GCSE Business Studies Knowledge Organisers
Theme 2: Building a Business

2.1 Growing a Business

2.2 Marketing

2.3 Making Operational Decisions

2.4 Making Financial Decisions

2.5 Human Resources

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2.1 Growing a Business

Methods of Business Growth

Internal Growth	External Growth
Internal growth Internal growth occurs when a business expands by itself, by bringing out new products or by entering new markets. It is also known as organic growth. Two common methods of internal growth are: • introducing new products • entering new markets.	*External growth* External growth occurs when a business expands by joining with another business. It is also known as inorganic growth. Two common methods of external growth are: • **mergers** • **takeovers**.

Sources of Finance to Grow a Business

Internal Sources of Finance	External Sources of Finance
Internal sources of finance Internal sources of finance are found within the business and can include: • retained profit • selling **assets**. Profit is the amount of revenue left after costs have been deducted. This can be used to either pay dividends to shareholders or kept in the business to fund future business activities. The advantage of this is that there is no need to repay the finance and there are no **interest** charges. However, the amount available may be limited and investors, for example shareholders, may be frustrated by the lack of dividends. Selling assets is the process by which a business sells items that it owns in order to raise finance.	*External sources of finance* External sources of finance are found outside the business, such as: • loan capital • share capital. Loan capital is finance borrowed from a financial institution such as a bank. The money has to be repaid over a specified period of time and with interest. Loan capital is often acquired for a specific purpose, such as in order to buy an asset, in which case it can be **secured** against that asset. This reduces the risk being taken by the lender, which makes it more likely to lend the business money. For example, if a printing firm wanted to buy a new four-colour printing press, it could secure the printing press against the loan. If the printing firm then stopped repaying the loan, the lender can take possession of the press and sell it to regain its losses.

Why business aims and objectives change as businesses evolve

As businesses evolve, their aims and objectives will change in response to:

- market conditions
- technology
- performance
- legislation
- internal reasons.

How business aims and objectives change as businesses evolve

The market conditions and the performance of a business affect whether a business focuses on survival or growth as it evolves. During times of increased competition or poor economic conditions, a business may focus on survival. It may do this through initiatives to cut costs, such as looking for cheaper suppliers or reducing the size of the workforce. This is a short-term objective, ensuring that the business continues to trade. When a business is performing well, it is likely to focus on growth, such as by opening new stores or bringing out new products. At first, a new business is likely to focus on short-term survival, but over time it will change this to focus on profit and then on growth.

The impact of globalisation on businesses

In the modern world, many businesses operate across a number of countries. **Globalisation** is the process by which more and more businesses operate on an international scale: selling to, buying from and operating in multiple countries. This has led to the growth of multinationals, which often have a great deal of international influence.

Globalisation affects businesses in three key ways:

- **imports**
- **exports**
- business locations.

A pressure group may use a wide range of activities to attract media attention and put pressure on their target. These include:

- a **boycott** of a specific business, product or country
- social media campaigns
- **viral marketing**
- public protests
- online petitions
- media campaigns, such as speaking to television and radio news and newspapers
- **lobbying**.

Ethical behaviour includes:

- treating workers fairly – not discriminating against people, paying fair wages, providing safe working conditions and taking action against workplace bullying
- treating suppliers fairly – making payments on time and paying a fair price
- ethical sourcing of materials – not tested on animals, not produced by child labour, not damaging the environment
- caring for the community – not permitting antisocial behaviour and supporting local causes
- treating consumers fairly – giving clear and accurate information about products and services, and charging fair prices
- meeting government requirements – paying all required taxes and abiding by legislation.

