Paper 1 Revision

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Section 1: Business activity

Topic ▪ Content ✓ *Points to include*	Red ☹	Amber ☺	Green ☺
1.1 The role of business enterprise and entrepreneurship ▪ The purpose of business activity and enterprise ✓ *spotting an opportunity, developing an idea for a business, satisfying the needs of customers* ▪ Characteristics of an entrepreneur ✓ *creativity, risk taking, determination, confidence* ▪ The concept of risk and reward			
1.2 Business planning ▪ The purpose of planning business activity ✓ *reducing risk, helping a business to succeed* ▪ The role, importance and usefulness of a business plan ✓ *identifying markets, help with obtaining finance, identifying resources a business needs to operate, achieving business aims and objectives*			
1.3 Business ownership ▪ The features of different types of business ownership ✓ *sole traders, partnerships, private and public limited companies* ▪ The concept of limited liability ▪ The suitability of differing types of ownership in different business contexts ✓ *start-ups and established businesses*			
1.4 Business aims and objectives ▪ The aims and objectives of business ✓ *profit, survival, growth, providing a service, market share* ▪ How and why objectives might change as businesses evolve ▪ Why different businesses may have different objectives			
1.5 Stakeholders in business ▪ The roles and objectives of internal and external stakeholder groups ✓ *owners, employees, customers, suppliers, government, local community* ▪ The effect business activity has on stakeholders ▪ The effect stakeholders have on business			
1.6 Business growth ▪ Organic growth ✓ *increasing output, gaining new customers, developing new products, increasing market share* ▪ External growth ✓ *mergers, takeovers - including horizontal, vertical, diversification*			

1.1 The role of business enterprise and entrepreneurship

✪ **Why do businesses exist?**

- Businesses exist to **satisfy the needs of customers**. They provide goods and services at a price that people are willing to pay. In return, the business will be rewarded with profit.
- Once an idea for a business exists, **it can be developed.**
- An entrepreneur may also see an existing product and **spot an opportunity** to develop and improve it.

✪ **What is enterprise?**

- Enterprise is seeing an opportunity to provide a product or service that people are willing to buy.

✪ **Reasons why people choose to start their own business**

Reason	Explanation
To be your own boss	This means that when you start your own business, you will be able to make decisions on your own hours, pay, duties and working conditions - unlike an employee within a business who has to do as they are told by their boss.
To pursue your own personal interests	For example, if you love playing the guitar as a hobby, you could start up a business as a guitar shop / guitar teacher, thus combining your passion with your job.
To earn an income	You may have lost your job and be struggling to get a new one. Starting your own business is a way to generate income needed for your rent, food and bills.
To do something positive for society	For example, you might start a business that has social, environmental or charitable priorities – e.g. a charity shop to raise funds for homeless people.

✪ Businesses provide **needs** and **wants**.

Needs	Wants
Food Water Shelter Clothing Medicine	A car An iPhone A TV A chocolate bar A fake tan Etc…

✪ Characteristics of a successful **entrepreneur**:

❶ Creative

❷ Risk taking (calculated risks)

❸ Determined

❹ Confident

❺ Able to learn from past failures

✪ **Risks** and **rewards** involved in starting your own business:

Risks	Rewards
❑ Might have invested your own savings ❑ Might have given up a job with a steady income ❑ Might be very stressful / affect your health ❑ Long hours = lack of holidays & strain on personal relationships with friends & family ❑ Changing consumer tastes	❑ Possibly a higher wage / salary than previous job ❑ Might be able to sell the business for a profit if it's successful ❑ Being your own boss ❑ The personal satisfaction of being successful ❑ Independence – being their own boss

1.2 Business planning

✪ Reasons why it is important to create a **business plan** for a new business venture:

❶ More likely to get investors (e.g. bank, partner, shareholders).

❷ Reduces the risk of failure because decisions are based on research (e.g. choosing the correct price to charge after researching manufacturing costs, competitors' prices, and customer preferences).

❸ To identify what resources are needed (e.g. staff, machinery, buildings and vehicles) so that a more accurate budget / cash flow forecast can be made.

