Business Growth

Internal Growth

Also called 'organic growth'.

INTERNAL GROWTH — when a business grows by expanding its own activities.

Advantages

- fairly inexpensive
- low risk
- slower pace makes it easier to maintain quality and train staff

Disadvantages

- slow
- may require innovation (a new product or way of doing things) from within the business

Two Types of Internal Growth

1. **Targeting new markets**
   Firm sells product to people it hasn't tried to sell to before. Can do this by:

using new technology (e.g. e-commerce),

setting up branches in new location (e.g. another country),

changing the marketing mix.

2. **Developing new products**
   Increases sales, so firm can grow. Needs innovation — often a result of research and development.

External Growth

Also called 'inorganic growth'.

Two ways of achieving external growth:

1. **MERGER** — when two businesses join together to form a new, larger firm.
2. **TAKEOVER** — when an existing firm expands by buying more than half the shares in another firm.

Advantages

- fast
- allows more control over market
- can increase market share

Disadvantages

- expensive
- risky — less than half succeed
- management styles may clash
- may affect staff motivation and cause bad feeling
- uncertainty and tension from cost cutting (e.g. redundancies)

Four ways takeovers and mergers happen:

1. **Join with a supplier**
   Allows control of supply, cost and quality of raw materials.
2. **Join with a competitor**
   Gives bigger market share so firm is a stronger competitor.
3. **Join with a customer**
   Greater access to customers and more control over price of products sold to consumer.
4. **Join with an unrelated firm**
   Enter new markets and reduce risk from relying on few products.

More on Business Growth

Economies of Scale

As a firm gets bigger, costs and output increase, but output increases at a greater rate. This leads to economies of scale.

ECONOMY OF SCALE — when there is a reduction in average unit costs due to producing on a large scale.

Lower average unit costs → More profit per sale

Lower average unit costs → Firm can afford to lower prices → Increased sales → Increased profits

Increase in profit due to economies of scale can fund further expansion.

Reasons for Economies of Scale

1. **Buy supplies in bulk**
   Large firms can buy more supplies at once, which often means they can get a cheaper unit price.
2. **Buy and use more advanced machinery**
   Larger firms can afford new technology that is often more efficient to run.
3. **Bigger premises**
   Larger firms tend to have larger premises, which are often cheaper per unit area than smaller premises.

Diseconomies of Scale

DISECONOMY OF SCALE — an increase in average unit costs due to a business being larger.

Reasons for diseconomies of scale include:

1. **Management**
   Bigger businesses are harder and more expensive to manage than smaller businesses.
2. **Production**
   Production processes are usually more complex and difficult to organise for larger firms.

3. **Employees**
   Larger firms have more people, so harder to communicate.
   → Takes time for decisions to reach workforce.
   → Employees at bottom of organisational structure can feel insignificant.
   → Workers can be demotivated, lowering productivity.

Sources of Finance — Large Businesses

Internal Sources

1. **RETAINED PROFITS** — profits that are put back into the business.

   Larger businesses are under pressure to pay large dividends to shareholders, which reduces how much profit they can retain.

2. **FIXED ASSETS** — assets that a business keeps long-term, e.g. machinery or buildings.

   Fixed assets that aren't being used can be sold to raise cash.

   But there's a limit to how many assets can be sold — some are needed to keep trading.

External Sources

1. **LOAN CAPITAL** — money borrowed from outside a firm, e.g. a bank. It's paid back over a fixed time period with interest.
   - Bank needs security for the loan — usually assets that can be sold if the firm can't pay back the loan.
   - Bigger firms can get bigger loans, as they have more valuable assets.
   - Established firms are seen as less risky, so they can get loans more easily than newer firms.

2. **SHARE CAPITAL** — money raised through selling shares in the company.
   - Only an option for limited companies.
   - Money raised doesn't need to be repaid.
   - Selling shares reduces existing owners' share of profits and control over how the business is run.

Public Limited Companies

PUBLIC LIMITED COMPANY (PLC) — a business that is incorporated and has shares that can be bought and sold by anyone.

STOCK MARKET FLOTATION — when a business sells shares on the stock market for the first time.

Selling shares on the stock market can bring in a lot of extra finance, especially if shares are in high demand.

+ Advantages
- more capital than non-PLC firms
- easy to expand and diversify
- limited liability

− Disadvantages
- lots of shareholders — hard for all to agree, and profit shared between more people
- possible for one person to buy enough shares to take over the company
- accounts are public, so competitors can see if business is struggling

Changes in Business Aims & Objectives

Ways Aims and Objectives Can Change

As a firm grows and evolves, its aims and objectives are likely to change. Changes are often focussed around, e.g.:

1 Choosing growth or survival

aims focus on survival → (business becomes stable) → aims focus on growth

aims focus on growth → (business starts struggling (e.g. due to economic downturn)) → aims focus on survival

2 Changing the size of the workforce

An expanding business may aim to recruit more staff.

A business that's been taken over may aim to reduce number of staff to avoid many people doing the same job.

3 Entering and exiting markets

A firm may enter a new market by, e.g.:
- developing a new product
- targeting a new group of people
- selling in a new location

They may aim to enter a new market because the business is growing or because existing markets are shrinking.

They may aim to exit a market if products aren't selling well.

4 Changing the size of product range

If products are selling well, a firm may aim to **expand** the range — make similar products with different features.

If products aren't selling well, they may aim to **reduce** the range and focus on promoting and growing sales for their best sellers.

External Reasons for Change

1. **Changes in technology**

   New technology is often more efficient, so a firm may change their aims so they can focus on buying technology and training staff to use it.

2. **New legislation**

   New laws may affect a firm's costs or how it has to be run. Firms may need to change their aims and objectives in order to follow new rules.

