected and unwelcome events

Aim = Minimise the impact of a foreseeable event and to plan for how the business will resume to normal
Risks vary in terms of their significance to the business and likelihood

Global Business - Globalisation, Global Markets & Business Expansion, Global Marketing and Global Industries & Companies

The Growth of Globalisation

- **Globalisation** – A process in which economies have become increasingly integrated and interdependent

Globalisation is not inevitable – it can reverse, indeed the growth of world trade in goods and services slowed in recent years following the global financial crisis

How the World Economy has Changed?	Key Features of Globalisation
- Over the last 50 years or so, the economy levels across the world has changed - Since 1980 the share of global economic output has shifted towards Asian-Pacific countries who now dominate	- Trade to GDP ratios are increasing for most countries - Expansion of Financial Capital Flows between countries - Foreign Direct Investment and Cross Border M&A - Rising numbers of global brands - Deeper specialisation of labour - Global supply chains and new trade and investment routes

Key Characteristics of Globalisation	Factors Contributing to Globalisation
- Greater trade across borders - Increase in trans fares of capital - Development of global brands - Greater use of outsourcing and offshoring of production - Labour migration - New nations joining the trading system - A shift in the balance of economic and financial power	- Containerisation - Technological change - Economies of scale - Differences in tax systems - Less protectionism - Growth of MNCs and Transnational companies

- **Containerisation**—> The costs of ocean shipping have come down due to containerisation, bulk shipping and other efficiencies
- **Technological Change** —> Rapid and sustained technological changes has reduced the costs of transmitting and communicating information
- **Economies of Scale** —> Cheaper to produce more of a product
- **Differences in Tax Systems** —> The desire of businesses to benefit from lower unit labour costs and other favourable production factors abroad has encouraged countries to adjust their tax system to attract foreign direct investment
- **Less Protectionism** —> No tariffs encouraging trade
- **Growth of MNCs** —> Increasingly global businesses and brands have increased significantly in expanding internationally

Growing Economies

- **Emerging Economies** – Used to describe an economy in the process of rapid growth and industrialisation

Common Features of Emerging Economies	BRICSs
- Economies are making a transition - Rapid industrialisation - Have potential to become developed economies - Faster long term economic growth than most developed economies - Businesses struggle to access global markets	• **BRICs** = Brazil, Russia, India and China - Brazil has since entered a prolonged recession, as did Russia - China has now become the worlds largest economy and in many respects is now a developed economy

Perceived Business Threats	Business Opportunities
- Increasingly large pool of skilled, but low cost labour - Undervalued currencies make their exports cheaper - Inadequate protection of brand and other intellectual property	- Growing numbers of educated middle class consumers - Cultural shifts - Demand for infrastructure and other products and services from developed economies - Source of high skilled but low cost labour - Great potential for joint ventures and acquisitions

Risk and Threats	Key Indicators of Economic Growth
- Political instability - Cultural differences/sensitives - Variable approaches to financial and legal dealings - Corruption and bureaucracy still an issue - Emerging markets becoming major exports	- GDP (total) - GDP (per capita) - Purchasing power parity - Literacy - Health

HDI

- **HDI** – Human Development Index

Focuses on 3 key measures of human development; longevity, basic education and minimal income
The HDI tracks progress made by countries in improving these 3 basic development outcomes
The inclusion of education and health indicators is a sign of successful policies in providing access to health care, sanitation and education

3 Measures used in HDI = Knowledge, Long and healthy life, A decent standard of living

Conditions that Prompt Trade

Why Target International Markets?

- Reduce dependence on domestic market
- Access faster – growing markets and demand
- Achieve economies of scale
- Better serve customers located overseas
- Build brand value, particularly global brands

Push Factors	Pull Factors
- Where businesses feel they have to expand internationally because of domestic /home market issues	- Where businesses are attracted by compelling opportunities to grow by expanding internationally
Push Factors ; Saturated Markets - A feature of markets where sale growth has stalled or is falling - Difficult for firms to grow revenues other than by taking market share from competitors - Market often characterised by a lack of product innovation	Pull Factors ; Economies of Scale - Extending a businesses operations overseas provides on opportunity to increase output and access economies of scale, thereby reducing unit costs - This might involve offshoring production to lower cost economies
Push Factors ; Increased Competition - Domestic firms may be faced with new market entrants who take market share - Result in lower revenues in the domestic market	Pull Factors ; Risk Spreading - And off matrix suggests that moving into new markets overseas involves greater risk - Trading internationally can spread the activities and revenues of a business over a wider range of markets

Joint Venture

- **Joint Venture** – A separate business entity created by 2 or more parties, involving shared ownership, returns and risks

Benefits of a Joint Venture

- JV partners benefit from each other's expertise and resources
- Each JV partner might have the option to acquire in the future the JV business based on agreed terms if it proves successful

Merger

- **Merger** – A combination of 2 previously separate firms which is achieved by forming a completely new firm into which the 2 original businesses are integrated

Merge	Takeover
- Involves a new firm being created into which 2 existing businesses are 'mergent'	- Involves an existing firm acquiring more than 50% of another firm and thereby gaining control of it

Global Competitiveness

Key Factors Influencing Overall Cost Competitiveness	Exchange Rates Impact a Business By…
- Exchange rates - Productivity and labour skills - Outsourcing - Offshoring and restoring	- Price of exports in international markets - Cost of goods bough from overseas - Revenues and profits earned overseas - Converting cash receipts from customers overseas

Outsourcing	Someone else does the work for you
Offshoring	The work is done overseas
Reshoring	The reverse of offshoring, involves the repatriation of business activities from overseas back to the home country
Cost Advantage	Where a business is able to produce its products at lower cost than the competition
Differentiation Advantage	Where a business is able to differentiate its products from the competition such that customers perceive superior value

What causes an Increase in Exchange Rates?
Increasing demand for exports ; higher demand for the currency
Lower demand for imports ; lower demand for the currency
Speculation ; traders may be that the exchange rate will rise
An increase in interest rate ; making it more attractive to hold the currency

Why move Production Overseas?
Manufacturing costs lower, Potentially better skilled and higher quality, Makes use of existing capacity overseas, Take advantage of free trade areas

Lower Exchange Rates

Winners	Losers
- Businesses exporting into international markets - Businesses earning substantial profits in overseas currencies	- Businesses importing goods and services - Overseas businesses trying to compete in the domestic market

Drawbacks of Moving Overseas?
Longer lead times for supply
Implications for CSR
Additional management costs
Impact of exchange rates

Reasons for Reshoring?
Greater certainty around delivery times
Minimise risk of supply chain disruptions
Reduce complexity of supply chain
Easier to collaborate with home suppliers
Greater certainty about the quality of inputs ad components

Overcoming Skills Shortages

By Business	By Governemnt
- Raise wages and other remuneration - Offer better training and other non – financial rewards than competitions - Offshoring activities with skills shortages	- Invest in vocational education - Provide firms and industries to offer more and better apprenticeships - Encourage inwards migration of overseas citizens with suitable skills

Marketing

- **Global Marketing Strategy** – A business doesn't differentiate its products or marketing between countries

The same product is sold in many countries with some fine turning of the product price, promotion etc

+	-
- EOS in production ad distribution - Lower marketing costs - Consistency in brand image	- Differences in consumer needs, consumer response, legal environments, brand and product development

- **Globalisation** – A combination of the worlds 'globalisation' and 'localisation' and is used to describe products and services that are both developed and sold to global customers

Products or services are designed to benefit a local market while at the same time being developed and distributed on a global level

Marketing Approaches

3 Approaches to Global Marketing = PEG
- **PEG** – Polycentric, Ethnocentric, Genocentric

Polycentric	Ethnocentric	Genocentric
Adapt to each market to appeal to local customers to maximise revenue	Standardise the product for all markets to keep costs low	A mixture of the two
Polycentric Approach (International) This is adapting the marketing mix to maximise sales in different countries Each host country is unique Each subsidiary business in each country should develop its own marketing strategy	**Ethnocentric Approach** A business which believes that a success story is one country can translate to all other countries in which it operates Foreign operations are subordinate to domestic markets Products sold without adaptation Ethnocentrism is the belief of superiority is ones personal ethnic group	**Genocentric Approach** Business can have some of the advantages of standardised global approach to get economies of scale but cater for needs of individual markets to maximise sales Branding may be done on a global basis

Adaptation of 4Ps to Global Markets

Product	Place	Price	Promotion
Standardised; media and the internet, world is getting smaller, easier to market a product	Standardised; distribution in national markets	Standardised; setting international prices is very complex	Standardised; can be used internationally by marketing strategy for different cultures
Adapted; Coca Cola makes it products sweeter for some markets	Adapted; in overseas markets there are more parties involved	Adapted; cost of transport tariffs, import duties, exchange rates	Adapted; advertising messages adapted due to language, political, climate, religion

	Existing Product or Service	New Product or Service
Existing Market	Market penetration (low risk) Increase sales to the existing market or penetrate it more deeply	Product or service development (moderate risk) New product or service developed for existing market
New Market	Market development (moderate risk) Existing product or service sold to new market	Diversification (high risk) New product or service sold in new markets

Market Penetration

- **Market Penetration** – On a global basis means selling more products to existing customers

Marketing teams may look to see if frequency of use or purchase can be increased

International Trade and Business Growth

- **International Trade** – The exchange of products (goods and services)

Trade doesn't take place between countries, it takes place between the economies agents of that country,, such as businesses, governments or consumers

+	-
Poverty is reduced Low prices for consumers Technology is spread Economies of scale Better use of scarce resources	Transport costs Rising inequality Pressure on wages and working conditions Structural unemployment as patterns of trade chains
• **Exports** – Arise as a function of international trade whereby goods and services produced by one country are sold to another country	• **Imports** – Are goods or services bought into one country from another

The Importance of Specialisation for International Trade

Some countries are better at producing certain goods/services than others due to…

- Relative opportunity cost of production for a good or service is lower than in another country
- A country is relatively more productively efficient than another

Foreign Direct Investment (FDI)

- **Foreign Direct Investment** – Investment from one country into another that involves establishing operations Orr acquiring tangible assets, including stakes in other business

Flows of FDI	Inward FDI	Outward FDI
2 Main Flows = Inward & Outward	A foreign retail firm invests to open ew stores in the UK	A UK business complete a takeover of a business based in another county

Reasons Why Businesses Engage in FDI

- Take advantage of lower labour costs in other country
- Avoid protectionist measures
- Earn target returns on investment by buying valuable assets
- Operate closer to sources of raw materials and other suppliers rathe than transport them long distances

Protectionism

- **Free Open Trade** – An economic policy of not discriminating against imports from and exports to other countries

Benefits of Free Trade

- Countries can benefit from comparative advantage
- Businesses can better achieve economies of scale
- Encourage competition and economic efficiency
- Enables businesses to grow beyond their domestic borders

World Trade Organisation	Protectionism	Tariffs
Main function is to ensure that trade flows as smoothly, predictably and freely	Involves any attempt by a country to impose restrictions on trade in goods and services	A tax or duty that raises the prices of imported products and causes a reduction in demand

Import Quotas	Subsidies
Volume limits on the level of imports allowed or a limit to the value of imports permitted into a country in a given time period	A payment to encourage domestics production by lowering their costs

Other Methods of Protectionism	Arguments in Favour of Protectionism…
- Import licensing - Exchange controls - Intellectual property law - Technical barriers to trade	- Infant industry protection (help infant or fledging industries establish themselves) - Protection of strategic industries (protect jobs skills and capabilities in key) - Protection against importing dumping (form of predatory pricing which can damage industries)

Product or Service Development	Market Development	Diversification
New product development in marketing can be critical to keep customers buying more	Taking products that already exist and finding new global markets for them	The most risky of the 4 strategies as it means providing new products for new markets

Niche Markets

- **Niche Markets** – Small specialised market which caters for a particular product or service
- **Global Niche Market** – A very small market in each country, but the combination of all the countries together make enough demand to make business profitable

Highly specialised and is characterised by very loyal customers and premium prices