Changes to the marketing mix	Reasons for changes to the marketing mix
Changes to price	• Different currencies. • Potential fluctuations in exchange rates. • Tariffs. • Different tax laws. • Different standards of living and average incomes of potential customers.
Changes to place	• Availability of technology, such as e-commerce, that can be used to reach global markets. • Cultural differences, such as whether people shop at market stalls, independent stores or supermarkets.
Changes to promotion	• Language differences, such as avoiding unintended meanings in translation. • Cultural differences, such as the connotations of particular animals, colours or gestures.
Changes to product	• Cultural or physical differences, such as average family size or average height and weight. • Technological differences, such as socket type or wattage. • Tastes and cultural preferences, such as religious dietary requirements or the level of sweetness or spiciness preferred in foods.

Table 2.1.3 Ways in which the marketing mix may be changed in order to compete internationally

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2.2 Marketing

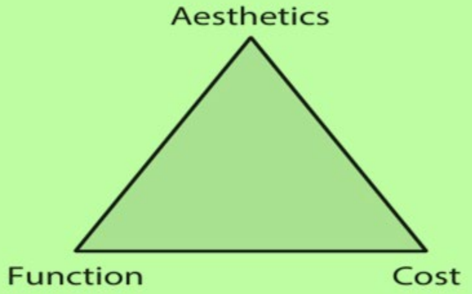

Figure 2.2.1 The three elements of the design mix are all linked. Changing one of these elements is likely to have an impact on the other two.

The product life cycle

Another way in which a business can make product decisions is to use the product life cycle. The product life cycle plots the sales of a product through the four stages of its life:

- initial introduction
- growth
- maturity
- decline and discontinuation or extension.

The product life cycle can help a business to make decisions about its pricing, promotion, production levels and decisions about other products within its **product portfolio**.

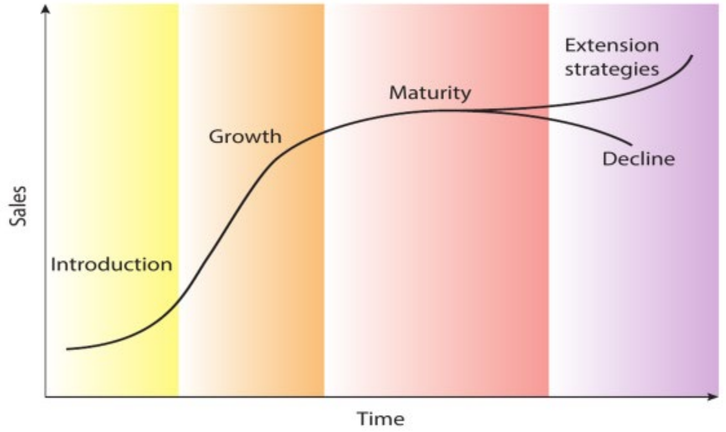

Figure 2.2.2 The stages of the product life cycle

Promotion strategies

A promotion strategy is the group of techniques that a business uses to make customers and potential customers aware of and interested in its products and services. Promotion strategies include:

- advertising
- sponsorship
- product trials
- special offers
- branding.

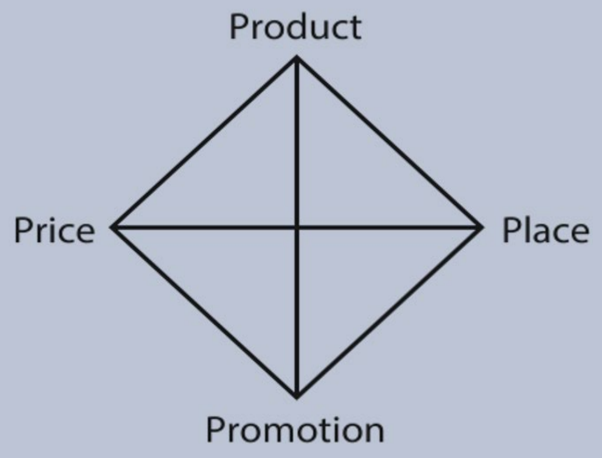

Figure 2.2.6 The interconnected nature of the marketing mix

Comparing high-volume and high-margin strategies

As you can see, either strategy can be effective for a business, depending on the product or service that it sells. Figure 2.2.3 shows how these two strategies relate to one another. Most businesses will set a price somewhere along the diagonal line.