3. **Changes in market conditions**

   E.g. changes to size or competitiveness of a market might mean a firm changes its aims to focus on market share.

Internal Reasons for Change

1. **Performance**

   E.g. if firm sells more than expected, they may increase future sales objectives.

2. **Changes in firm**

   E.g. new management may have different priorities, which could change aims and objectives.

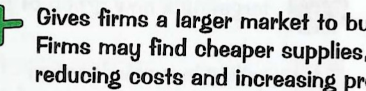
Globalisation

International Business

GLOBALISATION — the process by which businesses and countries around the world become more connected.

MULTINATIONAL — a single business that operates in more than one country.

Imports



IMPORTING — buying from other countries.

+ Gives firms a larger market to buy from. Firms may find cheaper supplies, reducing costs and increasing profits.

− Leads to more competition as customers can buy from foreign suppliers, so firms may need to reduce prices to stay competitive.

Exports

EXPORTING — selling products to other countries.

+ Gives larger market for firms to sell to. Can lead to increased sales and higher profits.

Business Location

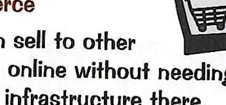
Globalisation means it's easier to locate parts of businesses overseas, e.g. stores, factories or offices. This may reduce costs if, e.g.:

products can be made closer to raw materials, lowering transport costs

labour is cheaper in another country, reducing staff costs

Two Ways to Compete Globally

1 E-commerce



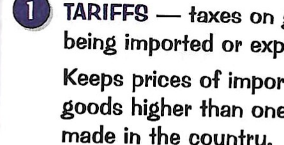
Firms can sell to other countries online without needing stores or infrastructure there.

2 Change marketing mix for different countries

Firms may change prices in each country to stay competitive.

Firms may target products and promotion at each country's culture.

Barriers to International Trade



1 TARIFFS — taxes on goods being imported or exported.

Keeps prices of imported goods higher than ones made in the country.

2 TRADE BLOC — a group of countries that has few or no trade barriers (e.g. tariffs) between them.

Makes it harder for firms from outside the bloc to compete in the bloc.

Ethics and the Environment

Acting Ethically

Firms can act ethically by e.g.:

- paying workers fairly and setting reasonable working hours
- paying a fair price for raw materials, e.g. using Fair Trade sources
- promoting products in an honest and fair way
- developing products safely and fairly, e.g. no toxic materials or animal testing

Ethics policies ensure firms act in ways stakeholders think is fair and honest.

+ Advantages

- can be used to promote products
- can attract customers
- appeals to shareholders/investors
- staff more motivated and productive

− Disadvantages

- expensive — firms may have to pay more for staff and materials
- may be hard to find ethical suppliers
- lower profit per product sold

There's a trade-off between acting ethically and making the most profit.

Environmental Awareness

Firms harm environment by:

- landfill waste
- air pollution
- noise pollution
- water pollution
- using non-renewables

Firms can aim to be more sustainable (work in ways that won't damage the Earth for future generations) by e.g.:

- using less packaging
- disposing of waste responsibly and recycling where possible
- using more efficient machinery
- using more renewable energy resources

+ Advantages

- appeals to customers interested in being environmentally friendly
- can give competitive advantage

− Disadvantage

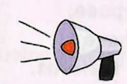
more sustainable processes and new equipment can be expensive — this may lead to lower profits

Pressure Groups

Pressure groups may run campaigns against firms that aren't ethical or environmentally friendly. This could damage firm's reputation and make it lose customers.

To fix this, firms can change their marketing mix by, e.g:

changing products — e.g. to use ethically sourced or environmentally friendly materials.



running promotional campaigns to counteract negative publicity.

Marketing Mix and Differentiation

The Marketing Mix

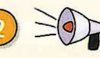
The marketing mix has four different elements: product, promotion, place and price.

Businesses can have a **competitive advantage** (an edge over their competitors) if they get their marketing mix right.

Differentiation

DIFFERENTIATION — making products distinctive in the market (to encourage customers to choose them over competing products).

Three ways to differentiate a product by changing the marketing mix:

1. Design the **product** to have a USP (unique selling point).
2.  **Promote** the product in a way that makes it stand out.
3. Change the **price** — cheaper products appeal more to mass markets, but expensive products can appeal to niche (small and specialised) markets.

Relationships in the Marketing Mix

Different elements of the marketing mix can affect each other, so firms might have to make compromises.

For example:

Price is affected by:

Product — higher quality products cost more to make so are usually priced higher.

Place — products sold online might be cheaper as the firm has lower fixed costs (e.g. rent).

Promotion is affected by:

Price — promotion will tend to emphasise the price if it's low, but focus on other factors (e.g. quality) if it's high.

Place — retailers with physical stores can display products, whereas e-tailers focus more on advertising.

The Design Mix

DESIGN MIX — the different elements of design needed to make a product successful.

Firms can use the design mix to differentiate their products.

The design mix has three main aspects:

1. **Function** — product has to be fit for purpose, but could also have extra or unique features.
2. **Cost** — well-planned design will lead to lower manufacturing costs.
3. **Aesthetics** — product (and packaging) should look attractive and distinctive.

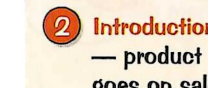
Product Life Cycles

Five Stages of Product Life Cycles

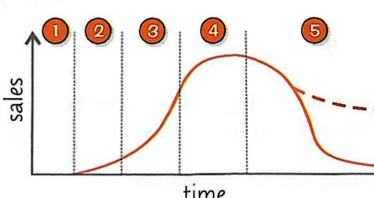
PRODUCT LIFE CYCLE — the different stages that a product goes through over time.

1. **Research and Development (R&D)** — idea is developed and turned into a product. One aim is to find the most cost-effective way to make the product.