✪ Components included in a **business plan**:

Component	What might be included in it?
Aims & objectives	❑ What you plan to achieve (e.g. how much revenue & profit). ❑ SMART objectives; e.g. to make £xm profit by the end of 2020
Marketing plan	❑ What market research you will carry out. ❑ Who your target audience is likely to be (typical customer). ❑ The 4Ps - which products you will sell, what prices you will set, what advertising & special offers you'll do, and where you'll sell.
Human Resource plan	❑ How many employees you'll need. ❑ How you will recruit the employees. ❑ How much you'll pay the employees. ❑ Any training needed.
Production plan	❑ How you will make the product (or which supplier you will buy from). ❑ How you will ensure quality. ❑ Where you will locate your business.
Finance plan	❑ How you will raise the money needed to set up & run the business (sources of finance). ❑ Calculate the break-even point (number of products you need to sell to cover the costs). ❑ Create a cash-flow forecast; estimating likely income and expenditure for the first year.

✪ The role of a business plan

Identifying markets	Helps a business think clearly about who it is targeting products/services at. Help determine for example the type of marketing the business will need to undertake
Helping with finance	A bank is more likely to lend a new business money if it is confident in being repaid. Having a business plan will show that careful thought had been given to all aspects of starting and running the business.
Identifying resources that a business needs to operate	Identifies resources such as equipment, finance, additional people with particular skills or it could be where the business operates from. Vital that a business is clear on the resources it needs, otherwise it will be seen by a potential investor as a business that has not given enough thought to its operations. Potential investor might think the business is to much of a risk and not invest.
Achieving business aims & objectives	Setting out aims & objectives, with an appropriate timeline, gives a business the best chance of achieving its aims. This is because objectives requires careful thought, research and consideration of all aspects of running the business.

1.3 Business ownership

Sole Trader	
Definition / features: A business owned and run by one person	
Advantages: ✓ Low start-up costs (less regulations & paperwork than Ltd & plc) ✓ The owner keeps 100% of the profit ✓ The owner makes all of the decisions ✓ The owner can keep their finances private (unlike Ltd & plc)	Disadvantages: ✗ Unlimited liability – the owner is personally responsible for the debts of the business (might have to use own personal finances such as savings, house & car) ✗ Lack of continuity – if the owner dies, the business dies ✗ A lot of responsibility on one person; long hours, lack of help/skills from others ✗ Skill shortage – may have to employ specialised workers – increases costs – or may not be able to afford them. ✗ Shortage of capital – May be difficult to start the business in the 1st place – may not be able to expand.

Partnership	
Definition / features: A business owned and run by 2-20 people	
Advantages: ✓ Low start-up costs (less regulations & paperwork than Ltd & plc) ✓ Each partner may have a different speciality / skill (e.g. marketing, finance, and HR) ✓ Workload and debts can be shared amongst the partners ✓ Easier to raise finance than a Sole Trader as each partner can invest ✓ Owners can keep their finances private (unlike Ltd & plc)	Disadvantages: ✗ Unlimited liability – partners are personally responsible for the debts of the business (might have to use own personal finances such as savings, house & car) ✗ There could be disagreements between partners which slows down decision making ✗ Profit has to be shared between partners (unlike Sole Traders) ✗ Partners have less control than a Sole Trader ✗ Cannot raise as much capital / finance as an Ltd / plc

✪ **Deed of partnership**

- Deed of partnership is a document setting out the operations of the partnership, including amount of capital to be invested and how profits will be shared.
- If there is a deed of partnership – profit will be shared in the capital sharing ratio. E.g. If Partner A invested 70% of the capital – they will be entitled to 70% of the profit.
- If there is no deed of partnership, the law states that each partner is equal regardless of the amount of capital that they have put into the business. E.g. Profit will be split 50:50

✪ **What is in a deed of partnership?**

- Information on the way in which the business operates
- The role of each partner within the business
- How profits and losses will be shared among the partners
- Details of how much capital each partner has contributed to the business. This is important because partners do not need to provide an equal amount of capital.

✪ **Sleeping partners**

- Provide capital for the business but take no part in the running of the business.
- Their liability is limited to the amount of capital that they have contributed.

✪ **Limited liability partnerships**

- This means that their liability for the debts of the business is limited to the amount of money they put into the business.