Cultural Diversity	Social and Cultural Factors
• **Cultural Sensitivity** – understanding that people all over the world have different interests and values Having a sensitivity to cultural diversity in communication is the key to smooth international business • **Cultural Diversity** – A range of different societies or people of different origins, religions and traditions all living and interacting together	• **Cultural Factors** – Beliefs, moral values, traditions, language, laws held by a country • **Social Factors** – Lifestyle, religions, economic wealth, family structures, education and political systems Different cultures have very different activities that are classed s normal, and businesses that operate globally need to be aware of this

High Context Communication Needs	Low Context Communication Needs
- Establish social trust first - Value personal relations and good will - Agreement by general trust - Negotiations slow and ritualistic	- Get down to business first - Value expertise and performance - Agreement by specific, legalistic contract - Negations efficient as possible

High Context Cultures	Low Context Cultures
- Chinese, Japanese, Arab, Spanish, Korean, Vietnamese, Greek	- Italian, North American, Swiss, English, Scandinavian, German

Unintended Meanings

- **Unintended Meanings** – Translations are not always word for word they often have different meanings

E.g wrong words being used, sounds like something else

Branding

- **Branding** – Wording and imagery must be appropriate for local markets

This must comply to social and cultural norms and religious imagery

Multi National Companies

- **Multi National Companies** - MNCs

Impact of MNCs on Local Economy	Negative Impacts of MNCs
- Creates employment - Increase skills base - Increased standard of living - Raise country profile - Improves balance of payments - Improves infrastructure	- Profile leakage - Low paid jobs - Pull out quickly - Poor safety record - Increased urbanisation - Widnes poverty gap

Impacts of MNCs on National Economy

- When a multinational invest in a host country, the scale of the investment is likely to be significant
- governments will often offer incentives to firms in the form of grants, subsidies and tax breaks to attract investment into their countries
- Inward investment will help to balance a country's payments
- The investment will be direct flow of capital into the country and the investment is also likely to result in import substitution and export promotion
- MNCs will bring with them technology and production methods that are probably new to the host country and a lot can therefore be learnt from these techniques

Ethics

- **Ethics** – Moral principles that govern how a company does business

MNC Objectives vs Stakeholders

Owners seek high profits …

- High profits means keeping wages low which mans that workers may not be paid a living wage
- High profits means keeping costs as low as possible so working conditions may suffer
- High profits mean that labour laws may not be kept to

Shareholder Objectives	Ethical Corporate Objective
- High profits - High dividends - Growth - Return on their investment - A positive corporate image	- Low emissions - Safe waste disposal - Paying fair wage rates too employees in other countries - Sourcing sustainable raw materials

Pay and Working Conditions	Environmental Considerations
- Pay varies around the world, as does the cost of living - Owners want low cots - Working conditions in developing nations can be well below those of industrialised nations	- An emission means the production and discharge of something especially gas or radiation - MNCs regularly flout or ignore 'weak' environmental laws in India and other developing nations

Controlling MNCs

- 4 main methods ; Political Influence, Legal Control, Pressure Groups, Social Media

Political Influence

- **Political Influence** – Governments can apply pressure to attempt to charge the behaviour of MNCs

Political Influence to Control MNC Activity

+	-
- MNCs may wish to get. Political approval from the governments of the host nations - If MNC gains political approval, trading may be smoother/less troublesome	- Politicians can be bribed - Some MNCs burning so much wealth and employment to an economy that a weaker government might ignore

Legal Control

- **Legal Control** – If a country introduces laws to reduce pollution or protect children from child labour then this will all cost the MNC money to improve their practices

Legal Control to Control MNC Activity

+	-
- Laws can be passed at any point to control the actions of a MNC - Laws mean consumers have some rights against the MNC	- MNC may simply move production to a country where there are less laws and restrictions - MNCs can afford expensive legal defence of any challenge

Pressure Groups

- **Pressure Groups** – Organisations which campaign for changes in the law or new legislation in specific areas

Pressure Groups to Control MNC Activity

+	-
- Pressure groups can raise public awareness of MNCs activities in host countries - Can create PR problems for MNCs peacefully	- Pressure group needs to be large and organised if it is to have any impact on changing the activities of the MNCs

Social Media

- **Social Media** – Tools such as Twitter can see the swift mobilisation of public opinion and hence pressure on MNCs to change their behaviour

Social Media to Control MNC Activity

+	-
- Can be very powerful way to change the behaviour of MNCs	- Only effect short term change as the internet is a dynamic medium

Sources of Finance

Capital is used for;
- Starting up
- Day to day running of the business
- Growth
- Replacement of equipment
- Purchase stock
- Take advantage of economic scale marketing and promotions
- Research and development costs

Factors affecting the type and amount of finance required;
- Time
- Amount
- Control and security
- Cost
- Risk
- Legal status of the business
- Financial position

Internal Sources of Finance

Retained Profits	The amount of net income left over for the business after it has paid out dividends + does not need to be repaid - for profits to build up to use in this way can take too long
Working Capital	The capital of a business which is used in its day-to-day trading + more flexibility - difficult to grow business
Asset Disposals	The removal of a long-term asset from the company's accounting records + remove outdated equipment - may not be able to replace

External Sources of Finance

Share Issues	The process by which companies pass on new shares to shareholders + cheaper tex benefits - riskier interest payments
Bank Loans	An amount of money loaned at interest by a ban to a borrower + keep control of the company - high interest rates
Overdrafts	Drawing mor money than the account holds + flexibility - cannot be used for large borrowings
Peer-to-Peer Lending	Is a way for people to lend money to individuals or businesses + much easier to set up - the borrower may make late interest repayments
Debentures	A long-term security yielding a fixed rate of interest + low issue cost - rigid obligation
Venture Capital	Start up companies with a potential to grow + no obligation for repayment - May lead to under-valuation
Supplier Finance	A component of supply chain financing and plays an important role in improving the cash flow
Share Capital	Money gained from selling shares + can make a lot of money - selling shares reduces the amount of control

Types of Finance

Long Term	Medium Term	Short Term
Finances the whole business over many years e.g share capital, retained profits	Finances major projects or assets with a long- life e.g bank loans, leasing	Finances day-to-day trading of the business e.g bank overdraft, trade creditors

What to Consider?

How Much	Enough or not too much Safety buffer
When	All at once Drip feed/as needed
Challenges	Keeping control

Sources of Finance

- Cash flow forecast
- Shares and shareholders
- Business objectives
- Profits and profitability
- Capital intensity

Why Personal Sources are Important to a Start-Up

- Cheap
- Entrepreneur keeps more control over the business
- The more the founder puts in the more others will invest
- Little red tape or delay
- Focuses the mind

Liability

Unincorporated	Incorporated
The owner is the business - Owner has unlimited liability	Legal differences between the business and the owners - Limited liability
- Sole trader - Partnership	- Private limited company - Public limited company

Importance of Limited Liability

- Protection for shareholders in a company
- Can only lose the value of their investment
- Doesn't protect them against wrongful or fraudulent trading

Sole Traders

An individual owning the business on their own

Advantages	Disadvantages
- Quick and easy to set up - Simple to run - Easy to close/shut down	- Full personal liability - Harder to raise finance - The business is the owner

Unlimited Liability

The finances of the business are inseparable from the finances of the owners. Personally liable for the debts of the business

There is no limit on how much they can be required to repay, this may mean selling personal possessions

Limited Company

Separate legal entities to the founders, a legal entity can own things itself, can sue and be sued

Companies are owned by their shareholders and run by directors. The company owns the assets and pays the debts so if the company cannot pay then its closed. The shareholders are not liable for any debts owed by the company.

Advantages	Disadvantages
- Limited liability - Easier to rise finance - Stable form of structure	- Greater admin costs - Public disclosure of company information - Directors legal duties

Limited liability can benefit a business in several ways;
- Owners can have the confidence to expand
- New investors may be attracted to invest

Managing Business Activities

-Raising & Managing Finance, Financial Planning, Resource Management and External Influence

Business Plan

We have a business plan to;
- Help finance providers assess the business
- Provide a structured assessment of opportunities and risks
- Helps determine the amount and type of finance required
- Provides a Enoch mark against which progress can be measured

Cash Flow

A dynamic and unpredictable part of life for most businesses

Cash flow problems are usually why businesses fail, regular and reliable cash flow forecasting can address many of the problems

Inflows	Outflows
- Cash sales - Recipients from trade debtors - Sale of fixed assets - Interest on bank balances - Grants - Loans from bank	- Payments to suppliers - Wages and salaries - Tax - Repayment on loans - Dividends to shareholders

We produce a cash flow forecast so we have
- Advanced warning of cash shortages
- Make sure that the business can afford to pay suppliers and employees
- Spot problems with customer payments
- Provide reassurance to investors and lenders

Key to having a good cash flow forecast
- Updating it regularly
- Makes sensible assumptions
- Allows for unexpected changes

Common problems …
- Sales prove lower than expected
- Customers do not pay up on time
- Costs prove higher than expected
- Imprudent cost assumptions

Sales Forecasting

Why use sales forecasting?	Factors to consider…
- A vital planning activity - Know if you need to employ more people - Production/capacity plans - Useful part of regular competitor analysis ad helps to focus market research	- Product life cycle - Pace of technological innovation - Growth of the global economy - Rise of middle classes in emerging economies - Market saturation for smartphones

Factors affecting sales forecast…	Sales forecasting is likely to be inaccurate when…
- Consumer trends change - Economic variable - Competitor actions	- Business is new - Market subject to significant disruption from technological changes - Demand is highly sensitive to changes in price and income - Product is a fashion item - Significant changes in market share

Factors in successful forecasting

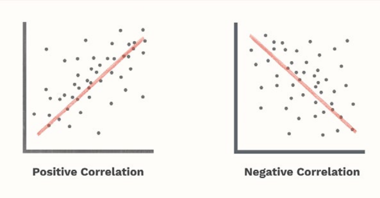
Accurate	Inaccurate
- Product long established (easier to predict) - Product has naturally stables sales	- New company in a new market - Technological products - Fashion product

Extrapolation

Advantages	Disadvantages
- A simple method of forecasting - Not much data required - Quick and cheap	- Unreliable if there are significant fluctuations in historical data - Assumes past trends will continue into the future - Ignores qualitative factors

Correlation

The strength of a relationship between two variables



Confidence Intervals
Gives the percentage probability that an estimated range of possible valves in fact includes the actual valve being estimated, this helps a business evaluate the reliability of a particular estimate

Confidence Intervals
Gives the percentage probability that an estimated range of possible valves in fact includes the actual valve being estimated, this helps a business evaluate the reliability of a particular estimate

Demand

The amount of a product that customers are prepared to buy

Factors affecting demand;
- Prices and incomes
- Tastes and fashions
- Competitor actions
- Seasonal changes

Revenues

	Calculation
The amount (value) of a product that customers actually buy from a firm	**= volume sold X average selling price**

Ways to increase revenue	Factors affecting price
- Increase quantity sold - Achieve a higher selling price	- Competitor prices - Customer loyalty - Product quality - Product availability - Economic conditions

Costs

Amounts that a business incurs in order to make goods and or provide services

Costs are important because they…

- Change as the output or activity of a business changes
- Are the thing that drain away the profits made by a business
- Are the main cause of cash flow problems in business

Costs

Semi-Fixed Costs

Some costs are fixed in the short-term, but then change once a certain level of output is reached

Total Costs Calculation

= fixed costs + variable costs

Variable Costs

Costs which change as output varies
Lower risk for a start up = No sales = No variable costs

Example

- Raw materials
- Bought in stocks
- Wages based on hours worked or amount produced
- Marketing costs based on sales

Fixed Costs

Costs which do not change when output varies
Fixed costs increased the risk of a start up

Example

- Rent and rates
- Salaries
- Advertising
- Insurance, banking and legal fees
- Consultant and adviser costs

Profit

The return or reward for taking risks ad making investments

Profit Calculation

= total sales – total costs

Profit is the mots important source of cash flow ad finance for a business. There can be reasons for running a business other than 'profit motive', most business objectives are profit

Possible Actions to Increase Profits

Sales – Increase quantity sold and selling price
Variable Costs – Reduce variable cost per unit
Fixed Costs – Increase output, reduce fixed costs
Net Profit

Contribution

The profit made on individual products. Used to calculate how many items need to be sold to cover the total costs

Key assumptions;

- Selling price per unit stays the same regardless of the amount produced
- Variable costs vary in direct proportion to output
- All output is sold
- Fixed costs do to vary with output thy stay the same