During R&D, big firms employ people who try to use scientific discoveries to develop new products.



2. **Introduction** — product goes on sale. A lot of focus on promotion to increase demand.



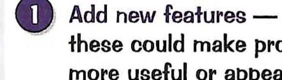
3. **Growth** — demand for product increases and it becomes established. Firm starts to make a profit on product.
4. **Maturity** — demand reaches peak. Firm focuses less on promotion and more on making product widely available, until market is saturated (there's no more room to expand).
5. **Decline** — demand falls as, e.g. rival products take over. Firm starts making a loss on product and may stop making it.

Extension Strategies

EXTENSION STRATEGY — when a firm takes action to extend the life of a declining product. If extension strategy works, product keeps selling and makes a profit for longer.

Firms need to find the right balance between spending money on extension strategies and developing new products.

Five examples of extension strategies:

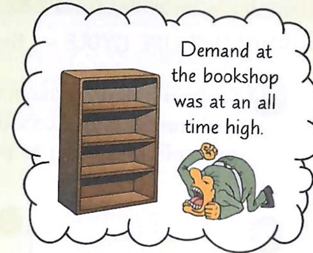


1. **Add new features** — these could make product more useful or appealing.
2. **Use new packaging** — could make product more eye-catching so customers are more likely to choose it.
3. **Target new markets** — e.g. promote product to a different age group or country.
4. **Change advertising** — e.g. to increase awareness of the product or make it more appealing to a different market.
5. **Reduce price** — either permanently or by using sales promotions.

Price

Price and Demand

DEMAND (for a product) — how much of the product customers are willing and able to buy.



As the price of a product rises, demand for it tends to fall.

Firms risk not selling many products if their prices are too high.

Internal Factors Affecting Prices

1. **Technology** — e.g. if a product requires expensive machinery to make, the business might have to set prices high to cover the cost. But technology can also reduce costs, e.g. by increasing efficiency.
2. **Method of production** — e.g. prices may be lower with flow production, as the firm is more likely to benefit from economies of scale than if it used job production.
3. **Product life cycle** — e.g. if the product is in the decline stage, the price may be lowered to increase demand again.

External Factors Affecting Prices

1. **Competition** — in competitive markets, prices can't be much higher than competitors' prices. They also can't be much lower, as people might think the products are lower quality.
2. **Market segments** — e.g. if a product is targeted at consumers with low incomes, it should have a low price.
3. **Cost of raw materials** — the higher the unit cost is, the higher the price may need to be to make a profit.

The size and age of the business also affect pricing. E.g. a larger, older firm might have loyal customers who are willing to pay slightly higher prices. However, larger firms can also benefit from economies of scale to help keep prices down.

Pricing Strategies

Price Penetration

Firm charges low price when product is new.

Helps increase demand and establish market share.

Once product is established, firm raises price to make more profit.

Loss Leader Pricing

Price of product is set below the cost of making it, so firm makes a loss on each sale.

Firm assumes that selling the product will increase sales of other, profitable products.

E.g. new games consoles are often sold at a loss, but the firm makes a profit on games bought with them.

Competitive Pricing

Firm charges similar price to other firms. Usually happens if the market is very competitive and there isn't much differentiation.

Usually means little profit is made. Firm has to find ways other than price to attract customers, e.g. by providing good customer service.

Price Skimming

Firm charges high price when product is new as they know the demand will be high, e.g. because the firm has loyal customers or the product uses new, sought-after technology.

High price helps increase revenue and cover cost of development.

Firm lowers price once product is established to reach a wider market.

A high price might also make the product more desirable to people with high incomes — this can improve the firm's image and status.

Cost-Plus Pricing

Firm decides price based on how much profit they want (while keeping demand high enough). Often happens when firm faces little price competition.

They could decide price by:

1. Using a **mark-up** — adding on a certain percentage to the cost of making the product.

2. Deciding on their desired **profit margin** and calculating the price required for it.

Methods of Promotion

Branding

BRAND IMAGE — the impression customers have of a firm and its products. E.g. it's a luxury, high-quality firm.

A brand image could include a recognisable logo that customers associate with the firm or its products.

Firms might create different brand images for different market segments. E.g. a cosmetics firm might use a different brand image for men and women.

Building a strong brand image is expensive and can take many years, but it can increase revenue in the long term, as customers are more likely to buy products made by firms they recognise and like.

Six Methods of Advertising

ADVERTISING — any message that a firm pays for to promote itself or its products.

1. **Newspapers**
Reach wide audience (national) or specific market (local), but poor print quality and falling reader numbers.

2. **Magazines**
Pricier than newspaper adverts, but better quality and targeted at specific interest groups.

3. **Posters/billboards**
Can be placed near a target audience and get seen often, but messages need to be short.

4. **Leaflets/flyers/business cards**
Cheap to produce and can be targeted at specific locations, but many people see them as junk.

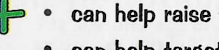
5. **Television**
Can deliver longer message to wide audience, but very expensive.

6. **Internet**
Can reach wide and targeted audiences, and customers can click straight through to firm's website. But many people ignore or block them.

Sponsorship

SPONSORSHIP — when a firm gives money to an organisation or event in return for their name being displayed. E.g. sports teams and competitions are often sponsored by firms.

World's Hottest Chilli Eating Championship — sponsored by Dan's Dairy Farm.



\+
- can help raise firm's profile
- can help target specific market segments (e.g. people who have a certain hobby)

− brand image can suffer if thing being sponsored gets bad publicity

Methods of Promotion and Place

Sales Promotions

SALES PROMOTIONS — short-term methods to boost sales.

Two examples of sales promotions:

1. **Special offers** — e.g. 'buy one get one free' offers or discounted prices.
2. **Product trials** — customers get free samples, often of new products.