Private Limited Company (Ltd)	
Definition / features: A business owned by shareholders. Shares are sold privately to friends and family.	
Advantages: ✓ Limited Liability – the owners (shareholders) are NOT personally responsible for paying the debts of the business; the owners and the business each have a separate legal identity ✓ Finance can be raised by selling shares; this finance can be used to improve & expand the business without needing to get into debt ✓ Continuity – the business continues to exist even if one of the shareholders dies ✓Control over share sale – No chance of the business being taken over by another business without shareholder agreement. Normally family businesses, with shares being owned only by family members, who remain in full control.	Disadvantages: ✗ Profits have to be given to shareholders in the form of dividends ✗ The business has to publish its accounts every year – meaning that anyone (e.g. competitors) can see the financial state of the business ✗ Higher set-up costs than Sole Trader & Partnerships – Memorandum & Articles of Association ✗ Cannot sell as many shares as a plc – so capital / finance is still limited

Public Limited Company (plc)	
Definition / features: A business owned by shareholders. Shares are sold to the public on the Stock Exchange.	
Advantages: ✓ Limited Liability – the owners (shareholders) are NOT personally responsible for paying the debts of the business; the owners and the business each have a separate legal identity ✓ Finance can be raised by selling shares to the public on the stock exchange; this finance can be used to improve & expand the business without needing to get into debt – because shares are sold to the public, there is the potential to raise vast sums compared to an Ltd ✓ Continuity – the business continues to exist even if one of the shareholders dies ✓ The business is run by a board of directors who normally have experience and areas of expertise	Disadvantages: ✗ Profits have to be given to shareholders in the form of dividends ✗ The business has to publish its accounts every year – meaning that anyone (e.g. competitors) can see the financial state of the business ✗ Higher set-up costs than Sole Trader & Partnerships – Memorandum & Articles of Association ✗ There is a threat of a takeover if 51% or more of the shares are bought by someone else

1.4 Business aims and objectives

✪ Main **objectives** of most businesses:

❶ To survive

❷ To make a profit

❸ To expand/Growth

4) Market share

5) Providing a service

✪ Reasons why businesses should set objectives:

Reason	Explanation
❶	So that all employees are working towards a common goal (& gives them something to strive towards)
❷	To help measure the success of a business at the end of the year (did we meet our objectives?)
❸	So that employees can be given clear and relevant targets, and rewarded when they meet them (this helps motivate employees)

✪ Why different businesses might have different objectives to each other (and how objectives might change over time):

Business	What are their objectives likely to be?
A brand new shop in your home town	**To survive:** Many new business fail to survive the first year or two as they struggle to generate enough income (sales revenue) to cover their costs. They may face stiff competition from other, larger businesses.
A medium-sized business with 10 stores across the UK	**To make a profit and expand:** Once a business has got past the 'survival' stage, it might look to make a profit and expand; profit is important in order to reward those that took the risk of investing (e.g. shareholders). Expanding means the business has the potential to make even greater profits in the future.
A multinational business with stores around the world	**To maximise profits and achieve global domination:** Businesses like Apple, Amazon and Ford seek to use their size and power to maximise profits (see economies of scale below) and become a household name in as many countries as possible.

1.5 Stakeholders in business

✪ Stakeholders – Are groups of individuals who have an **INTEREST** in a business

✪ Internal stakeholders – Are the business owners and people who work in the business

✪ External stakeholders – Are the local community, suppliers, customer and government.

✪ **The effect business activity can have on different stakeholders and the effect stakeholders can have on businesses.**

Stakeholder	Why are they a stakeholder?
Employees	▪ If a business does well, then employees might benefit from a pay rise, bonus, promotion and better job security. Conversely, if a business closes down, employees lose their job and therefore, their source of income. ▪ Employees can affect a business by taking industrial action if they have not been treated well; industrial action includes going on strike and work-to-rule.
Customers	▪ If businesses put prices up then customers cannot afford to buy as many things as before / their standard of living falls. If a business opens up a new store, then some customers may not have to travel so far. ▪ Customers can boycott a business (refuse to shop there) which damages sales revenue. Customers can leave negative reviews on social media, which can damage the brand image of a business, and in turn, reduce sales revenue.
Suppliers	▪ If a business does well, they will usually need to buy more stock from suppliers, so this increases revenue for suppliers. However, as businesses grow in size, they might expect better deals from suppliers (lower prices) and better credit terms (pay after 90 days instead of 30). ▪ Suppliers can refuse to supply to businesses that do not pay them a fair price / promptly. Suppliers can charge interest on invoices that are paid late.
Government	▪ The government is a stakeholder of businesses as they receive tax on their profits. Also, as businesses grow, they employ more workers which reduces unemployment (thus boosts tax revenue, and reduces the need to pay unemployment benefits). ▪ The government can have a big impact on businesses by introducing new laws (which cost money to implement) and by putting the National Minimum Wage up.
Local community	▪ Businesses can affect local residents positively by providing goods and services, as well as jobs. However, they can have a negative impact as they might create more traffic on the roads and more noise / air / light pollution. ▪ Locals can protest against a business in order to discourage it from doing something (e.g. polluting a local river). This can give the business a bad brand image.
Owners	▪ If the business is successful, owners are rewarded with a share of the profits and personal satisfaction. If a business fails, owners risk losing their investment (and possibly more if they have unlimited liability). ▪ Owners usually have a large influence over the business as they have a say in how it is run.