Breakeven

How many units the company needs to sell before making a profit

Margin of Safety
The difference between actual output and the breakeven output

Breakeven Output Calculation

= fixed costs / contribution per unit

+	-
Focuses on what output is required before a business reaches profitability Helps management and finance provide a better understanding of the viability and risk of a business or business idea Margin of safety calculation shows how much a sales forecast can prove over-optimistic before losses are incurred	Unrealistic assumptions with products that are not sold at the same price at different levels of output; fixed costs do vary when output changes Sales re unlikely to be the same as output as there may be some build up of stocks or wasted output too Most businesses sell more than one product

Change	Effect On Contribution	Effect On Breakeven
Higher selling price	Higher	Lower
Lower selling price	Lower	Higher
Higher variable cost per unit	Lower	Higher
Lower variable cost per unit	Higher	Lower
Increases in fixed costs	No change	Higher
Decrease in fixed costs	No change	Lower

Budgets

A financial plan for the future concerning the revenues and cost of a business

Types of Budgets

- Historical figures
- Zero based

Businesses Prepare Budgets Because

- They provide a sense of direction
- To control expenditure
- A basis fo measurement of success or failure
- A basis for co-ordination between departments
- Motivation and appraisal

Budgets

Limitations of budgets

- Are only as good as the data being used
- Can lead to inflexibility in decision making
- Need to be changed as circumstances change
- Take time to complete and manage
- Can result in short term decisions to keep within the budget

Behavioural Implications of Budgets

- Budgets are demotivating if they are imposed rather than negotiated
- Setting unrealistic targets adds to demotivation
- Budgets can contribute to departmental rivalry
- Spending up to budget can result in a 'use it or lose it' mentality

Historical Budgets

Use last years figures as the basis
Realistic as it's based on real results
Circumstances may have changed

Zero-Based Budgets

Budgeted costs and revenues set to zero
Budget is based on new proposals for sales and costs
Makes budgeting more complicated

Variance Analysis

Calculating and investigating the differences between actual results and the budget
This can be positive (better than expected) or negative (worse than expected)

Variance Depends On

- If the variance was foreseen
- Size (money and percentage)
- Cause
- If it is a temporary or long term problem

Variance Allows 'Management By Expectation' As

- Focusing on activities that require attention, not those that are running smoothly
- Budget control

What to do with Variance?

- Act only if the variance is outside an agreed margin
- Investigate the cause of a significant variance
- Ask if it was voidable or unavoidable
- Act to remedy the problem

Favourable Variances

- Actual figures are better than budgeted figure
- Costs lower than expected

Possible Causes

- Stronger market demand than expected
- Selling prices increased higher than budget
- Cautious sales and cost assumptions
- Competitor weakness leading to higher sales
- Better than expected productivity or efficiency

Adverse Variances

- Actual figure worse than budget figure
- Costs higher than expected

Possible Causes

- Unexpected events lad to un-budgeted costs
- Over spends by budget holders
- Sales forecasting prove over optimistic
- Market condition means selling prices are lower than budget

Contribution Calculation

= total sales – total variable costs

Contribution Per Unit Calculation

= selling price per unit – variable costs per unit

Total Contribution Calculation

= contribution per unit X number of units sold

Profit Calculation

= contribution – fixed costs

Ratio Analysis

Analysing relationships between financial data to assess the performance of a business

Profitability Ratios Provide Useful Insights

- Is the business making a profit? Is profit growing?
- How efficient is the business at turning revenues into profit?
- Is the profit enough to justify investment in the business?
- How does the profit achieved compare with the rest of the industry?

Cash Flow

The difference between total cash inflows and total cash outflows over a period

Where Cash Flow Differs from Profits

- Timing differences
  - ➢ sales on credit, payment to suppliers
- The way fixed assets are accounted for
  - ➢ Payment for fixed assets = cash outflow
  - ➢ Cost of fixed asset = treated as an asset not a cost
  - ➢ Depreciation is charged as cost when the value of fixed assets is reduced

Liquidity

Liquidity Ratios

Assess whether a business has sufficient cash or equivalent current assets to be able to pay its debts as they fall due

Current Ratio Calculation

= current assets / current liabilities

Low ratio (below 1) = cash problems
High ratio (above 2) = too much working capital

Acid Test Ratio = Current Ratio Calculation

= current assets – stock / current liabilities

Less than 1 = bad news

Main Causes of Cash Flow Problems

- Too much production capacity
- Allowing customers too much credit and too long to pay
- Overtrading
- Unexpected changed in the business
- Seasonal demand

How to Manage Cash Flow Problems

- Make and action reliable cash flow forecasting
- Manage working capital effectively
- Choose the right source of finance

Debt Factoring

The selling of debtors (money owned to the business) to a third party

- Generates cash
- Guarantees the firm a percentage of money owed to it
- Will reduce income and profit margin made on sales

Trade Credit

Amounts owed to suppliers for good supplied on credit and not yet paid for

Managing Cash Paid to Suppliers

- Delayed payment means that the firm retains cash longer
- Have to be careful not to damage firms credit reputation and rating
- Trade creditors are sevens as a 'free' source of capital
- Some firms habitually delay payment to creditors in order to enhance their cash flow

Improving Working Capital

- Debtors ; amounts owed by customers
- Creditors ; amounts owed to suppliers
- Stocks ; cash tied up

Managing Amounts Owed by Customers

- Credit control
- Selling off debts to debt factors
- Cash discounts for prompt payment
- Improved record keeping

Credit Control

- Establishing credit limits for new customers
- Credit checking new and existing customers
- Setting realistic credit limits
- Monitoring the age of debts
- Chasing up bad debts
- Determine appropriate terms and conditions for credit
- Chasing up debtors will get payment in sooner but may upset the customers

Stock

Goods purchased and awaiting use or produced and awaiting sale

Stockholding is costly and therefore it is sound business to keep smaller balances, computerise ordering to improving efficient and improve stock control

Improving the Cash Position

Short Term
Reduce current assets, increase current liabilities, sell surplus fixed assets, increase equity finance, increase long term liabilities, reduce net outflow

Business Failure

Reasons Why New Businesses Fail

- No demand for the idea —> poor market research and unrealistic plan
- Good idea but poorly executed —> wrong people, poor management, growth too quick/slow
- External shock —> economic change, legal and social change

Financial Reasons

Poor management of cash flow
Inadequate or inappropriate financing

Non – Financial Reasons

Lack of management control
Significant external shock

Poor Management of Cash Flow

- Significant increase in stock levels
- Inadequate credit control
- Bad debts incurred

Lack of Management Control

- Failure to develop a credible business plan
- Failure to understand costs, markets and key customers
- Failure to administer the company properly

Inadequate or Inappropriate Financing

- Use of short term overdrafts for long term investment or capital spending
- Failure to use debt factoring when sales are increasing
- Inadequate shareholder capital

Significant External Shock

- Loss of important/ major customer
- Sudden decline in market demand
- Change in legalisation impacting demand or increasing costs

Production, Productivity & Efficiency

Methods of Organising Production

Job, Batch, Flow, Process, Cell

Job Production

One-off or small number of items produced, Normally made to customers specifications and undertaken by small, specialist businesses

+	-
- Customer requirements can be handled - Associated with higher quality - More motivation	- Individual cost of one unit may be high - Labour-intensive meaning high costs - Reliant on high skills

Batch Production

Similar items are produced together. Each batch goes through one stage of production process before moving onto the next stage

+	-
- Cost savings can be achieved by buying in bulk - Still allows customers some choice - Unexpected orders can be handled	- Tasks may become boring - Size of batch depends on capacity - Takes time to switch production of one batch to

Flow Production

Product moves continuously through production process, when one task is finished next task must start immediately

+	-
- Suitable for manufacturer of large quantities - Less need for training and skills - Capital intensive	- Production is shut down if flow is stopped - Very long set up time - Reliant on high quality machinery

Process Production

Involves a series of processes which raw materials go through, the end result is a large quantity of the finished product

+	-
- Large quantities can be produced - Process can normally be automated - Ideal for consistent quality products	- Little opportunity to make different versions - Difficult and disruptive if production is stopped - Heavy investment needed

Cell Production

Where work is organised into teams. Teams are given responsibility of doing a part of production process as product moves through assembly line

Cell production often leads to improved productivity due to…
- Increased motivation
- Specialisation

Productive Efficiency	Productivity
Lowest cost per unit at which production can take place	An important measure of productive efficiency it describes how much input can be turned into product
Why is this important? - A more effective business will produce lower cost goods than competition - May generate more profit possibly at lower prices - Investing in production asses is expensive so a business needs to maximise the return it makes on these assets	**Ways to improve productivity** - Training - Improved motivation - More/better capital equipment - Better quality raw materials - Improved organisation of production

Average Cost Per Unit Calculation

= total production costs in period (F) / total output in period (units)

Economies of Scale

Arise when unit costs fall as output increases

Internal	External
- Arise from the increased output of the business itself	- Occur within an industry - e.g all competitors benefit

Internal Economies of Scale

Buying Economies	Buying in greater quantities usually results in a lower price
Technical	Use of specialist equipment or process to boost productivity
Marketing	Spreading a fixed marketing spend over a large range of products, markets and customers
Network	Adding extra customers or users to a network that is already established
Financial	Larger firms benefit from access to mor and cheaper finance

External Economies of Scale

- Having specialist suppliers close by
- Access to erase arch and development facilities
- Pool of skilled labour to choose from

Labour Intensive	Capital Intensive
Examples Food processing Hotels and restaurants Fruit farming Hairdressing Coal mining	**Examples** Oil extraction and refining Car manufacturing Web hosting Intensive arable farming Transport infrastructure
Implications of resource intensity for unit costs Labour costs higher than capital costs Costs are mainly variable = lower break-even point Firms benefit from access to sources of low cost labour	**Implications of resource intensity for unit costs** Capital costs higher than labour costs Costs are mainly fixed = higher break-even point Firms benefit from access to low-cost, long-term financing
+	+
Unit costs may still be low in low-wage locations Labour is a flexible resource – through multi-spilling and training Labour at the heart of the production process	Greater opportunity for economies of scale Potential for significantly better productivity Better quality and speed Lower labour costs
-	-
Greater risk of problems with employee/employer relationship Potentially high costs of labour turnover Need for continuous investment in training	Significant investment Potential for loss competitiveness due to obsolescence May generate resistance to change from labour force

Capacity Management

Capacity	Capacity Utilisation
A measure of how much output it can achieve in a given period	The proportion of a business' capacity that is actually being used over a specific period

Key Costs of Capacity	Capacity Utilisation Calculation
Equipment, Facilities and Labour	**= actual level of output / maximum possible output x 100**

Why Most Businesses Operate Below Capacity

- Lower than expected market demand
  e.g a change in customer tastes
- A loss of market share
  e.g competitors gain customer
- Seasonal variations in demand
  e.g weather changed lead to lower demand
- Recent increase in capacity
  e.g a new production line has been added
- Maintenance and repair programmes
  e.g capacity is temporarily unavailable

Problems Working at High Capacity

- Negative effect on quality; production is rushed, less time for quality control
- Employees suffer; added workloads and stress, demotivating if sustained for too long
- Loss of sales; less able to meet sudden or unexpected increase in demand, production equipment may require repair

Why Capacity Utilisation Matters

- Useful measure of productive efficiency since it measures whether there are unused resources in the business
- Businesses aim to produce as close to full capacity as possible
- High level of breakeven point is required if a business has a high level of capacity

Dangers of Operating at Low Capacity Utilisation

- Higher unit costs ; impact on competitiveness
- Less likely to reach breakeven output
- Capital tied up in under – utilised assets

Can a Business Work at More Than 100% Capacity Utilisation ?

- Can be possible in the short – term
- Increase workforce hours
- Sub contract some production activities
- Reduce time spent maintaining production equipment

Quality

A product or service is of good quality if it meets the needs and expectations of the customer, these are performance, availability, delivery, reliability, durability and value for money.

Quality is not just the product it includes the whole customer experience. If a business can develop a reputation for high quality, then it may be able to create an advantage over its competitors

Tangible Measures of Quality	Intangible Measures of Quality
- Reliability - Functions and features - Support levels and standards - Cost of ownership	- Brand image - Exclusiveness - Market reputation

Poor Quality	Costs of Poor Quality
- Product fails - Product does not perform as promised - Product is delivered late - Poor instructions/directions for use - Unresponsive customer service	- Loss of customer - Costs of reworking or remaking the product - Replacement funds - Wasted materials

How Does Poor Quality Damage Competitiveness?