+ Advantages
- encourage new customers to try product
- boost sales in short term
- can boost sales in long term if new customers become loyal

− Disadvantages
- customers might not want to buy product when it's at full price
- might not be suitable for certain market segments (it makes the product seem less of a luxury)

New Technology and Promotion

Social media — firms' social media accounts can be used to promote products and improve brand image.

They might try to produce advertising that goes viral (gets shared and seen by lots of people in a short time period).

Email — firms can send offers and e-newsletters to customers on their mailing list.

Internet history — websites can track an individual's search history and location. Specific online adverts can then be targeted at the individual for products they're likely to be interested in.

Place

To make sure products are available in the right **place**, firms need to pick the best method of distribution.

They need to consider:
- where customers are likely to shop
- how many customers they want to reach
- how much customer service is needed
- how quickly they want to get products to customers

Two methods of distribution:

1. **Retailers** (e.g. shops) — likely to have employees present to provide instant customer service.
2. **E-tailers** (firms using e-commerce) — can sell to a global market and have lower fixed costs, so may be able to charge less.

Methods of Production

Job Production

JOB PRODUCTION — a method of production where each product has a unique design based on the customer's specification.

Used to make e.g. ships or made-to-measure clothes.

Advantage

Unique, high-quality products — customers are willing to pay a high price, which can lead to higher profits.

Disadvantages

- High labour costs — often requires skilled, highly-paid workers.
- Less gain from economies of scale — e.g. unlikely to buy materials in bulk.
- Low productivity.

Productivity means how many products are made in a certain time or for a certain amount of money.

Flow Production

FLOW PRODUCTION — a method of production where all products are identical and are made as quickly as possible.

Used to make e.g. chocolate bars or TVs.

Flow production is used for mass-market products — it can also be called 'mass production'.

The most efficient production is continuous — many flow production factories make products 24/7 on an assembly line. Robots do most of the work. Where people are used, they often work shifts and do low-paid tasks.

Advantages

- Gain from economies of scale — low unit costs means low, competitive prices.
- High productivity.

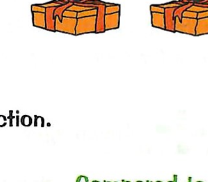
Disadvantages

- Capital-intensive — lots of money is needed initially, e.g. to buy machinery.
- Lots of space usually needed, e.g. to store products.

More on Methods of Production

Batch Production

BATCH PRODUCTION — a method of production where a batch of identical products is made using flow production, then materials and tools are reorganised and a batch of something else is made.



Used to make e.g. furniture or baked goods.

Batch production is a mixture of job and flow production.

Compared to job production:

- Higher productivity.
- More gain from economies of scale — e.g. can buy materials in bulk.

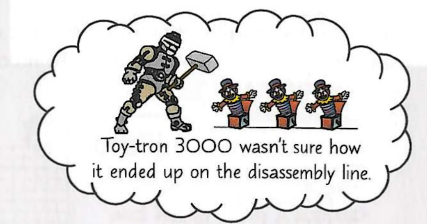
Compared to flow production:

- Lower productivity.
- Higher costs — e.g. more machinery and tools needed to make different products.

Impacts of Technology on Production

Advances in technology can affect how products are made, e.g. robots working on assembly lines.

New technology can also affect how products are designed, e.g. using computer software to design products, 3D printers making prototypes.



There are pros and cons of using new technology over humans:

Advantages

- Increased productivity — fast and accurate work.
- Quality is consistent.
- Continuous production easier.
- Cheaper in long-term.

Disadvantages

- Expensive in short-term — e.g. buying machinery and training staff to use it.
- Inflexible — may need new technology if production method or product changes.
- Staff productivity may fall — e.g. if they're worried about losing their jobs.

Managing Stock

Just-in-Time Stock Control

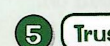
JUST-IN-TIME (JIT) — where products are made just in time for delivery to customers, so stock levels are kept at a **bare minimum**.

Computer systems can calculate stock levels and automatically order more supplies when needed.

'Stock' can mean any item that's needed in production or distribution, e.g. raw materials or a finished product.

Advantages

- Less money spent storing stock, e.g. on warehouse space and staff.
- Less chance stock will go out of date.
- Helps cash flow — minimises time between buying supplies and selling product.



Disadvantages

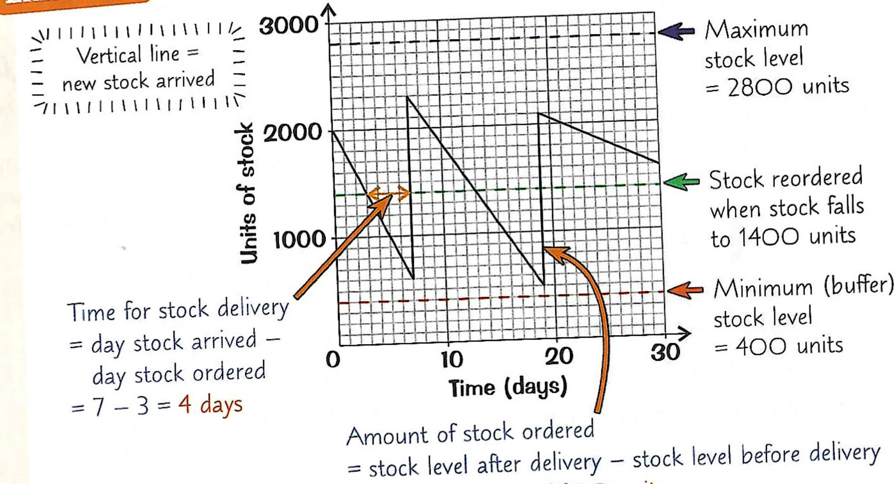
- Requires lots of coordination between firm and suppliers.
- Less gain from economies of scale because stock isn't bought in bulk.