1.6 Business growth

✪ Organic growth – Is concerned with increasing sales of products and services. It is internal, as in it grows by increasing its own size rather than taking over another business.

✪ Methods of growing a business <u>internally</u> (organically)

Method	Explanation & example
Increasing market share (in a current market)	A business might attract new customers by using advertising and special offers. For example, Tesco might use BOGOFs, price reductions and a loyalty card to attract new customers.
Developing new products	A business might expand its range of products to a) sell new products to existing customers and b) attract new customers. For example, Dyson started by selling vacuum cleaners. Now, they sell washing machines, hair dryers, and fans.
Gaining new customers (in a new market)	A business might try to attract a completely new target audience. For example, Tesco & Dyson both started in the UK to begin with & both have expanded into new markets (foreign countries).

✪ <u>External growth</u> can be achieved by **mergers** and **takeovers**. Using an example of each, explain what each of the following is and why it might be a good idea:

Method	Explanation, example & benefits
Horizontal takeover	▪ To takeover / merge with a company in the same line of business; e.g. one supermarket joins with another. ✓ One less competitor in the market = less need to advertise / lower prices / compete. ✓ Economies of scale (see below) e.g. may be able to get discounts from suppliers for buying in bulk = lower cost per unit
Backward vertical takeover	▪ To takeover / merge with a company which can supply you with goods; e.g. a crisp manufacturer takes over a potato farm. ✓ Take control over own supply chain to ensure good quality, prices, and lead times (prompt deliveries)
Forward vertical takeover	▪ To takeover / merge with a company which you can sell your goods to; e.g. a brewery takes over a pub. ✓ A guaranteed market for sales.
Diversification	▪ To takeover / merge with a company in a completely unrelated industry; e.g. a car manufacturer takes over a fashion brand. ✓ If one market fails (e.g. a decline in car sales) then the business has another area to fall back on (don't keep all of your eggs in one basket!).

✪ One of the benefits of business growth is '**economies of scale'**. Explain what the term 'economies of scale' means.
Economies of scale refers to the reduction of unit costs that occurs as a business grows in size (put simply, the benefits a business gets by growing larger).
There are a few types of economy of scale:

- **Purchasing economies:** Large businesses need to buy stock from suppliers in bulk. Suppliers may be willing to give a discount to businesses that buy in bulk. Therefore, even though it is more expensive to buy in bulk, it works out to be cheaper per item. Example:
    - A small business buys 10 cans for £10 = £1 per can.
    - A large business buys 1,000 cans and is given a 10% discount so pays £900 = 90p per can.
- **Marketing economies:** Large businesses can spread the cost of advertising over a larger number of shops / products, thus making it cheaper per unit. Example:
    - A small business with one shop pays £1,000 for a TV advert = £1,000 per shop.
    - A large business with 50 shops pays £1,000 for a TV advert = £20 per shop.
- **Financial economies:** Large businesses are likely to find it easier to borrow money at lower interest rates, because they have a proven track record of being able to pay creditors back.
- **Technical economies:** Large businesses can afford new technology (e.g. robots in factories & automated IT systems) that allow them to reduce unit costs in the long term (they can reduce costs associated with employees; recruitment, training, and wages / salaries).

Lower unit costs are good because:

a) A business makes a larger profit margin on each unit sold.
OR
b) A business is able to reduce its prices to customers and be more competitive.