- Financial costs
- Loss of customers
- Bad reputation
- Need for greater controls and checks
- Competitors take advantage

Fewer businesses are competing just on price, at a similar price the higher quality product is likely to win

Poor quality is a source of competitive disadvantage, if competitor are achieving higher quality the a business will suffer

Quality Management

Concerned with controlling activities with the aim of ensuring that products and services are fit for their purpose and meet the specifications

Quality Control	Quality Assurance
The process of inspecting products to ensure that they meet the required quality standard	The process that ensure production quality meets the requirements of customer
- Focus on outputs - Achieved by sampling and checking - Targeted at production activities - Emphasises required standards - Defect products are inspected out	- Focus on processes - Achieved by improving production processes - Targeted at the whole organisation - Emphasises the customer - Quality is build into the product
- Problems are that it is costly, has inconsistent inspections, done by inspectors rather than workers and often at the end of the production line which may be too late	- 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

- Quality control is the traditional way of managing quality and is mainly about detecting rather than preventing

3 main points in operations when inspection is used in quality control
- When raw materials are required prior to entering production
- Whilst products are going through the production process
- When products are finished

Kaizen

Based on concept/culture of continuous improvement and encourages employees to engage fully with finding ways to improve quality process

Potential Challenges…
- Culture may need change
- Poor quality likely to be the result of multiple issues
- Potentially high cost

TQM

A management philosophy committed to a focus on continuous improvements of product and services with the involvement of the entire workforce

Whole business understands need for quality and seeks to achieve it, everyone in workforce is concerned with quality at every stage of the production process

+	-
- Puts customer at heart of production - Motivational - Less wasteful - Eliminates cost of inspection	- Requires strong leadership - Substantial investment in training and support - May become bureaucratic - Disruption and costs may outweigh benefits

Stock

The raw materials, work-in-progress and finished goods held by a firm to enable production and meet customer demand

Key Reasons to Hold Stock

- Enable production to take place
- Satisfy customer demand
- Precaution against delays from suppliers
- Allow efficient production
- Allows for seasonal change
- Provide a buffer between production processes

Raw Materials/Components	Work in Progress	Finished Goods
- Bought from suppliers - Used in production process	- Semi or part-finished production	- Completed products ready for sale or distribution

Main Influences on Amount of Stock Held

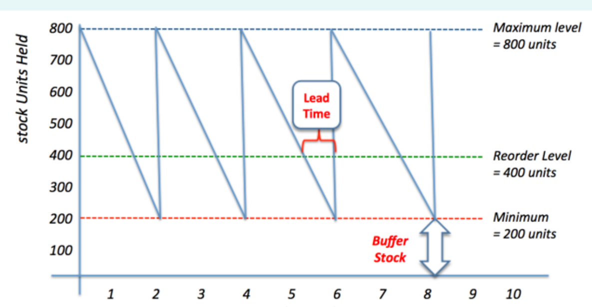
- Need to satisfy demand
  - ➢ Failure to have goods available for sale is very costs, demand may be seasonal or unpredictable
- Need to manage working capital
  - ➢ Holding stock ties up cash in working capital there is an opportunity cost associated with stock holding
- Risk of stock losing value
  - ➢ Longer stock are held, the greater risk that they cannot be used or sold

Costs of Holding Stock

Cost	Explanation
Storage	More stock needs large storage space
Interest costs	Holding stock that isn't sold means tying up capital
Obsolescence risk	Longer time stock is held, greater risk they will become obsolete
Stock out costs	Result in lack of sales, cost of production replacement orders costs

Stock Control

The overall objective of stock control is to maintain stock levels to that the total costs of holding stocks is minimised



- **Just – In – Time**

Stock required for production arrives just as it is needed

Factors Affecting How Much Stock to Re-Order

- Lead-time from the supplier
  - ➢ How long it takes fro the supplier to deliver the order
- Implications of running out
  - ➢ If stock-outs are very damaging, then have a high re-order level
- Demand for the product
  - ➢ Higher demand normally means higher re-order levels

Advantages of Low and High Stock Levels

Low Stock Levels	High Stock Levels
Lower stock holding costs Lower risk of stock obsolescence Less capital tied up in working capital Consistent with operating 'lean'	Production fully supplier so no delays Potential for lower unit costs by ordering in bulk/high quantities Better able to handle unexpected changes in demand or need for higher output

Lean Production	Implications
Minimal capital ties up in stocks	No need for buffer stocks, Stock holding costs are minimised, Lead times are very short, Requires highly reliable suppliers and sophisticated IT systems to work

PESTLE

Political	competition policy, industry regulation, government spending, tax policies, business policy and incentives
Economic	interest rates, consumer spending and income, exchange rates and the business cycle
Social	demographic change, impact of pressure groups, consumer tastes and fashions and changing lifestyle
Technological	disruptive technologies, adoption of mobile tech, new production processes and dynamic pricing
Legal	employment law, minimum/living wage, health and safety law and environmental legislation
Ethical	sustainability, tax practices, ethical sourcing, pollution and carbon emissions

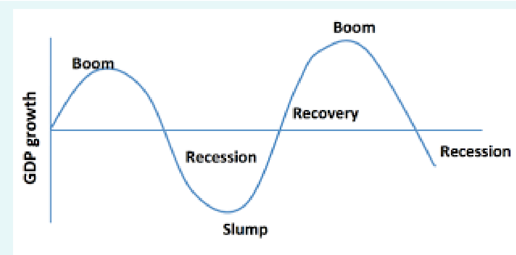
Economic Influence

The level of demand in most markets is influenced by the rate of economic growth, GDP growth will vary depending on the state of the economic cycle

GDP	Demand
Measures the value of output (activity) in the economy	How much of a good or service a consumer wants and is able to pay
The value is used to assess changes in economic growth	For a business demand turns into revenue

The Business Cycle

The sequence of slump, recovery, boom and recession. This is measured by changes in GDP from one quarter to next



Boom	Recession	Slump	Recovery
High levels of consumer spending, business confidence, profits and investment, unemployment is low	Falling levels of consumer spending and confidence means lower profits for businesses	Very weak consumer spending and business investment, many business failures, rapidly rising unemployment	Things stat to get better, consumers begin to increase spending, businesses feel more confident again

Main Causes of the Cycle

- Changes in the level of business and consumer confidence
- Alternating periods of stocking and de-stocking
- Changes in the value of consumer spending and business investment
- Changes in government policy which can include a change in the economy

Real Incomes

Measure the amount of disposable income available to consumers

Factors affecting consumer spending…

- Real disposable income
- Employment and job security
- Household wealth
- Expectations and sentiment
- Market interest rates

Interest Rates

The reward for saving and the cost of borrowing expressed as a percentage of the money saved or borrowed

Interest Rates Operating in the Economy

- Interest rates on saves in the bank and other accounts
- Borrowing interest rates on mortgages, credit cards, payday loans and government/corporate bonds
- Policy interest rates to help regulate the economy and meet economic policy objectives

What Happens When Interest Rates Fall?

- Cost of servicing loans/debt is reduced
- Consumer confidence will increase leading to more spending
- Effective disposable income rises
- More demand for housing and higher property prices
- Cheaper currency will increase exports

Exchange Rates

The price of one currency expressed in terms of another currency

The exchange rate determines how much of one currency has to be given up in order to buy a specific amount of another currency. The price is determined by the forces of demand and supply in the currency markets

Factors that Determine Effect of Changing Exchange Rates on Business

Low effect on business = no export sales, all business activities located in UK, raw materials and other supplies bought in UK, demand is price inelastic

High effect on business = significant export sales, overseas operations, earning profits in foreign currency, significant purchases from overseas suppliers, demand is price elastic

Price elastic demand has an impact as higher exchange rates will increase selling price for export customers. This is likely to result in greater reduction in quantity demanded and overall reduction in export sales

The Floating Exchange Rate

The UK operates with a floating exchange rate system, this means our currency is market determined

If the demand for sterling rises relative to supply, then the value of the pound will increase

If the supply of pounds on the foreign exchange market increases relative to demand, then the pound will fall in value

A stronger pound makes it cheaper to pay for imports, but exports will seem more expensive to overseas customer

Consumer Price Index

Measures changes in the price level of a weighted average market basket of consumer goods and services

Deflation

A sustained fall in the general price of the pound, in this situation the rate of inflation becomes negative

Inflation

A sustained increase in the average price level of an economy

- This is measures by the annual percentage change in the level of price as measured by the consumer price index

2 Main Causes …
– Demand Pull
- Cost Push

Demand Pull	Cost Plus
When there is excess demand	When costs rise
This occurs when there is excess aggregate demand in the economy or market. Businesses respond to high demand by raising prices to increase their profit margins Demand-pull inflation is associated with the boom phase of the business cycle	**Causes** - External shocks - A depreciation in the exchange rate - Acceleration in wages

Possible Causes of Demand Pull Inflation	What Happens?
- A depreciation of the exchange rate - A reduction in direct or indirect taxation - Rising consumer confidence - Faster rates of economic growth in other countries	- Firms raise prices to protect their profit margins - Wages often follow prices - A rise in inflation can lead to rising inflationary expectations

Price Elasticity of Demand

The responsiveness of demand to changes in price

- When demand is elastic, a price rise leads to a more than proportionate fall off in quantity demanded
- When demanded is inelastic, a price rise leads to a less than proportionate fall off in quantity demanded

- Price elasticity of demand and inflation affect businesses in different ways

Inflation

- Firms with inelastic price elasticity of demand will be less affected by a rise in inflation, some firms will be able to absorb price increases by becoming more efficient
- Price inflation will vary from industry

A Rise in General Inflation

- Sales revenue should rise
- Labour intensive industries more at risk
- Workers likely to demand higher pay to compensate for consumer price inflation

Input Cost Inflation

- Cost – push inflation will vary from industry to industry so firms that need to buy significant commodity raw materials may find profit margins squeezed if they cannot pass on increased costs to customers

Fiscal Policy

The use of government spending, taxation and borrowing to affect the level and growth of aggregate demand, output and jobs

Expansionary Fiscal Policy

Cut in personal income tax rates →	Boost to disposable income →	Adds to consumer demand
Cut in indirect taxes e.g. VAT →	Lower prices – leads to higher real incomes →	Adds to consumer demand
Cut in corporation tax →	Higher "post tax" profits for businesses →	Adds to business capital spending
Cut in tax on interest from saving →	Boost to disposable income of people with net savings →	Adds to consumer demand

Government Tax

Why Does the Government Tax?

- Raise revenue to finance government spending
- Managing aggregate demand to help meet the governments macroeconomic objectives
- Changing the distribution of income and wealth
- Market failure and environmental targets as taxes may help correct market failures

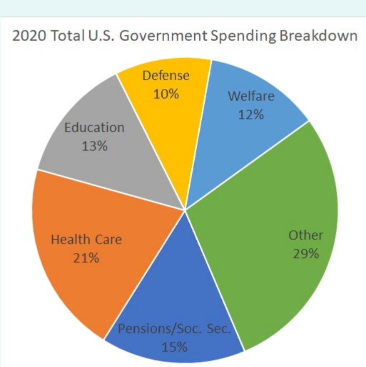
Direct Taxes	Indirect Taxes
Levied on income, wealth and profit e.g Income tax, national insurance contributions, capital gains tax	Levied on spending by consumers on goods and services e.g 20% VAT, excise duties

Who Pays Indirect Tax?