Bar Gate Stock Graphs

Some firms use a production and distribution system where they have **buffer stocks**.

This means they're prepared if there's a supply shortage or demand rises unexpectedly. **Bar gate stock graphs** are used to monitor stock levels and see when to order more.

EXAMPLE



Working With Suppliers

Procurement and Logistics

PROCUREMENT — finding and buying things that a firm needs from suppliers outside of the firm.

LOGISTICS — getting goods or services from one part of the supply chain to another.

Two benefits of effective procurement and logistics systems:

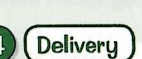
1 Reduced costs

The business gets the right supplies at the right time (so time and money aren't wasted) and for the best price. This reduces unit costs, so the firm can make more profit on each item, or reduce prices.

2 Better reputation and customer satisfaction

The business becomes known for having high-quality, reasonably priced products that are delivered on time.

Five Things to Consider When Choosing a Supplier



1 Quality

Quality needs to be consistent.

Customers will shop elsewhere if they're not happy with the quality of the products sold.

2 Cost

Cheaper suppliers might have lower quality products.

It might be better to pay more to get e.g. better quality products or faster delivery.

3 Availability

Production could be affected if a firm can't get enough supplies when it needs them.

4 Delivery

Delivery may be cheaper and faster from a supplier that's nearby.

Delivery should be reliable — goods should arrive on time and undamaged.

5 Trust

The firm needs to trust it'll get the supplies it needs on time, and of the right quality.

Quality and The Sales Process

Two Reasons for Monitoring Quality

1. To control costs
   - Less waste from products that can't be sold.
   - Less money spent compensating customers who return items.
   - Less money spent on customer service as there are fewer complaints.

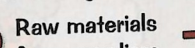
2. To create a competitive advantage

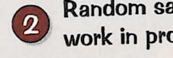
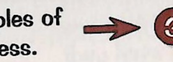
   Being known for producing high-quality products can improve brand image. Customers may choose to buy from the firm over competitors, so they can charge more and make more profit.

Quality Control

QUALITY CONTROL — checking quality to find faults before products reach the customer.

Firms usually check:



1. Raw materials from suppliers.  2. Random samples of work in progress.  3. Random samples of finished products.

Firms that provide services carry out quality control too, e.g. 'secret shoppers' pretend to be customers to check the service. Poor quality service may mean staff need extra training.

The quality control process can be expensive, but still less costly than customers returning items or not buying from the firm again.

Quality Assurance

QUALITY ASSURANCE — checking quality during every stage of making a product, e.g. workers on an assembly line check their work before it gets passed on.

It aims to stop errors being made rather than having to get rid of faulty goods once they've been made.

A firm can get its quality assessed by an external body and display its rating to customers.

Six Stages of the Sales Process

1. Finding new customers
2. Approaching the customer
3. Assessing their needs
4. Presenting products to them
5. Closing (customer agrees to buy)
6. Follow-up

Customer Service

Five Ways of Providing Good Customer Service

1. Have excellent product knowledge
   - Questions are answered quickly and accurately.
   - Customer gets product most suited to their needs.
   - Customer feels confident buying from the firm.

2. Have quick and efficient service

   E.g. minimise number of steps needed for customer to buy a product or have an issue resolved.

3. Engage well with customers
   - Staff should be polite, listen to customer needs and create a positive atmosphere.
   - Makes customer feel important and valued.

4. Offer post-sales service

   E.g. offer training to customer on how to use product, have after-sales staff available to provide support.

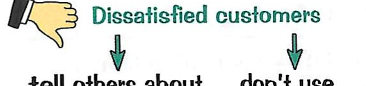
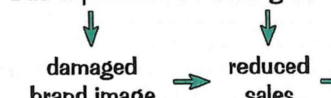
5. Respond positively to customer feedback
   - Staff should be polite, even if they disagree with customer.
   - Response should be focussed on customer's feedback (not a generic response).
   - Taking feedback on-board can help firm to improve customer service.

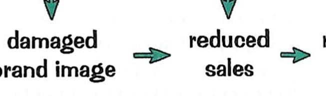
For many firms, providing good customer service increases profitability, so the benefit outweighs the cost.

Importance of Good Customer Service

Satisfied customers

- spend more on each purchase → increased sales → increased profits
- remain loyal (use business again) → increased sales → increased profits



Dissatisfied customers

- tell others about bad experience → damaged brand image → reduced sales → reduced profits
- don't use firm again → reduced sales → reduced profits

Business Calculations

Average Rate of Return

RETURN ON INVESTMENT — how much a business makes or loses as a proportion of the original money put in.

AVERAGE RATE OF RETURN (ARR) — the average return on an investment each year over its lifespan.

A higher ARR is better, but what counts as a 'good' ARR depends on the type of business and size of the investment.

Two steps to calculate ARR:

1. Work out the average annual profit.

$$\text{average annual profit} = \frac{\text{total profit}}{\text{number of years}}$$

2. Use the formula to find ARR.

$$\text{ARR (\%)} = \frac{\text{average annual profit}}{\text{cost of investment}} \times 100$$

EXAMPLE

The table below shows the profit made by a business on a £2m investment over three years. Calculate the average rate of return for the investment.