Section 2: Marketing

Topic ▪ Content ✓ *Points to include*	Self-audit (e.g. 1-5 ✓ ✗ ☺ ☹):
2.1 The role of marketing ▪ The purpose of marketing within business ✓ *the importance to a business of identifying and understanding its customers, informing customers, increasing sales*	
2.2 Market research ▪ The purpose of market research ✓ *identifying and understanding customer needs* ▪ Primary research methods ✓ *questionnaires, interviews, trialling, focus groups* ▪ Secondary research sources ✓ *newspapers and magazines, census, websites, internal data* ▪ How appropriate different methods and sources of market research are for different business purposes ▪ The use and interpretation of qualitative and quantitative data in market research	
2.3 Market segmentation ▪ The use of segmentation to target customers ✓ *age, gender, income, location, lifestyle*	
2.4 The marketing mix ▪ The 'four Ps' of the marketing mix and their importance ✓ *price, product, place, promotion* ▪ Product ✓ *design, invention, innovation* ▪ Product - stages of the product lifecycle ✓ *introduction, growth, maturity, decline* ▪ Pricing methods ✓ *skimming, cost-plus, penetration, competitor, promotional* ▪ Promotion - point of sale ✓ *price reductions, loss leaders, competitions, free samples* ▪ Promotion - advertising ✓ *social media, websites, print media, television, radio* ▪ Place - distribution of products and services ✓ *digital and physical distribution channels* ▪ How the four Ps of the marketing mix work together ▪ The use of the marketing mix to inform and implement business decisions ▪ Interpretation of market data ✓ *changes in demand, target market and market share, changes in product and effects of promotion*	

2.1 The role of marketing

✪ The objectives of the marketing department are to…

The primary objective of the marketing department is to **increase sales**. Broadly speaking, they do this by:

- Carrying out market research to **identify** customer needs.
- Making decisions on the **Marketing Mix (the 4 Ps)** which are appropriate to the target audience.
- **Informing** customers about their products and services (e.g. by advertising) and **persuading** them to buy them (e.g. using special offers).

2.2 Market research

✪ **What is market research?**

- Market research is how businesses collect information on whether or not their products or services will be bought.

✪ **Why is market research important?**

- Will help a business be clear on whether there is demand for their product/service
- Market research avoids unnecessary investment.

✪ **Methods of market research**

Primary research (field)	Secondary research (desk)
Definition: Brand new information that is collected by the business.	Definition: When a business uses information that already exists.
Examples: ▪ Questionnaire ▪ Survey ▪ Interview ▪ Focus group ▪ Trials - sold for a short time as a test in a much smaller area.	Examples: ▪ The internet ▪ Magazine / newspaper articles ▪ Government reports & census ▪ Competitors' websites
Advantages: ▪ It is up-to-date. ▪ It is collected for your specific purpose (e.g. your market / target audience). ▪ It can be trusted because YOU gathered it.	Advantages: ▪ It is quick to collect. ▪ It can be cheaper than primary research. ▪ There is a wide range of information available on the internet.
Disadvantages: ▪ It can be very expensive to collect. ▪ It can be time consuming to collect. ▪ Poorly designed questionnaires give poor quality results.	Disadvantages: ▪ It could be out-of-date. ▪ The source might be biased / untrustworthy. ▪ The data might not be wholly relevant / specific to you because it was gathered for a different purpose.

✪ **Qualitative** and **quantitative** data:

	Definition & examples
Qualitative data	▪ This is data related to attitudes, opinions and feelings. ▪ For example, the reasons why you do / do not buy a particular product, and your feelings about a particular brand. ▪ It is difficult to statistically analyse this data, but it can give you more detailed information.
Quantitative data	▪ This is data related to numbers (quantity). ▪ For example, the number of times you go shopping per week, or the number of hats you own. ▪ This data can be added up and statistically analysed.

2.3 Market segmentation

✪ Segmentation is the splitting of the market for a product or service into different parts, or segments.

✪ Five ways that the population can be **segmented** into groups:
- Age
- Gender
- Income
- Location
- Lifestyle