The burden of an indirect tax might be passed onto the consumer by the producer. This depends on the price elasticity of demand and supply for the product

Government Spending

Transfer Payments	Current Spending	Capital Spending
Welfare payments made to benefit recipients such s the state pension and the Jobseekers Allowance	Spending on state – provided goods and services such as education and health	Infrastructural spending such as spending on new roads, hospitals, motorways and prisons



Why Have Government Spending

- Direct government provision of public goods and merit goods
- Provide welfare support for low income households or the unemployed
- Government spending is also a means of distributing income within society
- Government spending can also be used as a tool to manage aggregate demand (GDP) as part of macroeconomic policy

Legislation

Law and the Business Environment

- A set of rules and reductions with which a business has to comply with, a constraint on action or a threat

Main Roles of Business Legislation

- Regulate the rights and duties of people carrying out business in order to ensure fairness
- Protect people dealing with business from harm caused by defective services
- Ensure the treatment of employees is fair and undiscriminatory
- Protect investors, creditors and consumers

Equality

Men and women are entitled to equal pay for work of equal value

Workers have the right to ask their employer for information to check equality and employers are required by law to ensure they pay their workers at least the national minimum wage

Discrimination

It is illegal for an employer to discriminate against an employee on the basis of sex, disability, race, age, religion or marital status

Where Discrimination Laws Apply

- Recruitment
- Employee Contract
- Promotions and Transfers
- Providing Training
- Deciding what fringe benefits employees receive

Employment Right

Something to which an employee is entitled which is protected by law

Laws provide a variety of 'rights' for employees, including reasonable notice before dismissal, right to redundancy, right to a written employment contract and right to request flexible working

Industrial Relations

Protection from unfair dismissal, employees must recognise union is >50% of staff are members

Consumer Protection

- **Business to Consumer** - Any business that sells goods or provides services to consumers

A business must ensure that…

- Their goods fit their description
- Must be of satisfactory quality
- Goods are fit for the purpose specified

Other Ways Consumers are Protected…

- Businesses may not use unfair commercial practices
- Customers have a right of return and full refund is goods/services do not comply with law
- Services use be done at a reasonable price and by the time stated

Competition Policy

Aims of Competition Policy…

- Wider consumer choice in markets for goods and services

Technological innovation which promotes gains in dynamic efficiency

Effective price competition between suppliers

Businesses need to be aware to ensure it does not breach competition law and to protect its position where competition law is breached by a competitor

Anti – Competitive Agreements

Both UK and EC competition law prohibit agreements, arrangements and concerted business practices which appreciably prevent, restrict or distort competition

Examples

- Agreements which directly or indirectly fix purchase or selling prices, or any other trading conditions
- Agreements which limit or control production, markets, technical development or investment
- Agreements which shape markets or sources of supply

Abuse of Dominant Position

Both UK and EC competition law prohibit businesses with significant market shares unfairly exploiting their strong market positions

Examples

- Imposing unfair trading terms, such as exclusivity
- Excessive, predatory or discriminatory pricing
- Refusal to supply or provide access to essential facilities

Penalties for Getting Caught Using Abuse of Dominant Power

Some of the penalties can include

- Up to 10% of annual turnover
- Criminal prosecution
- Disqualification as directors
- Civil action by those affected

Health and Safety

About preventing people from being harmed at work or becoming ill, by taking the right precautions and providing a satisfactory working environment

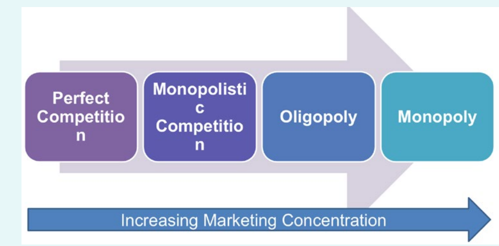
This applies to employees working at the business premises, from home or at another site and visitors to the premises such as customers or subcontractors

Competitive Environment

- **Competitive Advantage –** The ability of a business to add more value for its customers than its rivals and attain a position of relative advantage

A situation where a business has an advantage over its competitors by being able to offer better value, quality and/or service

⬇ Economists View on Market Competition ⬇



Market Structure

3 Key Issues

- The extent of current competition
- The potential for new firms to enter the market
- The extent to which a business produces a similar product (indistinct from rivals) or a differentiated product (distinct from rivals)

The Threat of New Market Entrants

- The possibility of newcomers entering the market is an important aspect of competition within the market
- High profits will tempt newcomers to enter a market and this will drive down prices and profits, therefore the maintenance of market power depends upon erecting and maintaining barriers to market entry

Market Forces – What Can be Done

Customer Reliance

Reduce over-reliance on customers, Focus marketing efforts on most profitable customers

Supplier Reliance

Build relationships, Have an alternative source of supply

Barriers to Entry

Build a brand, Capture a fair share of distribution, Operate efficiently to compete at low cost

Barriers to Entry (Restricting Competition)

- Product differentiation
- Access to raw materials and distribution channels
- Retaliation by established products

Unique Selling Point

Somethings that sets a product apart from its competitors in the eyes of customers, both new and existing

This is important while being competitive as it's a way to differentiate, you don't end to compete on price and there is higher profitability

To be competitive you need a great product (USP), efficient operation (unit costs) and customer service (customers)

Marketing and People
- Entrepreneurs and Starting a Business, Meeting Customer Needs, The Market, The 4P's & Meeting Customer Needs

Entrepreneurs

Business	An organisation that exists to provide goods and services on a commercial basis to customers
Goods	Physical products you can touch
Services	Intangible products you can't touch
Enterprise	The creation of a business to meet the needs and wants of customers, the skills and abilities to take risks and create profits
Entrepreneur	A person who organises, operates and assumes the risk for a business venture
Start-Up	A new business enterprise, formed by one or more entrepreneurs

Business Benefits to Society	Role of Entrepreneurs
- Create jobs - Training people - Drive innovation - Pays taxes - Creates wealth	- Spots business opportunities - Takes calculated risks in order to gain possible future returns - Acts as a catalyst for the creation and growth of a business

Importance of Business Ideas	Roles of an Entrepreneur
- Solve a problem - Offer a better, cheaper way - Simple and practical - Can be delivered quickly - Have a clear focus - Anticipate trends and exploit growing markets	- Takes risks - Spots business opportunities - Starting new businesses

Characteristics of a Successful Entrepreneur	Barrier to Being an Entrepreneur
- Passionate and Visionary - Energetic, Driven and Resilient - Self-starting and Decisive - Calculated risk-takes - Focused - Results orientated	- Loneliness and Isolation - Financial pressure - Hard work - Higher stress levels - Needs to multi task - Can't blame others if things go wrong

What is a Risk?	What Are Rewards?
- The probability that things will not go as well as planned - The chance that money invested in the business will be lost - The possibility that the entrepreneur will be personally liable for the debts a business incurs	- Profits - Capital gains - Self-esteem - Personal development - Sense of control - Satisfaction from building something

Intrapreneurship

Involves people within an existing business creating or discovering new business opportunities, which lead to the creation of new parts of the business or even new businesses

Ways to Encourage Intrapreneurship	Barriers to Entrepreneurship
- Give employees ownership of projects - Make risk-taking and failure acceptable - Train employees in innovation - Encourage networking and collaboration	- Support and finance - Lack of a viable business idea - Gender (women are still under represented as entrepreneurs in the UK)

Profit Maximisation	Profit Satisficing
Desire to earn substantial rewards in a strong entrepreneurial motivation + Long term profit maximisation consistent with building valuable business - Need to accept losses as business is establishes	A sufficient profit to enable a satisfactory standard of living + The entrepreneur will take fewer risks + The trade off is lower returns

Non-Financial Motives for Starting a Business

- More control over working life
- End for flexible woking
- Frustration with an unfulfilled potential
- Escape an uninteresting job or career
- Pursue an interest or hobby
- Want to be the boss

Business Objective

A goal or aim that a business wants to achieve

Market Share

The percentage of a market that a business has, either in revenue or in units sold

SMART

Helps the business know what direction the business is going

Specific, Measurable, Achievable, Realistic and Time-bound

Many businesses in the first year just want to survive as the objective while it establishes itself in the market. The objective is to reach a sustainable level of sales that allows the business to reach its break-even point. This may mean penetration pricing of products or services at the outset to establish the business. This may mean not much profit in the first instance until the business grows.

Cost Efficiency Can be Achieved by	Social Objectives Include
- Paying minimum wage to workers - Subcontracting where economically viable - Lean production or construction where material, time and process waste is eliminated to save costs - Lower the quality, lower the price	- Reducing impact on the environment - Fir wages in developing countries - Helping society - Compliance with laws to minimise externalities like operating sensible hours so not to noise pollute the local community

Unlimited Liability	Limited Liability
No distinctions between the business and the owner Responsible for the business debt They can take anything to pay for debts	Protects a business owners personal funds from being used to pay business debts They are limited on what they can take to pay for debts

Business Form

The legal structure that it takes in the UK, it could be a sole trader, a partnership, a private limited company or a public limited company

Sole Trader

Business owned by one owner, but they can take on staff

+	-
- Easy to set up - Make decisions quickly	- Unlimited liability - Difficult to raise money

Partnership

Include 2 or more people, everyone shares the risks, costs and responsibilities of being in business, profits and gains

+	-
- Easy to set up - Capital needed is small	- Unlimited liability - There may be disagreements

Private Limited Companies

Sole traders may grow and expand and want to become a LTD company

+	-
- Limited liability - Can raise extra capital by selling more shares to friends and family making it easier to expand	- Accounts aren't private - Difficult and expensive to start up

Franchise

Where a small business owner buys the rights to sell the goods and services of a large, well-established company

Franchisee

This is the small business owner who is buying the rights

Franchisor

This is the large business who are selling the rights

+	-
- Franchisor chooses the franchise carefully - Franchisor provides support	- Do not have freedom - Pays a % of profit in royalties

Social Enterprise	A business that trades for a social and/or environmental purpose. The objective is to help society or the planet in some way
Lifestyle Business	The aim is to provide a great quality of life for the owner. Owners start a business hoping to sustain a certain level of income
Online Business	Easy to set up, available to the customer 24/7, can be managed from anywhere and owner does not need to be sat in an office

Growth to PLC and Stock Flotation

Going public is expensive as you need lawyers to draw up legal paperwork, publications, advertising and admin and the company must have $50,000 in share capital

Opportunity Costs

The value of the next best alternative foregone
Alternative decision costs

Trade Off

In business to achieve two things may not be possible, as there is only so much capital and only so much of other resources

Moving from Entrepreneur to Leader

Delegation	Authority to carry out a task or make a decision
Self - Awareness	Your ability to accurately perceive your emotions and stay aware of them as they happen
Self - Management	Your ability to use awareness of your emotions to stay flexible and positive
Social - Awareness	Your ability to accurately pick up on emotions in others
Relationship Management	Ability to use awareness of your emotions and the others emotions to manage interactions successfully

Mass Market

This is the market that is aimed at the general population (large)

- A product is sold to all consumers in the same way, like coca cola
- Many products can be sold on a global scale with just a few language tweaks
- The small car market in the UK is an example of the mass market

+	-
- High revenues can be pumped into research and development - Large scale production means economies of scale and lower average unit - Mass marketing is straight forward as everyone is equally targeted	- Lots of competition - High volume production not flexible to demand changes - Homogeneous products need to be differentiated through marketing which can be expensive

Niche Market

This is a subset of the main market and addresses a specialist need (small)

- Subset of the main market and caters to a particular Genentech of the market that is not being met by other providers
- Prices are often higher
- Often signal more competitors to enter the market
- Businesses usually have a small range of products
- Lack fo economies of scale

+	-
- Charge premium prices - Easier to target customers - Small scale production can be flexible and follow trends	- Very risky as demand may not be constant - Higher unit costs so no economies of scale

Market Size

The total of all the sales of all the producers in that market

Market size can be measured by volume of sales-quantity or value-total amount spent by customers

Market Share

This is the proportion a market that is taken by a business, product of brand

Market Share Formula

$$\text{Market Share} = \frac{\text{Total Sales of the Company}}{\text{Total Sales of the Market}} \times 100$$

$$\text{Market Share} = \frac{\text{Total Number of Units Sold by the Company}}{\text{Total Number of Units Sold in the Market}} \times 100$$

Dynamic Market

One that is subject to rapid or continuous changes

Online Retailing

+	-
- Shop is open 24/7 - Orders can be taken automatically - Shop can reach international markets - Easy to set up	- 71% of customers like to browse online then purchase in store - Issues with sending goods back - Owner needs IT skills

Business Risk

The possibility a business will have lower than anticipated profits or experience a loss rather than taking profit

This is influenced by raw aerials, competition, economic climate, government laws. This risks of business failure mean the business owner may not be able to meet their own financial bills

Financial Risk

A business owner may put their own savings or finances into the business, this could be lost if the business fails