	Profit (£)
Year 1	70 000
Year 2	95 000
Year 3	105 000

1. $\text{average annual profit} = \frac{\text{total profit}}{\text{number of years}} = \frac{70\,000 + 95\,000 + 105\,000}{3}$
$= 270\,000 \div 3 = £90\,000$

2. $\text{average rate of return} = \frac{\text{average annual profit}}{\text{cost of investment}} \times 100 = \frac{90\,000}{2\,000\,000} \times 100$
$= 0.045 \times 100 = 4.5\%$

Gross Profit and Net Profit

GROSS PROFIT — the profit a firm makes after accounting for the cost of making products.	gross profit = revenue – cost of sales
NET PROFIT — the profit a firm makes after accounting for all its expenses.	net profit = gross profit – (operating expenses + interest)

Operating expenses are costs that businesses have to pay as part of normal business operations, e.g. salaries, bills and rent.

Profitability Ratios

Gross Profit Margin

GROSS PROFIT MARGIN — the proportion of every pound spent by customers that doesn't go directly towards making a product.

$$\text{gross profit margin} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

Can be improved by:

- increasing price
- reducing cost of making product

Higher gross profit margin is better, but what counts as a 'good' profit margin depends on the type of business.

E.g. supermarkets have low gross profit margins because they keep prices low to compete, but can still make large profits as they sell in high volumes.

EXAMPLE

In one year, Polly's Paper made a gross profit of £72 000 from a revenue of £180 000. Calculate the gross profit margin.

gross profit margin

$= \frac{\text{gross profit}}{\text{sales revenue}} \times 100$

$= \frac{72\,000}{180\,000} \times 100$

$= 0.4 \times 100 = 40\%$

This means for every £1 spent by customers, 60p was used to make the product, leaving 40p.

Net Profit Margin

NET PROFIT MARGIN — the proportion of every pound spent by customers that the business gets to keep.

$$\text{net profit margin} = \frac{\text{net profit}}{\text{sales revenue}} \times 100$$

Like for gross profit margin, higher net profit margin is better, but what counts as a 'good' margin depends on the business.

Net profit margin can decrease as a firm grows and has more costs (e.g. more salaries, more spent on rent or utilities).

In the same year, Polly's Paper had operating expenses of £42 000 and paid £3000 of interest on loans. Calculate the net profit margin.

First work out the net profit.

net profit = gross profit – (operating expenses + interest)

$= 72\,000 - (42\,000 + 3000)$

$= 72\,000 - 45\,000 = £27\,000$

$\text{net profit margin} = \frac{\text{net profit}}{\text{sales revenue}} \times 100$

$= \frac{27\,000}{180\,000} \times 100$

$= 0.15 \times 100 = 15\%$

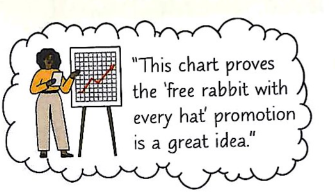
This means for every £1 spent by customers, 15p is kept by the business as net profit.

Business Data and Performance

Using Business Data

Businesses use different types of data to help:

- track how well they're doing (their performance)
- inform about the effects of business decisions — data is used to support and justify making good decisions and to avoid making mistakes.



Marketing Data

Firms use market research to find out how customer preferences are changing.

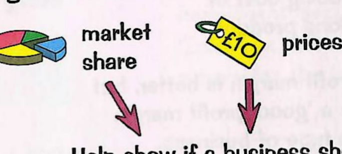
↓

Helps show if a decision is likely to lead to increased sales.

Types of Market Data

E.g. businesses are interested in their competitors':

market share



prices

costs of supplies

→ Help show if a business should e.g. lower its prices or reduce cost of its supplies.

Types of Financial Data

cash flow forecasts → help show if a decision will cause cash flow problems

(predicted) average rate of return → helps business decide if an investment is worthwhile

calculations of profit and loss, profitability ratios → help show if business should reduce costs/increase revenue

Three Limitations of Financial Data

1. Some financial data is only useful when compared to other data. It might not be possible to find useful comparisons — e.g. if one firm is much bigger than another.
2. Can be difficult to work out what caused a change, as lots of different variables affect a firm's performance.
3. Doesn't include qualitative data (e.g. customers' opinions).

Internal Organisational Structures

Four Roles in an Organisational Structure

Role	Responsibility
1 Directors	Decide on business's strategy with other directors at regular board meetings.
2 Senior Managers	Organise workforce to carry out directors' strategy. May be middle and junior managers below senior in larger firms.
3 Supervisors or Team Leaders	Look after specific projects or small teams of operational or support staff.
4 Operational and Support Staff	Given specific tasks to perform by managers, supervisors or team leaders. Not responsible for any other workers.

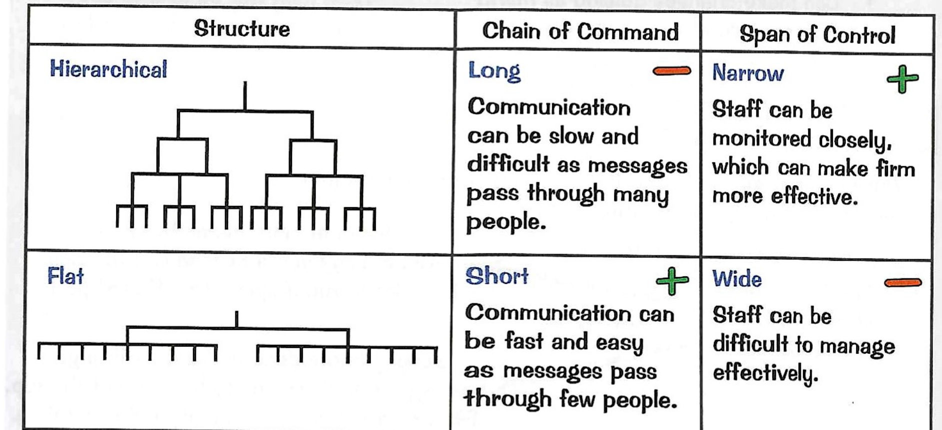
Top layer of structure ↓ Bottom layer of structure

The number of people on each layer generally increases as you go down the organisational structure.