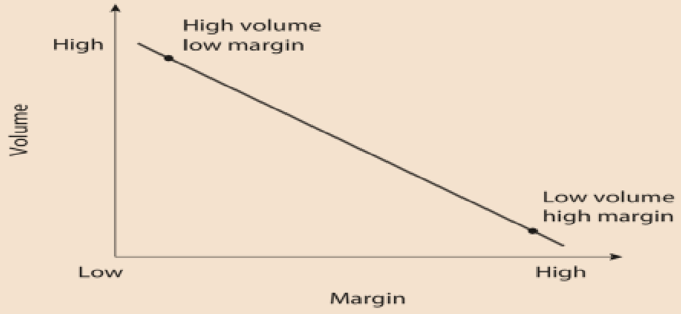

Figure 2.2.3 Pricing strategies

Technology and promotion

Advances in digital technology have had a huge impact on how businesses promote themselves. In particular, new technologies have given many businesses the opportunity to have two-way communication with current and potential customers.

Retailing

Retailing is the traditional way in which products or services are distributed to customers. It involves selling products or services through a shop or other physical building that customers will visit in order to buy products or access a service such as a bank, hairdresser or dentist. Figure 2.2.4 shows two ways in which a business might use retailing to get its products to its customers.

Figure 2.2.4 The process of retailing

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2.3 Making Operational Decisions

Understanding business operations

Business operations are the activities that allow a business to produce and deliver products and services to its customers. In its operations, a business uses resources such as labour (the skills and efforts of its workforce), capital (the money needed to run the business) and materials (the raw materials used in production, such as fabric or steel). A business's operations transform these inputs into its outputs – its products and services. This is shown in Figure 2.3.1.

Figure 2.3.1 Business operations transform inputs into outputs

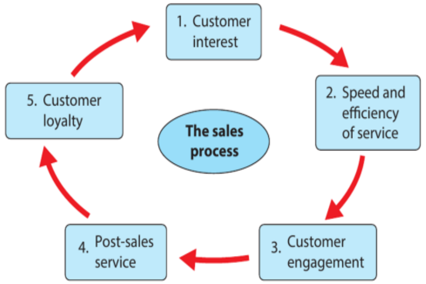

Figure 2.3.3 The sales process

The Impact of Technology on Production

Reducing costs

Computer-aided manufacturing (CAM) is commonly used in car production and other large-scale industries. CAM is very effective for manufacturing mass-produced products in a way that allows the business to gain economies of scale and reduce their production costs. Similarly, 3D printing now allows businesses to make products from plastics at very low costs. For example, businesses that produce medical implants can use 3D printing to make their products at a much lower cost than would have been possible using their traditional production process, meaning that these implants can also be sold at much lower prices than ever before.

Improving quality

Technology can also help to improve the quality of a business's products or services. For example, a delivery company could improve its customer service by using GPS tracking to allow a customer to track the location of their order once it has been dispatched for delivery. This improves the quality of the business's customer service and improves the customer's experience of using the business. Similarly, communication technologies such as instant messenger allow mobile phone network providers to offer more customer support than they would be able to offer by only using the telephone.

Improving flexibility

A business can use technology to improve its flexibility, enabling it to improve the way in which it meets its customers' needs. A business could achieve this flexibility by being able to change the quantity of a product that it can make as well as the characteristics of each individual product. For example, an online bespoke curtain and blind business that operates an e-commerce site could offer its customers a wide range of options, such as producing curtains and blinds to their exact measurements and allowing them to choose from a wide range of fabrics. Similarly, in manufacturing, computer-based systems can cut, mould and shape many materials, allowing a business to offer customers a unique product at competitive prices.