Most businesses fail due to poor cash flow management, this can be improved by making sure customers pay on time

Uncertainty

When businesses are unable to predict external shocks or future events

A business may worry about fluctuating interest rates and so may take out a long term loan at a fixed rate of interest. Public liability is taking out insurance against risk

Product Orientation

When a business only looks at the product or the production process when deciding what to make next, the business is inward looking

Usually used when there is little competition, limited consumer knowledge and when there is low disposable income

Market Orientation

Focus on the needs of the consumer
e.g the customer can chose the colour of their new car

Market Research

Effective market research;
- Reduce risk
- Identify potential competitors
- Understand consumer behaviour
- Understand how much consumers will pay for a product

Primary Research

Collecting data first hand, new data is gathered for the benefit of the business

Primary research may also include a survey of customers who use the business. A business can gather quantitative and qualitative data in this method

Secondary Research

Gathering data which already exists

The internet is an ideal way to research competitor websites, articles, publications, annual accounts

Qualitative	Quantitative
Seeks to gather and explore feelings and thoughts about a product from consumers	Involves gathering data and measuring responses, data is displayed in charts, graphs, as statistics and percentages
Gathered by; - Focus groups - Interview with consumers on what they think about the product or service - Observations on buyer behaviour	Questionnaires are written to gather numerical data

Limitations of Market Research, Sample Size and Bias

Sampling	The process of choosing the right people to be part of the research
Sample Size	The number of people who are interviewed during the research
Bias	When research findings cannot be trusted because of the way the research has been carried out

Use of ICT

Pop-ups on websites can be used to ask customers about products they have bought or may buy. May also be used to gather email addresses

Market Segmentation

Market Segment	An identifiable group of individuals or part of a market where consumers share one or more characteristics or needs
Demographics	Statistical data relating to the population and particular groups within it

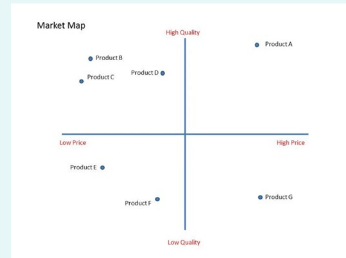
Market Positioning

How the brand influences the customer perception of a product. It is achieved through differentiation and adding value

Market Mapping

The process of finding the variable which differentiate brands in a market and then plotting them on a map, this helps identify a gap in the market

Market Map



Competitive Advantages

- Price
- Added value
- Innovation
- Reliability
- Quality
- Reputation
- Advertising
- Branding
- Convenience
- Customer Service

Product Differentiation

Where a product is different from the competition in some way

Methods of Differentiation

- Reputation
- Customer Service
- Value for Money
- Product Features
- After Sale Service

Adding Value

The difference between the price that is charged to the customer and the cost of inputs required to create the product or service

This can be achieved by design, production or marketing

Benefits

- The more value that is added the higher the price that can be charged, which means higher profit margins
- Protection against competition offering lower prices which means competitive advantage
- Customer loyalty which means repeat business

Design	Production	Desalination
Develop new technology/design features to make their product unique	Achieving quality and efficiency adds value Quality will ensure a higher price can be charged Efficiency helps cut costs of the input	Creating an image that makes the product more desirable, a brand differentiation advantage

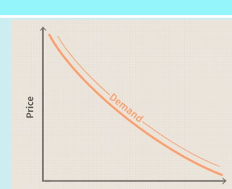
Demand

The amount of a good that consumers are willing and able to buy at a given price

Factors Leading to a Change in Demand

- Price and Demand
- Non Price substitutes
- Alternative brands available
- Price of complimentary goods
- Changes in consumer income
- Trends
- Population structure and demographics
- Advertising and branding
- Time of year
- Weather and climate
- External shocks

Demand Curve



Supply

The quantity of a good or service that a producer is willing and able to make availability on the market, at a given price over a given period of time

Factors Leading to a Change in Supply

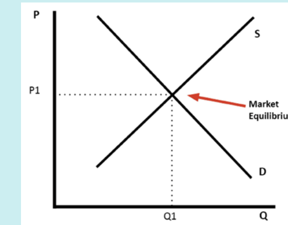
- Price and Supply
- Increase in cost of production
- New technology
- Tax
- Government subsidies
- External shocks

Supply Curve

Market Equilibrium Price

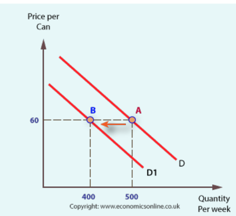
The interaction of buyers and sellers will provide an equilibrium price in a market where demand and supply is equal

Market Equilibrium Price Curve

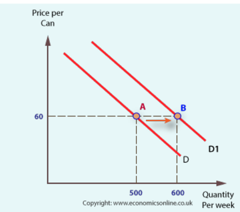


Price Curve

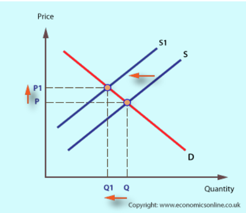
Fall in Demand



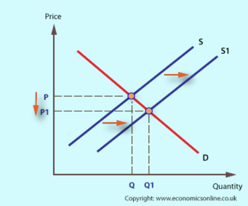
Rise in Demand



Fall in Supply



Rise in Supply



Price Elasticity of Demand (PED)

Measures the responsiveness of demand to a change In price, this can either be elastic or inelastic.

These values can be calculated so that we can work out if a product or service has elastic or Inelastic demand.

$$\text{Cross Price Elasticity of Demand Formula} = \frac{\text{\% Change in Quantity Demanded of Product A}}{\text{\% Change in Price of Product B}}$$

Factors Influencing PED

- Lots of substitutes
- Frequent purchase
- Necessities
- Luxury goods
- Relative price/Expense of product

Elastic Demand	Inelastic Demand
Products/services that have elastic demand are responsive to a change in price	For goods where if the price is charged the demand stays the same. This can apply to addictive products
If the percentage/number is more than 1 it is elastic demand	Is the percentage/number is between 0 and 1 it is inelastic demand

Income Elasticity of Demand (YED)

Measures the responsiveness of demand to a change in income, this can either be normal or luxury.

It is a calculation used by business to estimate how demand will change given changed in income.

$$\text{Income Elasticity of Demand} = \frac{\text{Percentage Change in Quantity Demanded } (\Delta Q)}{\text{Percentage Change in Consumers Real Income } (\Delta I)}$$

Normal Goods	Inferior Goods
Those for which consumer demand increases when income increases	Products where demand falls as income rises
If the product is between 0-1 it is normal	Is the result is a negative it is inferior

Product/Service Design

The combination of factors needed in designing a product

Design Mix

Aesthetics	Function	Cost
- How the product looks, tastes and feels	- What does the product do? - How well does it perform?	- What is the minimum cost that we can make this product for whilst retaining profit?

Bespoke Design	Custom made, custom built, tailor made to the customer
Standard Design	Products or services that are sold as standard, the customers cannot add any extra features or benefits

Ethical Sourcing

Ensuring that the products being sources are created in safe facilities by workers who are treated well and paid fair wages to work legal hours

Branding and Promotion

- **Promotion –** The use of marketing tools to bring a product or service to the tension of potential buyers

Types of Promotions

- Personal Selling
- Direct Marketing
- Above the Line Advertising & Below the Line Advertising
- Public Relations
- Sponsorship

Personal Selling

An effective way to manage business to customer relationships. The sales persons acts on behalf of the organisation

Direct Marketing

Highly focused targeted mil based on what customers have bought before. May be special offers to re-engage customers who have stoped buying

Above the Line Advertising

Advertising to a mass audience
e.g TV ads
+ Reaches a large audience
- Very expensive to make an advert and air it

Below the Line Advertising

More personal advertising to niche markets
e.g leaflets

Public Relations

Aims to build a relationship between the business and the public, to create a favourable corporate image

Sponsorship

Positive association of the product with a celebrity or sport. This can be very expensive and is difficult to tell what impact this has on brand loyalty or sales

Sales Promotion

- BOGOFF
- Price Discounts
- Money Off Coupons
- Samples/Giveaways
- Special Events
- Point of Sale

BOGOFF

Buy one get one for free, this is used to encourage customers to go int the shop or buy the item

+	-
- Very popular and boosts sales - Encourages trial and use of the product	- Loss of profit due to an increase in costs - Only useful short term

Price Discounts

Normal recommended retail price of the product or service has been reduced

+	-
- Great way to clear old or out-of-date stock	- Customers may regard the business as a cheap option

Sample/Giveaways

Where a business may send out or give customers free samples in order to persuade them to try the product for the first time

+	-
- Ideal for new product launches - Works well with some products	- Can be complicated to send in the pots - Can be expensive as giving away some of the product for free

Money Off Coupons

Coupons can be used to capture new customer, to add an incentive

+	-
- Coupons can help the customer feel they are getting better value	- Reduce profits from the costs of running the promotion

Special Events

Activities that the business does to encourage consumers to try the product

+	-
- Encourages customers to attend - Rewards loyal customers with a special event	- Can be expensive - Hard to measure how valuable this marketing is

Point of Sale

Usually a cardboard display stand located close to the till within a shop

+	-
- Ideal way to promote new products - Works best with products that have an event/holiday	- Only successful if the product meets the needs of the customer

Digital Communication

- Online Adverts
- Mobile Communications
- Advergaming
- Social Media
- Consumer Generated Content
- Viral Strategies

Online Adverts

Banners, commercial classified adverts, pop-up ads, paid for listings

+	-
- Potential to reach large markets of customers shopping online - Powerful ad management tools can deliver accurate data	- Customers may ignore the ads - Ads may get lost amongst all the content and other ads

Mobile Communications

Smartphones, androids, tablets and other devices

+	-
- Used to extend the online reach - Quicker payments on phones	- Small screen, the message may be lost or distorted - Security issues with payments online

Social Media

Advertising is free or low cost so very cost effective

+	-
- Customers can be kept informed of new products - Increases customer engagement with the brand	- Blogs, twitter, facebook pages all need to be updated on a regular basis

Advergaming

A video game which contains an advert for a product, derive or business

+	-
- Customers will be concentrating on the game so are more likely to concentrate on the brand message - Many games are multi-player = huge audiences	- Many games are played by consumers too young to make a purchase - If the game and brand doesn't work together the message is lost

Consumer Generated Content

Any form of content such as video, blogs, discussions from posts

+	-
- Opportunities for consumers to read reviews - Positive response	- Online reputation can be expensive to manage - Bad reviews can spread easily

Viral Strategies

Any strategy that encourages customers to pass on a marketing message to other, creating the potential for exponential growth

+	-
- Consumers spread the message amongst themselves which reduces costs	- Can be so complex that the original message is lost - Hard to get funding

Branding

- **Branding –** A brand is a characteristic name or symbol that distinguishes one product from another supplier

Types of Branding

- Corporate Branding
- Product Branding
- Own Brand Products
- Rebranding

Corporate Branding

Aims to build communications and relationships between the main business name and the customers

+	-
- Spreads the cost of marketing across all the individual brands - Awareness of the company can be worldwide	- Takes a long time to build a solid brand image - Any unfavourable incidents and the whole brand suffers

Rebranding

A marketing strategy in which a new name, symbol, term, design or combination of the above will be developed for a established brand with the intention of developing a nw differentiated identity.