Hierarchical and Flat Structures

CHAIN OF COMMAND — the layers of management that instructions travel through from the top to bottom of the firm.

SPAN OF CONTROL — the number of workers that report to one manager.



Structure	Chain of Command	Span of Control
Hierarchical	Long (−) Communication can be slow and difficult as messages pass through many people.	Narrow (+) Staff can be monitored closely, which can make firm more effective.
Flat	Short (+) Communication can be fast and easy as messages pass through few people.	Wide (−) Staff can be difficult to manage effectively.

More on Organisational Structures

Centralised Structures

All major decisions are made by a **few senior managers** (or just one person) at top of the structure. These senior managers are very powerful.

Advantages

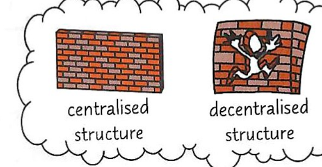
- Senior managers are usually very experienced.
- Senior managers have overview of whole firm.
- Policies are uniform throughout firm.

Disadvantages

- Decisions can only be made by specific people, so decision-making can be slow — means firm can be slow to react to change.
- Depending on senior managers may cause issues if they lack specialist knowledge or make poor decisions.

Decentralised Structures

Authority to make most decisions is **shared out**. E.g. power may be **delegated** to regional managers or employees at individual branches of firm.



Advantages

- Employees use their specialist knowledge to make decisions.
- May not need central office where decisions are made, which reduces fixed costs.
- Can make changes quickly as many decisions don't need approval.

Disadvantages

- Different parts of firm may be inconsistent.
- Decision-makers may not be able to see overall needs of firm.

Changing Structures

Businesses need to choose the most appropriate structure — this may change over time. E.g.:

Small firms often start out **flat** and **centralised**.

Become more hierarchical — more managers are needed and business is easier to run if split into different parts.

Become more decentralised — firm gets too big for all decisions to be made at the top. Firm runs better if areas managed separately.

Communication

Effective Communication

Advantages

- all staff know what they're doing and why
- staff are motivated — know what's happening in firm
- staff are confident they're doing their job properly
- different areas of firm work well together

To communicate effectively, messages need to reach who they're meant for without:

- unnecessary delays,
- being misinterpreted.

Four Barriers to Communication

1. **Noise** — hard to hold conversations in noisy places (e.g. factories).
2. **Jargon** — technical language from one department might not be understood by others.
3. **Personalities** — communication is difficult between people that don't get on, or that seem unapproachable.
4. **Distance** — can be difficult to speak face-to-face across different sites.

Face-to-face communication is effective as body language helps express messages and it's easy to check messages are understood.

Excessive Communication

Inefficient

Takes time to pass on and receive messages.

Getting irrelevant messages wastes time, and may make staff pay less attention to future messages.

Confusion

If many people try to pass on the same message, staff could get conflicting information. Wastes time finding out what's correct and risks mistakes being made.

Demotivates staff

Staff can feel overwhelmed with information and annoyed if it keeps interrupting their work.

Insufficient Communication

Inefficient

Staff are slow to learn what they should be doing and may waste time and money doing things incorrectly.

If there's not enough communication between departments or teams, tasks may be done more than once or in ways that aren't best for firm as a whole.

2. **Demotivates staff**

Staff feel frustrated if poor communication stops them doing their jobs properly.

May also feel like they're not valued if not being informed about the firm.

Ways of Working

Employment by Work Time

CONTRACT OF EMPLOYMENT — a legal agreement between an employee and employer that includes details about the way the employee works.

Employment Type	Advantages for Firms
Full-time Usually 35-40 hours a week	• Employees earn more than working part-time, which can motivate them. • Staff not likely to have another job, so all work time is dedicated to firm.
Part-time Usually about 10-30 hours a week	• Useful for firms that are only busy at certain times. • Staff may be able to work different patterns, meaning they can fill in when other staff are absent.
Zero-hours Employer doesn't have to offer any work. Employee doesn't have to accept work offered.	• Useful for firms where demand fluctuates a lot. • Cheap for firms as they aren't paying for staff when they're not needed.

Some employees work **flexibly** — e.g. work different hours each day as long as they do the right total weekly hours. This can be very motivating as it's easier to fit other commitments around work.

Permanent Contracts

Employment only ends if employee:

- chooses to leave,
- is dismissed for misconduct,
- is made redundant.

Temporary and Freelance Contracts

Temporary contracts

Worker is employed for fixed time period. At the end, contract may be renewed or worker can leave.

Freelance contracts

Employees are self-employed. They're recruited for specific projects and can be hired and dismissed at short notice.

Advantages for firms:

- Easier to employ specialists without committing to employ them permanently.
- Easy to adjust staff numbers according to business's needs.

Effects of Technology on Working

Using technology has become a big part of people's jobs and has changed how they work:

- Processes are **more efficient**, so firms may need fewer staff.
- Intranet, video calls, mobile devices, etc. mean staff can **share information** and **communicate** more easily. It also lets staff **work remotely** — e.g. from home, or different office locations.

Recruitment

Two Documents for Job Adverts

1. **JOB DESCRIPTION** — a written description of what a job involves. Includes:
   - job title
   - purpose of job
   - duties of job
   - who employee will report to
   - who employee is responsible for

2. **PERSON SPECIFICATION** — a list of qualifications, experience, skills and attitudes needed for a job.

Before advertising, firms need to do a job analysis, where they think about every detail of the job on offer.

Internal Recruitment

INTERNAL RECRUITMENT — existing employees are recruited into new roles within a business.

Job is advertised within the business.