Improving productivity

Technology also helps a business to become more productive. For example, businesses often use a **supply chain management** (SCM) system that is integrated with the system used by their suppliers. This means that a business can easily co-ordinate the delivery of materials in time to meet customer demand. Another example of the way in which technology can make a business's production process more efficient is using barcode systems to monitor stock. This can help a business to prevent shortages of products or materials and avoid holding excess levels of stock, which prevents waste and maximises the business's productivity and profitability.

Production processes

Production processes or production methods refer to the different systems used by businesses to produce their products. The choice of production method will depend on the scale of production (how much of a product is being produced) and the characteristics of the product.

There are three main types of production process:

- job
- batch
- flow.

The impact of logistics and supply decisions

Logistics is the organisation and transportation of goods. As you have learned, the logistics of getting materials and products from suppliers can affect a business's performance. The supply decisions that a business makes can have three main impacts on that business.

- **Costs** – for example, a well-organised logistics system can reduce transportation and packaging costs and limit the amount of stock that is lost or damaged.
- **Reputation** – for example, a business that manages its supply chain effectively may gain a reputation for providing a fast and efficient service.
- **Customer satisfaction** – for example, a business that can deliver a product or service in a fast, simple and flexible manner is likely to have the highest customer satisfaction ratings.

The role of procurement

Procurement is the process of a business sourcing and buying its stock, and it is a very important part of most businesses' operations. Even if a business makes its own products, it normally has to procure from another business the raw materials that it uses to make these products. The relationship between a business and its suppliers and the procurement decisions that the business makes can both have a huge impact on the performance of the business.

A quality service is one that provides the level of value expected by a customer. This might be due to the way in which the business communicates with the customer through the sales process, because the quality of a service can be linked to customer service. For example, a customer visiting a five-star hotel would expect it to provide room service, valet parking and friendly, courteous employees.

There are two main ways in which the quality of a product or service can be assured:

- quality control
- quality assurance.

Relationships with suppliers

There are several factors that contribute to a business's relationship with its suppliers. These include:

- the cost of the materials or products being procured
- the delivery provided by the supplier, including the cost of delivery, the speed of delivery and the reliability of the delivery
- the quality of the materials or products that the business is procuring
- the availability of materials or products provided by the supplier
- the level of trust between the supplier and the business.

Quality assurance	Quality control
Focused on improving the production process.	Focused on identifying defective products.
Establishes a good quality-management system.	Finds and eliminates problems.
Makes quality the responsibility of everyone in the production process.	Makes quality the responsibility of one person or one team in the production process.
Quality assurance is focused on the process.	Quality control is focused on the product.

Table 2.3.3 The differences between quality assurance and quality control

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2.4 Making Financial Decisions

Gross profit and net profit

As you have learned so far, profit is a key objective for most businesses and is an incentive for entrepreneurs to start new businesses. Profit is the financial reward for business owners and can be reinvested to promote business growth.

profit = total revenue – total costs

A business can increase its profits in two ways:

- increasing revenue
- lowering costs.

Gross profit

Gross profit is the profit that a business makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services:

gross profit = sales revenue – cost of sales

Net profit = gross profit — other operating expenses and interest

This is demonstrated in Figure 2.4.3.

Sales revenue

minus

Cost of sales

(raw materials, packaging, direct wages)

equals

Gross profit

minus

Operating costs

(salaries, rent, insurance, advertising)

equals

Net profit

Figure 2.4.3 The net profit calculation

Sales revenue

minus

Cost of sales

(raw materials, packaging, direct wages)

equals

Gross profit

Figure 2.4.2 The gross profit calculation

Gross profit margin

Gross profit is the difference between sales revenue and the cost of sales. The gross profit margin (GPM) helps a business to measure its gross profit as a percentage of its sales:

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

Net profit margin

Net profit is the difference between sales revenue and total costs. The net profit margin (NPM) helps a business to measure its net profit as a percentage of its sales:

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

Exam tip

When you are asked about business data, it is always worth considering the use of quantitative data versus qualitative data.

$$\text{average rate of return (\%)} = \frac{\text{average annual profit (total profit} \div \text{number of years)}}{\text{cost of investment}} \times 100$$

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2.5 Human Resources Part 1

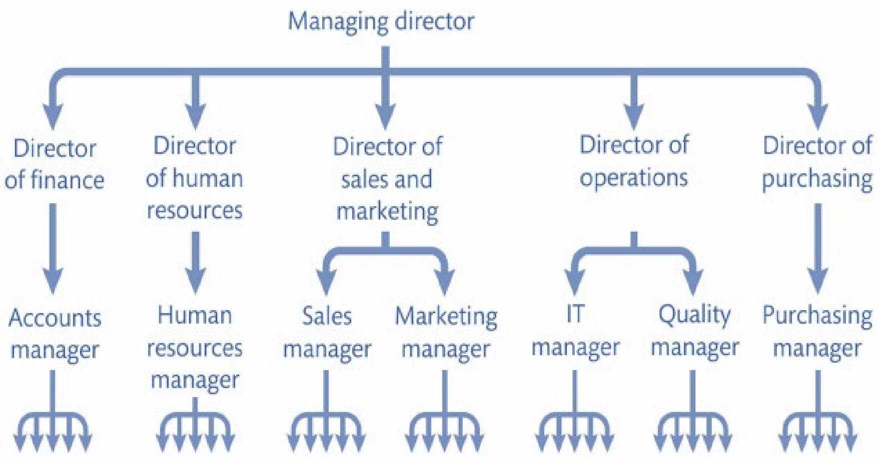

Figure 2.5.1 A hierarchical organisational structure

Figure 2.5.2 A flat organisational structure

All businesses want to employ the best possible people. This requires effective recruitment, which will attract the right applicants and identify the most suitable candidates.

There are two main stages of recruitment:

- the business needs to be clear about the different **roles** that it needs to fill and the **responsibilities** of those roles
- the business needs to develop the documents and processes that are used in job applications and the selection process.

Recruitment method	Advantages	Disadvantages
Internal	• Fast recruitment process. • Easy to advertise (could even be advertised just through email). • Cheaper than advertising and recruiting externally. • Could offer job as a promotion for an existing employee. • All candidates are already known to the business.	• Limited choice of applicants. • May cause problems among existing employees due to change, such as an employee finding that they are required to line-manage a colleague at the same level, which may be awkward. • Unlikely to bring any new ideas into the business. • Business will need to recruit another employee anyway to do the successful applicant's previous job.
External	• Higher number of potential candidates. • May bring new skills into the business. • May bring new ideas into the business.	• May take a long time to find the right candidate. • Can be very expensive, especially if using a recruitment agency. • The candidate may turn out not to be as good as they seemed at interview.

Table 2.5.4 The advantages and disadvantages of recruiting internally and externally

Benefits for employers	Benefits for employees
• Lower costs due to less travel requirement and reduced workspace requirements • Lower sickness rates as staff are less likely to take time off • Happier staff because they can work more flexibly, meaning that they are less likely to leave the business	• Reduced time spent travelling to and from work • More flexible times to start and end of workdays • Less chance of being prevented from getting on with work by conversations or meetings with colleagues

Table 2.5.1 The benefits of remote working for employers and employees

Barriers to effective communication

Barriers to effective communication are all the things that stop communications from reaching their intended audience.