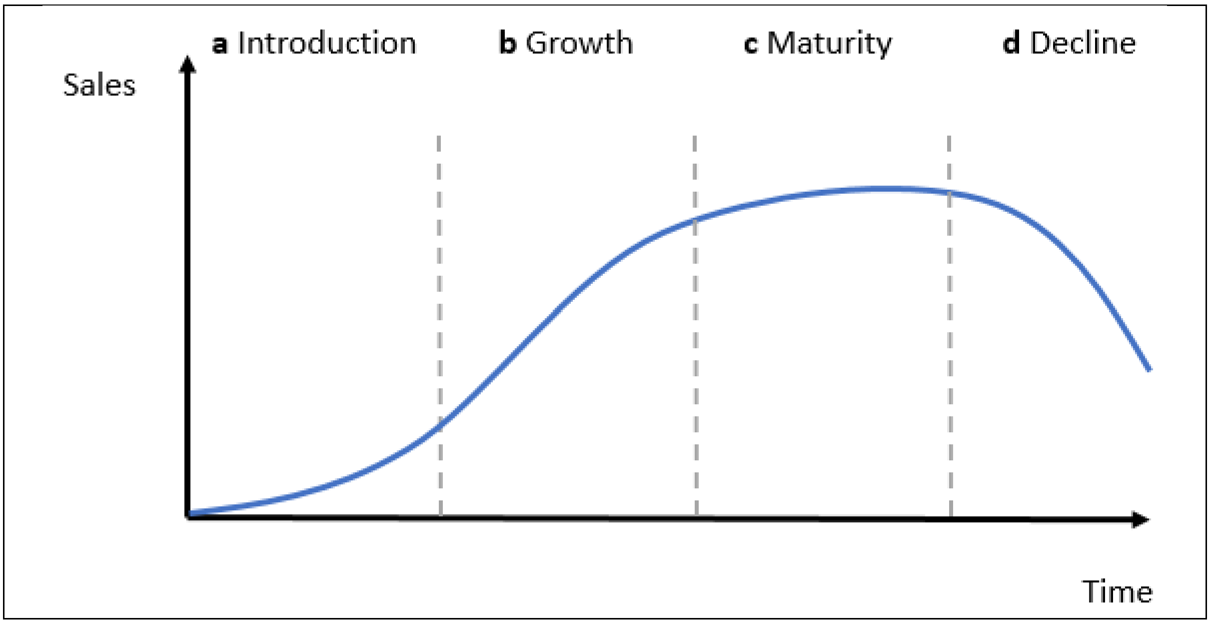
2.4 The marketing mix

PRODUCT

✪ Four features of a good **product**:
- It is innovative (e.g. unique, creative, original).
- It is made to a good standard (high quality).
- It is functional (it does what it is supposed to do).
- It meets the needs of the customer.

✪ The benefits of '**branding**':
- Brand loyalty – well-known brands (e.g. Coca Cola, Tesco, & Apple) tend to have loyal customers who return to them again and again.
- Higher price – well-known brands are able to charge a much higher price for their goods and services than non-branded goods.

✪ The **Product Life Cycle diagram**:



Introduction	• The stage where the product is launched • The product is initially unknown • Sales will be low to begin with, but should rise steadily • A business is likely to advertise it in a number of ways, in order to make sure it gets off to a successful start – this will increase costs. • Cash flow likely to be negative
Growth	• Sales show their most rapid growth • Advertising and other promotion support change slightly as the product will be generally known to customers. • There is no need for special offers because the product is new and in high demand.
Maturity	• Sales are towards their highest • The rate of growth is slowly down • It may be necessary to support a product with further advertising and offers to maintain sales against the competition.
Decline	• Sales are falling • Customers see the product as old and switch to those of competitors or a newer replacement.

✪ Ways to 'extend' the life cycle of a product (**extension strategies**):

- A business could lower its prices.
- A business could redesign the packaging to be more appealing.
- Advertising the product more widely.
- Other markets may be developed – e.g sell in other countries or sell to a different target market than the one first used.

PRICE

✪ **Pricing methods**:

Method	Definition, example, pros & cons
Skimming	▪ Price skimming is where the price of a product starts high because the product is new / unique and demand is likely to be high. Then the price comes down in stages as demand falls over time. ▪ Examples: A new games console or mobile phone – starts at £299, then comes down to £249 six months later, then £199, etc. ✓ Allows a business to maximise sales revenue whilst the product is in high demand, to pay off the research and development costs. ✓ Allows a business to target consumers on lower incomes as demand falls, so that all target groups pay the maximum they are willing to pay. × Businesses need to be careful not to set the price too high initially as it might put customers off. × Technology and fashions can change quickly, so there may only be a very short period during which the business can charge the maximum price. × Some customers will simply wait for the price reduction.
Cost-plus	▪ Cost-plus is when a business looks at how much it cost them to make / buy the product from a supplier, and then adds on a percentage in order to ensure they make a profit (after all other costs have been paid for). ▪ For example, if it cost £5 to make a pair of shoes, then a business might choose to charge cost-plus 200% = £15. The business will make a 'gross profit' of £10 on each pair of shoes sold. However, once all the other running costs of the business have been deducted (e.g. rent, bills, advertising), then whatever left is referred to as 'net profit'. ✓ It's a good way to ensure that products sold actually make a profit (by covering the cost of making / buying it, plus other running costs). × Cost-plus alone might be difficult to use, especially in a competitive market (price might be too high compared to competition). × As costs change, time & money needs to be spent to keep changing the prices. × Whilst it is fairly easy to calculate the cost of making / buying each product, it can be difficult to know how much to charge to cover all the running costs of the business (fixed costs).
Penetration	▪ Penetration pricing is when a business tries to enter a competitive market by starting off with a low price (for a limited time). Once a customer base / market share has been established, they will put prices up. ✓ New customers might be attracted to try the new product, and then continue buying it if they like it. × During the initial low price period, the business might not make enough revenue to cover costs. × If brand loyalty amongst competitors is very high, the business might not attract many customers despite the low price. × A low price might present an image of low quality.