Product Branding

Aims to show the customer the features and benefits of a product which will differentiate it from other similar products in the marketplace

+	-
- Branded products can command higher prices that non-branded - Businesses therefore can expect higher profits from branded cash cows	- Product branding may require a high investment - Product branding may take many years to build up

Own Brand Products

Made by a manufacturer on behalf of a supermarket

+	-
- Boosts customer loyalty - Fills gaps left by the competition	- Store brands are a mixed bag Andy can be made by numerous companies

Benefits of Strong Branding

- Add value to the product
- Ability to charge premium prices
- Able to reduce the price elasticity of demand
- Recognition

Ways to Build a Brand

- **Unique Selling Point –** The small details that makes one product or business different from another
  - Advertising
  - Sponsorship
  - Social media

Changes in Branding and Promotion to Reflect Social Trends

- Viral marketing and social media helps businesses to share information about their products and help customers

- **Emotional Branding –** Seeks to create a bond between the consumer and the product by provoking an emotional response to the advertising

Pricing Strategies

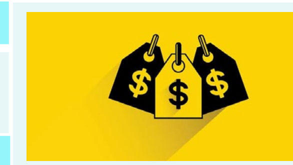
- **Pricing –** The process of pricing is the choice of a pricing strategy that a business makes when setting prices for their products or services

Once a product has been developed, a price is then needed to be decided on

- **Strategy –** A medium to long term plan of the business and the pricing will need to fit with the business objective

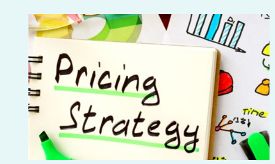
The Pricing Strategy will Depend on Many Factors…

- The product or service itself
- Competitors in the market
- The aims and objectives of the business



Types of Pricing Strategies

- Cost Plus
- Price Skimming
- Penetration
- Predatory
- Competitive
- Psychological



Cost Plus

The total cost of the products are worked out then a fixed percentage of profit is added on top

+	-
- Protects the profit margins of the business	- Doesn't take into account the prices of competition

Price Skimming

Price is set high to start, this creates high profits

+	-
- Can establish an upmarket image - Great way to gain high profits	- Cheaper similar products may appear and take sales

Competitive

Some products or services are prices in line with competitors

+	-
- Useful in a market with a dominant brand	- The price may not cover the costs of smaller businesses

Penetration Pricing

Setting prices really low to encourage sales

+	-
- Works best with new products being launched	- Consumers may but it without low price

Predatory Pricing

Lowering prices to take out competition

+	-
- Drives competitors out of the market	- Illegal in some countries

Psychological Pricing

Pricing a product at 99p to appear cheaper

+	-
- Ideal for products wanting to project a premium image	- High risk Consumers could be tempted away

Factors Which Determine a Pricing Strategy

- Number of USPS/ amount of differentiation
- Price elasticity of demand
- Level of competition in the business environment
- Strength of the brand
- Stage in the product life cycle
- Costs and the need to make a profit

- **Unique Selling Point –** the unique details or feature of the product that differentiate it from its rivals

- Elastic Demand

Homogenous products which have lots of substitutes will have to price close to competition

- Inelastic Demand

Unique products which have few alternatives will be able to command premium prices as consumers will be unable to switch and therefore willing to pay the price

- Level of Competition

No business works in isolation so a change in the price of one business may result in the change of all the others

- Strength of Brand

A strong brand can charge higher prices as consumers will pay the higher price for the strong brands

- Costs

The costs of a product all need to be taken into account when its price is decided. A business will want to break-even and make a profit

Changes in Pricing to Reflect Social Trends

- Online sales

Websites can offer lower prices than the bricks and motor shops as they don't have the overheads, rent and costs of running a store many customers browse in store and buy online

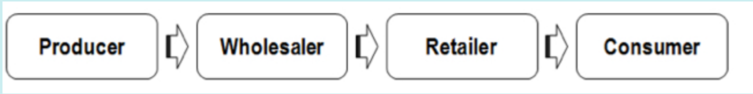
- Price comparison sites

Customers are able to see a multiple of different prices from different retailers and buy the cheapest one

Distribution - Place

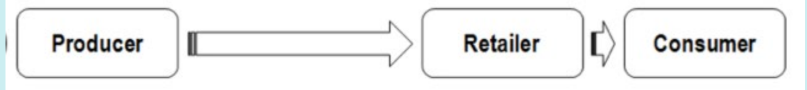
- **Distribution –** The process of getting the right product or service to the consumer in the right place

4 Stage Distribution



- The producer sells in bulk to the wholesaler. Retailers then buy their stock from the wholesalers to put in their shops. Consumers then visit and purchase the item.

3 Stage Distribution



- A producer sells their products direct to the retailer, the consumer will then buy from the retailer

2 Stage Distribution

- Products are bought by the consumer direct from the producer/manufacturer. There are no intermediaries in a two stage distribution channel

Changes in Distribution to Reflect Social Trends

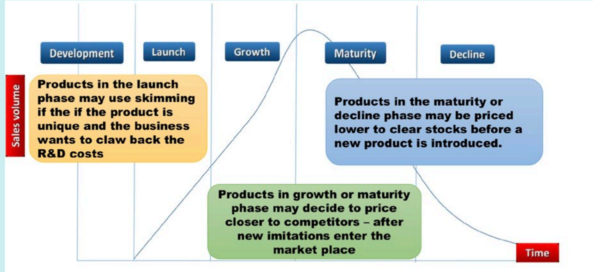
Online Distribution	Changes from Product to Service	Choice of Distribution Channel
The main benefit of the internet Is that niche products can reach a wider audience compared to a physical shop	This is the concept that you do not have to own something to be able to use it	This depends on the nature of the product, the market, the nature of the business, the size of the business

Marketing Strategy

- **Marketing** – The management process of identifying, anticipating and satisfying consumer demands for profit

- **Marketing Strategy-** the methods used by a business to achieve their marketing objectives e.g internet marketing

Product Life Cycle



Sometimes a business/company has an extension phase where the aim is to increase sales back to where they were at in the maturity to gain more revenue

Product Development	Extension Strategies
Where a product is designed and market research is analysed to produce a product which will satisfy customer needs This is the first part of the product life cycle and is very important	- Updating packaging - Adding more or different features - Changing target market - Advertising - Price reduction

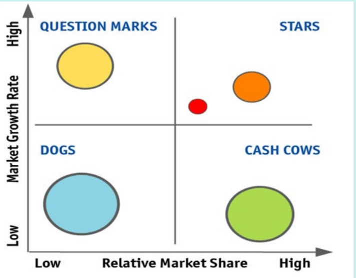
Boston Matrix and the Product Portfolio

- **Product Portfolio** – The collection of all the products and services offered by a company

- **Boston Matrix** – A marketing planning tool which helps managers to plan for a balanced product portfolio

It looks at 2 different dimensions; market share and market growth, in order to assess new and existing products in terms of their market potential

It helps marketing managers work out how much to spend on each product



Star	Question Mark
- Products have high market share, are in a high growth market - Need to maintain their current marketing spend to keep sales high	- Products have low market share, are in high growth market - Needs lots of investment in marketing and promotion to succeed
Cash Cows	**Dogs**
- Products have high market share, are in a low growth market - Need monitoring in case they become dogs	- Products have low market share, are in a low growth market - Require no investment as they in the decline phase

Uses	Limitations
Good starting point for reviewing an existing product line to decide future strategy and budgets The conclusions drawn are to transfer the surplus cash from cash cows to stars and question marks	Products may not be low or high market share they could be medium High market share does not always lead to high profits High costs involved with high market share

Marketing Strategies

Mass Marketing

The process of selling products to all consumers regardless of age, gender etc

Mass Market	Niche Marketing
One that caters for almost everyone and is a large segment	A market segment with consumers who can be grouped in different ways, a small segment
Business to Business Marketing B2B	**Business to Consumer Marketing B2C**
Many businesses just deal with other businesses rather than consumers, advertising needs to be informative rather than persuasive Typically involves rather large transactions with customers, suppliers need to build up closer relationships with customers	Consumers want to know the benefit of a product, the are not looking to build up long term relationships with the supplier, maybe a one off purchase Consumers want a variety of distribution channels for convenience

Consumer Behaviour

Customer Loyalty	Business to Consumer Marketing B2C
Creating a product or service that ensures repeat purchases	The assistance and advice provided by a company to those people who buy or use its products/services
It is much cheaper to keep a loyal customer than to gain new customers through marketing	Effective customer service can be provided before, during and/or after the purchase

Consumer Behaviour

Loyalty Cards	Savers Scheme
A marketing strategy used to encourage consumers to continue to shop at or use the services of a business	Consumers can carry out their shopping and pay into a savers card ready for Christmas
They can collect important data on buyer behaviour and purchase decisions	They are rewarded by the supermarket for paying in

Approaches to Staffing

Staff	Staffing
The employees in a business	The process of hiring, training and supervising employees in a business

Staff as an Asset

Staff can be viewed by the business as an asset

- **Asset** – A useful or valuable thing or person

Staff which support the manufacturing process or who give great customer service can both contribute to the value of the output – add value to the product

Treating staff as an asset means that they are developed with training and seen as a benefit to the business

A member of staff will have been recruited, trained and developed and as such has unique skills relevant to the business

Advantages

- Staff are allowed to participate more in decision making
- The business is more able to respond quickly to market changes
- Staff have moe autonomy over their work

Staff as a Cost

Staff may also be considered to be a cost of the business

If they are to be productive they need to be invested in…
- Cost of recruitment, training, paying minimum wage, paying staff salaries and wages, staff welfare and redundancy

Staff training is often viewed as a cost rather than adding value. If workers are treated as a cost to the business then the danger is that they only work the necessary and not put in any extra effort. This can lower morale, motivation and therefore productivity levels. Many businesses may justify making staff redundant by saying it is a cost cutting exercise.

Salaries	Wages
A salary is paid to permanent staff and is usually a years salary divided into 12 equal monthly amounts	Wages are paid to staff on a hourly basis

Multi-Skilling

Having a workforce that can be moved around from one job to another

+	-
Less staff are needed, those that are employed are used to capacity not standing around More intensity jobs for the workers as there are a variety of tasks	Workers become a 'jack of all trades master of none' Businesses lose the benefits of having specialist staff

Full Time Work

There is no specific number of hours that makes someone full or part-time, but a full-time worker will usually work 35 hours or more a week

+	-
May be more highly paid per hour than part-time Access to more holiday entitlement Employees are committed to the business and may be more productive	Employees standing idle if there is s business downturn Less flexibility than part-timers, no-one to cover late nights and weekends

Part – Time Work

Someone who works fewer hours than a full-time worker
Usually less than 35 hours a week

+	-
Part – time jobs attract a wide pool of applicants with experience and skills who might not want a full-time job	Employees might not give the business the commitment and loyalty than a full-time worker would

Temporary Work

One where the empire only needs extra staff to cover a seasonal period

+	-
Ideal for a business that needs extra workers for s special project Useful to meet seasonal demands, and work fluctuations	Agency staff may be expensive but it may be cheaper than hiring permanent staff Injury rates are higher in temp workers

Permanent Work

The most common type of employment, an indefinite contract whereby you are employed by the company until either the employee leaves, is fired or made redundant

+	-
Staff will be very focussed on the business, they will look to the long-term to build up their professional development profile with the business	Permanent staff can develop negative attitudes to work, or get involved in office politics and so may become lazy, uncooperative or disinterested in the business

Flexible Hours

A way of working that suits an employees needs

+	-
Flexible working can keep valuable staff from leaving no can also cover busy periods Can accommodate the work life balance needs of employees with busy lives and families	Can sometimes confuse suppliers or customers who may want to speak to the same member of staff The business may need extra staff to cover unmanned periods

Zero Hours Contract

Employees are 'on call' to work when you need them, but they have no fixed hours of employment

+	-
Great for a business where work can be unpredictable Ideal where staff are needed at short periods	Employees might not give the business the commitment and loyalty that a full-time worker would

Home Working

This is where employees do their work from their own homes

+	-
Fit a business round a family, gives a good work-life balance The owner can work hours that suit their lifestyle	No socialisation with other worker, so business owner may not have anyone to bounce ideas off Too easy to be lazy and not do any work

Outsourcing

A business function, such as payroll, is contracted out to a third party business. This third part business may or may not be located abroad. May be marketing research, legal work, count Andy or even Human Resources.