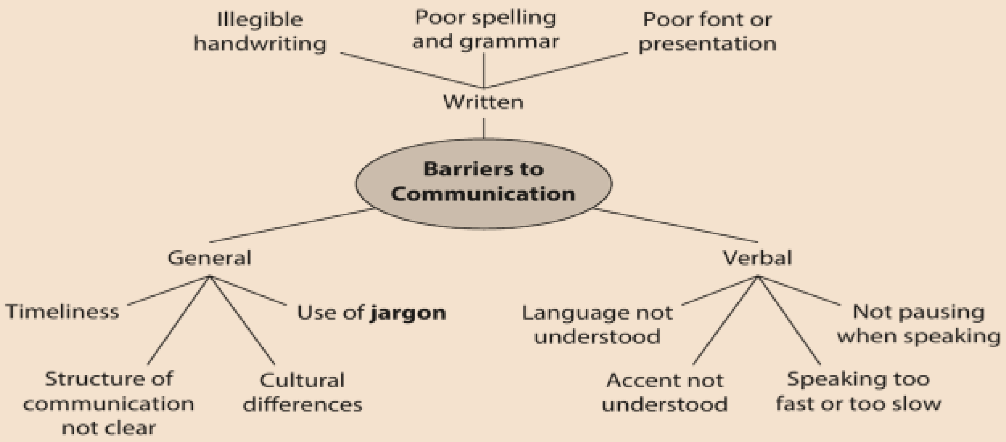

Figure 2.5.3 Common barriers to communication

Key job roles

The names of roles will vary depending on the business, but most businesses employ people in the same sorts of roles. Roles that are commonly seen in many businesses are:

- director
- senior managers
- supervisors and team leaders
- operational and support staff.

Recruitment documents

There are four main documents that are often used in the recruitment process:

- the person specification
- the job description
- the application form
- the curriculum vitae (CV).

Figure 2.5.5 Formal training methods

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2.5 Human Resources Part 2

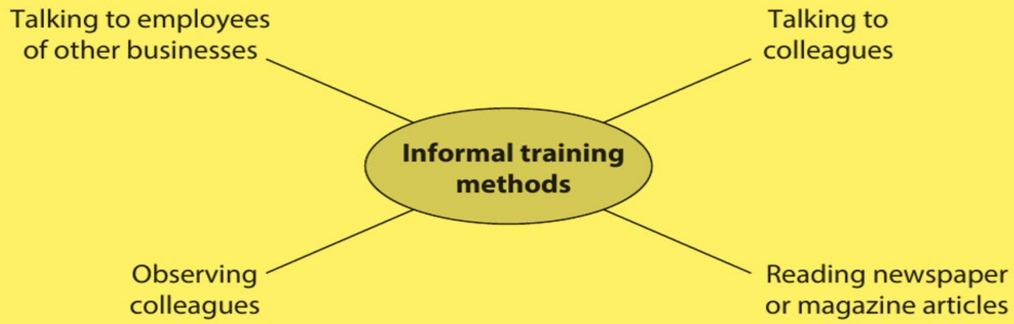

Figure 2.5.6 Informal training methods

Reasons why businesses train and develop employees

There are many reasons why businesses decide to train and develop their employees. One of the main legal reasons is to obey **legislation**. Some other reasons are shown in Figure 2.5.7.

$$\text{retention rate} = \frac{\text{number of employees who continued to be employed during specified time period}}{\text{total number of employees}} \times 100$$

Importance of motivation in the workplace

It is very important for businesses to consider how they motivate their employees at work. Highly motivated employees are more likely to be happy at work and work harder for their employer. Some of the benefits of having highly motivated employees are:

Financial methods of motivation focus on giving employees more money, usually by increasing their salaries or by offering them payments for doing extra work. Many businesses use financial methods to motivate their employees, and some people believe that the best way, or the only way, to motivate employees is by offering them more money. However, not everyone agrees with this.

There are five key financial methods of motivation:

- remuneration
- bonuses
- commission
- promotion
- fringe benefits.

Non-financial methods

Businesses do not have to use money to motivate their employees. Some people believe that money can only satisfy employees in the short term and think that it is better to motivate employees in other non-financial ways. Many non-financial methods that a business can use to motivate staff focus on the employees' role and responsibilities:

- job rotation
- job enrichment
- **autonomy**.