+ Advantages

- cheaper than external recruitment
- posts filled quickly
- candidates already know firm well
- managers already know candidates

− Disadvantages

- fewer new ideas and perspectives
- need people to fill successful candidates' previous roles

External Recruitment

EXTERNAL RECRUITMENT — people from outside the business are recruited.

Job is advertised widely, e.g. in job centres, trade journals and on websites.

+ Advantages

- advert reaches more people, so more likely to find someone really suited to the job
- useful if firms need to recruit lots of people at once

− Disadvantages

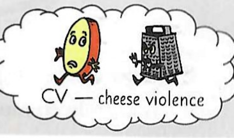
- expensive
- candidates less familiar with how firm works

Applying for a Job

Before interviewing anyone, firms usually ask candidates for a...

CURRICULUM VITAE (CV) — a summary of a person's personal details, skills, qualifications and interests. Usually written in a standard format to state basic facts.

Many firms ask candidates to fill in an **application form**. These make sure firms get only the information they need, and can make it quick and easy to compare candidates.



Training and Development

Three Benefits of Training and Development

1. Staff are **more productive** — better at their jobs and work faster. This can reduce unit costs.
2. Staff keep **up-to-date** with changes in firm, e.g. they learn how to use new technology.
3. Staff are **more motivated** — happy knowing firm is interested in their career and progression.

This helps staff retention — more employees will stay at firm instead of moving to new jobs.

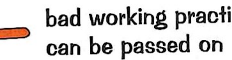
Types of Training

Staff are trained when they start at a firm, but they can also have **ongoing training**, e.g. to learn new processes or develop existing skills.

Two main types of training:

1. Informal Training

- No strict plan.
- Training given by other workers.
- Often done 'on-the-job' — employee shown how to do job, then improves by practicing.



+ cost effective — employee works and learns at the same time
− bad working practices can be passed on

2. Formal Training

- Set plan with learning objectives and schedule.
- Done by firm's training department or external sources, e.g. a local college.

+ higher quality than informal training
− more expensive than informal training

Staff may be encouraged to **self-learn** — they choose how to develop and direct their career by seeking out ways to progress, e.g. by taking online courses.

Performance Reviews

Worker and manager agree **performance targets**. → Training and resources are provided to help worker **meet targets**. → After an agreed time, worker and manager meet again to discuss **how well** targets were **met**.

Then the process starts again...

If worker meets targets, they may be rewarded with higher pay or promotion.

If worker fails to meet targets, they may be given extra training or support to improve.

Motivation and Non-Financial Methods

Three Reasons for Motivating Staff

1. **Increases productivity**
   Workers feel valued and want the firm to do well so they do their jobs as well as they can — they complete tasks more quickly and using fewer resources.

2. **Greater staff retention**
   Happier staff are more likely to stay at the firm, which reduces recruitment and training costs.

3. **More attractive to new employees**
   More people will want to work for the firm, which will make recruiting easier.

Methods of motivating staff can be:

Financial — generally the more money a worker gets, the more motivated they are.

Non-financial — worker is motivated by enjoyment of their job and work-life.

Job rotation, job enrichment and autonomy are all non-financial methods.

Job Rotation

JOB ROTATION — a worker is occasionally moved from one job to another so they have different tasks and responsibilities.

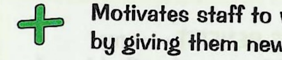
Used when work is very repetitive, e.g. working on an assembly line.

+ Motivates staff as they're less likely to get bored and they learn skills for different jobs.
− Jobs need to be different enough — it's not motivating if one boring job is replaced with another boring job.

This can also be good for a firm, as it's easier to switch staff round to cover absences.

Job Enrichment

JOB ENRICHMENT — a worker is given greater responsibility in their job, e.g. supervising or training new staff.

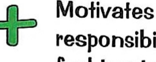


+ Motivates staff to work harder by giving them new challenges.
− Staff may expect a pay rise due to their increased responsibilities. If the firm can't afford to pay more, the method may be demotivating.

Autonomy

AUTONOMY — a worker is given the freedom to make their own decisions in their job.

Workers may be told their **overall goal**, but not specific instructions on how to achieve it.



+ Motivates staff as extra responsibility makes them feel trusted and valued.

Financial Methods of Motivation

Two Types of Remuneration

REMUNERATION — payment to an employee for the work they have done for a firm.

1. **Wages**
   - Amount paid is based on the amount of work done.
   - Usually paid weekly or monthly.
   - Usually how manual workers are paid.

   \+ Can motivate staff to want to work more hours, as they'll get more money.

2. **Salary**
   - A fixed amount for each year, paid in instalments every month — doesn't change based on hours worked.
   - Usually paid to staff who do not directly make or sell a product, e.g. office staff.

   \+ Firm and workers know exactly how much they'll get paid.

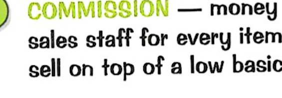
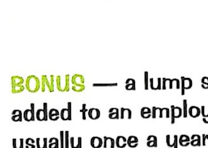
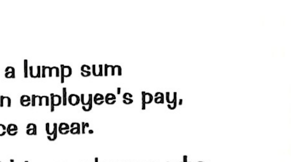
Promotion

PROMOTION — when an employee is given a higher position in a firm.

- Staff can be promoted when they have gained new skills and taken on greater responsibility.
- Promotion usually means higher pay.

Even just knowing there's opportunity to be promoted can motivate staff.

Three Motivating Financial Extras

1. **COMMISSION** — money paid to sales staff for every item they sell on top of a low basic salary.

2. **BONUS** — a lump sum added to an employee's pay, usually once a year.

   Usually paid to employees who have met performance targets.

3. **FRINGE BENEFIT** — any reward for a worker that is not part of their regular income.

   E.g. free gym membership, company car or staff discount.