Outsourcing (Production)	Outsourcing (Payroll)
Some motor manufacturers now outsource not only parts but complete assemblies	The most common task that companies outsource, services include weekly, monthly or quarterly payroll and normally attending to the completion of the Government returns

Outsourcing (IT)	Outsourcing (Delivery)
Hiring and evaluating IT staff and training users can all be very difficult, by outsourcing the information system function, the business can obtain the latest technology and suitably skilled personnel	Larger businesses might prefer to contract a major delivery firm rather than maintain their own fleet

Moving a Call Centre Overseas

+	-
India is a hub of talent with skilled call centre professionals Indian call centres utilise the best of technology, software and infrastructure Growing pool of technical talent A lot of Indian people speak English	Risk of losing sensitive data and the loss of confidentiality Hidden costs and legal problems Problems with quality can arise May not be given 100% time and attention from workers who work in multiple call centres for other companies

Organisational Structure

Hierarchy	Chain of Command
A system in a business where employees are ranked due to their status and authority Usually those at the top of the hierarchy are more important than those at the bottom	The flow of information power and authority through the organisation Those at the top have more power and authority, they can delegate tasks to those subordinate to them in the hierarchy

Organisational Design	Span of Control
A diagram or chart which shows the lines of authority and layers in the hierarchy of the business	The number of people you are responsible for, also the number of subordinates that they can delegate to

Decentralisation	Centralisation
Where a business divides up the organisation of its business into areas e.g North, South, East, West The business will have separate budgets for each area	Where a business has its organisation of management and administration at one central head office The business has one central shared budget

Types of Structures

Organisational Structure

Shows everyone who works in the organisation, who they report to and who they are responsible for

This shows the chain of responsibilities each person has

Organisational Chart

This shows departments, job roles, responsibilities and accountability, lines of authority, lines of communication all flow and chains of command in the organisation

Tall Structure

Lots of layers and lots of opportunity for promotion

Information takes a long time to get from the bottom to the top of the organisation, it takes a long time for decisions to be made

+	-
Supervisors normally have a small span of control so they can get to know their subordinates well Supervisors can delegate tasks	Lots of layers and a long chain of command can mean that the business is very inflexible More expensive

Flat Structure

Wide span of control and a short chain of command so information flows quickly throughout the organisation

+	-
Fewer lays of hierarchy between the bottom and top of the organisation Communication is fast Staff are given grater responsibility	Staff can be overstretched or overworked Less supervision which can cause stress and demotivation Too many staff to manage

Recruitment

The process of finding people to work for a company or become a new member of an organisation

Recruitment Process – Identify the vacancy, Write a job description, Write a persons specification, Advertise the vacancy, Candidates apply, Candidates are shortlisted and interviewed, Assessment day, Group activities

Matrix Structure

Individuals work across teams and projects as well as within their own department or function

	Marketing	Operations	Finance	HRM
	Marketing Manager	Operations Manager	Finance Manager	HR Manager
Project A (Team Leader)	Marketing Team (A)	Operations Team (A)	Finance Team (A)	HR Team (A)
Project B (Team Leader)	Marketing Team (B)	Operations Team (B)	Finance Team (B)	HR Team (B)
Project C (Team Leader)	Marketing Team (C)	Operations Team (C)	Finance Team (C)	HR Team (C)
Project D (Team Leader)	Marketing Team (D)	Operations Team (D)	Finance Team (D)	HR Team (D)

In a business where there are more than one product or more then one project running at a time a matrix structure is more suitable than a standard hierarchy

+	-
Fewer lays of hierarchy between the bottom and top of the organisation Communication is fast Staff are given grater responsibility	Staff can be overstretched or overworked Less supervision which can cause stress and demotivation Too many staff to manage

Distinction Between Dismissal and Redundancy

Dismissal	Redundancy
Workers may be dismissed or fired from a job for absenteeism, gross misconduct, theft of company money or property	Workers job no longer exists possibly due to lack of business or restructuring
Worker is not entitled to a pay-out from the business if dismissed	Redundancy is sometimes voluntary where some staff close to retirement take voluntary redundancy to gain a pay-out

Trade Union

An organisation with members who are usually workers or employees

It looks after their interest at work by doing things like…

- Discussing big changes like large scale redundancy
- Negotiating agreements with employers on pay and conditions
- Discussing members concerns with employers
- Going with members to disciplinary and grieve ace meetings

Types of Training

Induction Training

Happens when an employee starts working for a business, it may involve training on how to use fire extinguishers, shown round the building or introduced to colleagues

+	-
Many employees make up their mind within the first week weather they will stay or not Induction training will help to inspire the employee	Induction training can cause information overloads for an employee trying to find their feet in a new organisation

On – the - Job

Coaching or mentoring while doing the job, assistance and advice is provided by those more experienced to those less experienced this may include work shadowing

+	-
Specific trainings needed for the job Less expensive than off-the-job training Learning can be put in to practice immediately	Taking time away from employees job to be trained Reduces efficiency of both teaching worker and new employee

Off – the - Job

Involves working at home or courses at company training centres/colleges, learning through demonstrations/talks/lectures and may also be practical courses to learn ICT or machinery

+	-
More focused environment with less distractions More chance to gather specialist skills	More expensive than on-the-job training Employees may fail to see link between training and workplace

	Efficiency	Motivation
Matrix	Only suitable when a business works on a project by project basis	Staff are involved in projects which can be more interesting than one job
Tall	Delayed decision making due to layers	Lots of opportunities increasing motivation
Flat	Very efficient as those employees that are most effected by a rota can be involved	Given more responsibility so they are more motivated

Motivation

Having motivated staff leads to greater productivity which means less wastage and higher profitability for a business

Importance of Employee Motivation

- Motivated employees are more productive
- Productive employees are more creative, more accurate, more analytical, better at handling problems and better at closing sales
- Motivated staff are more reliable and loyal
- Loyal staff are less likely to leave, which improves labour turnover rates, this saves the business money from having to recruit

Motivation Theories – Taylor (Scientific)

A fair days pay for a fair days work, he believed that employees would do the minimum amount of work if not supervised

Implications of Taylors Theory for Managing Behaviour at Work

- The main form of motivation is high wages, higher wages = higher output
- A managers job is to tell employers what to do
- A workers job is to do what they are told and get paid accordingly

Motivation Theories – Mayo (Human Relations)

His assumptions were based on research undertaken with workers at the Hawthorne factory of the Western Electric Company in Chicago

Hawthorne Factory Changes

- Changes the working condition such as break times and duration of the ladies who worked in the relay assembly room at the factory
- Found that just by being studied the employees levels of motivation increased
- Working in teams was more important than money

Mayo concluded that the concept that people purely work to earn money and living is totally false

Motivation Theories – Maslow (Hierarchy)

We all have a pyramid of needs and start meeting out needs at the bottom, we then look for a secure job, then teamwork and then responsibility one all these needs are met we start to actualise which is where we reach out potential

Motivation Theories – Herzberg (2 Factor)

Employees have motivating factors; interesting work, recognition and personal achievement, responsibility and scope to develop

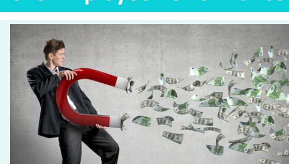
There were hygiene factors which if not met would dissatisfy the employees, but if they were met did not motivate them any more than they were already. These were good working conditions, pay and relationships with other employees

Hygiene Factors	Motivating Factors
salaries, wages, employee benefits, job security, working conditions, work/life balance These give the employee general satisfaction and prevention of dissatisfaction	status, recognition, responsibility, challenging work, promotion, growth These give the employee high motivation, high satisfaction and strong commitment

Financial Incentives to Improve Employee Performance

Financial Motivation Methods

- Piecework
- Commission
- Bonus
- Profit share
- Performance Related Pay



These methods work in ways to motivate the employees who are motivated by money, if they are receiving a "reward" for their work they are more likely to work harder

Piecework

Employees are paid per finished item or unit

- Employees choose to pay either the minimum wage or a fair piece rate based on average times taken to complete the product

+	-
- Experienced and efficient workers can earn more - Incentive to complete the work - Employees may work more hours to get the job done	- As workers speed up they may cut corners - Quality may suffer - Slower workers may fall under the national minimum wage

Performance Related Pay

Meeting objectives/criteria will determine how well the employee has done and if they receive a bonus

+	-
- A direct link between the performance of an employee and how much they are paid - Easy way for the business to rank their staff when looking at who to promote	- Causes jealousy and unrest - Bonuses are often too low to act as a incentive to work towards targets

Commission

Salespeople may be paid commission only, or low basic salary and commission, they may be paid a percentage of unit price or per unit sold

+	-
- Skilled salespeople can make very good money - Employer is not paying for down time when the employee is not selling - Motivated employees to sell more	- Not a steady income - Risky in a recession - Salespeople on commission only could earn no money at all

Profit Share

Employees may be paid an annual dividend based on the level of profits made by the firm

+	-
- Motivation levels will be high - The employee will focus on profitability - Increases commitment to the organisation from employees	- The salaries of the individual employees go up equally, not on the basis of merit or promotion - May affect the personal earnings of the employees

Bonus

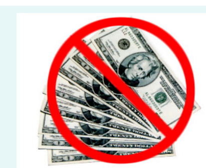
A lump sum paid on top of a salary or wages this can be for sales, performance or Christmas

+	-
- Can be used as an incentive - Can be used as a means of appreciation for n employees hard work	- A cash bonus can be costly for any company so they may offer gift cards instead - Taxes to be paid from money

Non - Financial Incentives to Improve Employee Performance

Non - Financial Motivation Methods

- Delegation
- Consultation
- Empowerment
- Team working
- Flexible Working
- Job Enrichment
- Job Rotation
- Job Enlargement



Delegation

Involves allocating tasks to employees

+	-
- Gives managers self confidence, empowers managers to make decisions and allocates tasks to the most appropriate member - Builds trust	- Managers sometimes allocate tasks when overloaded with work and not when they want to motivate an employee - May not always choose most suitable person

Team Working

Involves grouping employees to work in teams

+	-
- Well managed work-place teams can produce better results - Peer pressure in groups can help to keep motivation levels high	- Sometimes an individual approach would be better - Tensions can occur - Not everyone gets along - Teams suffer from too many meetings

Consultation

Involves giving employees a chance to be part of the decision making process

+	-
- Consultation can help avoid a union action - Help avoid any minor issues in the business	- Employees may not know what it needs to run a successful business, keeping costs low

Empowerment

Involves allowing a players more authority to delegate tasks to others

+	-
- Staff that are recognised for their ability, trusted and given control over decisions, therefore less frustrated - Great involvement means greater loyalty to the business	- Lack of experience in the job can increase risk of mistakes being made - Sometimes this is used as cost cutting, a way of delayering or making management redundancies

Job Enlargement

Giving an employee more tasks of the same level of responsibility, designed to prevent the employee from getting bored and to expand the scope of their job and the same level

+	-
- Can make the job less boring, less repetitive and can get the maximum use out of an employee	- May be seen as more of the same if the employee regards it as just more tasks to get done in a working day

Job Enrichment

Involves giving the employee a greater variety of tasks of a higher responsibility

+	-
- Employee befits from having a more interesting job role - The employee will feel more loyal to the organisation and have a sense of achievement	- Not all jobs can be enriched - Some employees may just feel that the job has become harder - May mean employee needs to be re- trained

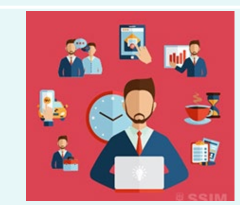
Flexible Working

Involves offering a variety of working patterns so that employees can achieve a work life balance

+	-
- The chances to have extended operating hours - More job satisfaction and better staff motivation	- Can be difficult to fit shifts and schedules to suit everyone - Some staff may take advantages of the flexible system

Leadership and Management

Leadership	Management
The action of leading a group of people or an organisation, or the ability to do this	The process of dealing with or controlling things or people, the responsibility for and control of a company or organisation
To lead is to be in charge of, to show direction or to be superior to others	To manage is to supervise, to be in charge of or to maintain control over resource
- Motivating and inspiring people - Innovators - Natural abilities and instincts - Respected and trusted by followers - Inspires - Motivates	- Directing and monitoring others - Problem solver - Organises - Official position of responsibility - Maintains - Has employees



Leadership

4 types of leadership;

- Autocratic
- Democratic
- Paternalistic
- Laissez-Faire

Autocratic

When leaders tell their employees what they want done and how they want it accomplished, without getting the advice of their followers

Best to use when managers have all the information to sole the problem, short on time and employees are well motivated

Democratic

Leaders offer guidance to group members, but they also participate in the group and allow input from other group members

Democratic Persuasive	Democratic Consultative
Leader has made decisions and then persuades subordinates into the best option	The leader consults with subordinates then makes a decision

Paternalistic

Leader decides what is best for employees, has their best interests at heart in every decision

The employees are consulted but the leader makes the final decision

Laissez - Faire

Employees can carry out activities and make decisions freely

They work in a very relaxed environment and have little direction and guideline