Competitor	▪ This is where a business keeps a close eye on competitors' prices and tries to match or beat them. ▪ Example: Often used by the supermarkets. ✓ Customers like to shop around for the best price, so this can help to attract customers away from competitors. ✗ Lowering prices to match / beat competitors can damage profit margins. ✗ Small businesses will find it hard to match / beat the prices of competitors because they do not benefit from economies of scale – for example, a large supermarket like Tesco can buy in bulk from suppliers, get a discount, thus the cost per unit is lower than a corner shop would be able to get.
Promotional	▪ Promotional pricing is the short term use of price reductions and special offers to increase sales. ▪ Examples: It can be used in the clothing industry at the end of the 'season' in order to clear out old stock that is no longer in fashion / for the wrong season, to make way for new stock. ✓ A good way to increase sales in the short term. ✓ Whilst buying products on promotion, customers may buy other more profitable items in the shop. ✓ Clear out old stock to generate cash to be used to buy new stock (improves cash flow). ✗ Each item is sold for less revenue / a lower profit margin than its original price. ✗ Some customers may just wait for the sales. ✗ It costs money to advertise promotional offers.

PLACE

✪ **Distribution channels**:

Method	Definition, example, pros & cons
Producer 🡻 Customer	▪ The producer of a product sells directly to the customer. ▪ Example: Dell computers sell directly to customers. ✓ The business has complete control over how their product is described, presented, priced – i.e. control over the brand image. ✓ The business has direct contact with the customer – this can be a useful way to gain market research for further improvements (e.g. customer feedback). ✓ The business can sell at the full, retail price, so makes a higher profit margin per sale. ✓ The customer will usually pay for the product immediately (whereas many retailers expect to get 'trade credit' – buy now, pay later). ✗ The business might only sell one unit at a time to customers (compared to multiple units if sold to a retailer); therefore the admin cost of sales is high (e.g. multiple phone calls & deliveries). ✗ Customers may prefer the convenience of a local high street retailer, than buying directly from the supplier (e.g. a factory). ✗ As a business grows in size, it can be difficult to manage dealing with so many individual customers / sales.
Producer 🡻 Retailer 🡻 Customer	▪ This is where the producer of a product sells their product to a retailer (shop), which in turn sells to the end user (customer). ▪ Example: Many of the products we buy are distributed this way – e.g. Kellogg's, Cadbury's and Hovis sold in Tesco. ✓ The producer is able to send one large delivery to the retailer, rather than multiple deliveries to each individual customer. ✓ Many products sell better if placed in a convenient location for customers – i.e. a local shop. This is especially true of 'impulse' buys (e.g. sweets and chocolate). ✓ Many retailers are well-known to customers and have a good brand image (e.g. Tesco, Next, PC World); customers might prefer to buy from these 'trusted' brands rather than from an unknown producer. ✗ The producer will have to sell the item to the retailer at a lower price to allow them to add on their 'mark-up' to the customer. ✗ Some large retailers have a lot of power over small suppliers, and may insist in a very low price, or long credit terms (e.g. payment after 90-120 days).
Producer 🡻 Wholesaler 🡻 Retailer 🡻 Customer	▪ This is where the producer of the product sells one very large batch to a wholesaler, who then breaks down the batch into smaller units and sells onto small retailers (e.g. corner shops). This is called 'breaking bulk'. ▪ Example: Used by corner shops that aren't large enough to place the 'minimum order requirement' directly from suppliers such as Kellogg's, Cadbury's and Hovis (e.g. these businesses might insist on a minimum order of 100 units). ✓ One very large delivery reduces admin and delivery costs even further than the channel above. ✓ Again – helps with convenience for customers, e.g. corner shops.

	× The producer will have to sell the item to the wholesaler at a much lower price to allow them to add on their 'mark-up' to the retailer, who in turn will need to add on their mark-up to the customer. × By the time the product reaches the customer, it may not be in perfect condition – possible damage to brand image.
Producer 🡻 Agent 🡻 Customer	▪ An agent is someone / a business that gives a business specialist advice on how to enter a new market (e.g. a new country, or an unknown product area). ▪ Example: This might be used by a UK business wishing to expand into a foreign country. ✓ The agent is likely to have specialist knowledge of the new market which increase the chance of success. For example, when expanding abroad, the agent might know the local language, culture, trends, laws, suppliers, competitors, etc. × The agent is likely to charge a fee for their services and / or take a commission on sales.

✪What is meant by the term 'digital distribution channel':

- Digital distribution channels are used to deliver goods and services via the internet, where no physical product exists. For example, e-books from Amazon, digital music from Apple, films and TV programmes from Google Play.
- Digital distribution can be good as customers can receive their purchase immediately, 24/7, and the business has no transport costs.
- However, there can be technical issues, not all consumers have the internet, and illegal copying means that many customers find a way to avoid paying for digital goods and services. Also, it may cost a lot initially to set up the digital distribution system (e.g. iTunes).

PROMOTION

✪ **Aims of promotion**

- To inform customers about a product or service
- To keep a business ahead of its competitors
- To create or change the image of a business, its products and services
- To maintain or increase sales.

✪ A**dvertising** methods:

Method	Definition, example, pros & cons
Social media	▪ Social media involves businesses using platforms such as Facebook, Twitter and Instagram to communicate with their customers. ▪ Examples: Most businesses use social media these days e.g. Nike, Tesco and McDonald’s. ✓ Can be cheap to use (compared to TV). ✓ Can target large, specific audiences. ✓ Quick to communicate (TV can take months to make an advert). ✗ There are many forms of social media – it may be expensive to target all of them (Facebook, Twitter, Snapchat, Instagram & YouTube). ✗ Message may be distorted through social media users – e.g. ‘re-tweeting’ in a silly / negative way. ✗ May require an employee to manage / monitor the social media accounts. ✗ Not used by every market segment – the elderly?
Websites	▪ This is where a business has a presence on the internet; either to just advertise / promote their brand, or possibly to enable actual online sales. ▪ Example: Most businesses have a website these days – e.g. Tesco.com was the first UK supermarket to enable online sales. ✓ Growing use of the internet = more potential customers. ✓ Can use moving images (video) as well as detailed written information. ✓ Can include detailed information (e.g. phone number, specifications). ✓ Can link the customer to purchase immediately / directly. ✓ Can update seasonal promotions quickly & cheaply (e.g. Valentine’s day). ✗ Not used by all groups of people (e.g. less so by the elderly). ✗ Can be expensive to set up the website in the first place, and to manage the deliveries (delivery vans, petrol, drivers needed). ✗ Most businesses have a website these days, so hard to differentiate (make yours stand out from the crowd). ✗ Potential of cyber hacking – e.g. customer details being stolen, creating a bad brand image.

Print media (e.g. newspapers & magazines)	▪ This is the use of magazine and newspaper adverts (being used less and less with the rise of the internet). ▪ Examples: Fashion magazines often carry adverts for perfume, watches and clothes. ✓ Very good for targeting specific customers – e.g. a spade in a gardening magazine. ✓ High quality gloss pictures makes product look attractive. ✓ Cut-out, money off coupons encourage consumer action. ✓ Cheaper than TV advertising. ✓ Can include lots of details so that the customer has a record of them – e.g. address, phone number, product specifications. × Newspaper sales falling / not read by all groups. × Full page adverts in popular papers / mags expensive. × Readers may ignore / skip past the advert pages.
Television	▪ Businesses advertise their goods / services on the television. ▪ Examples: A whole range of businesses do this – car companies, supermarkets, fashion brands. ✓ Can reach a very large audience across the country = more potential customers. ✓ Audio-visual impact can be very persuasive. ✓ Can be targeted at a particular audience (e.g. toys during kids' programmes). × Very expensive, particularly at peak times (e.g. £100,000+). × People may switch over, make a cup of tea, fast forward through the adverts.
Radio	▪ Businesses advertise their goods / services on the radio. ▪ Examples: Often used at a local level on local radio stations – e.g. doors & windows, plumbers, car sales. ✓ Much cheaper than TV adverts. ✓ Can target different groups through different stations (e.g. regionally). ✓ Memorable, catchy jingles. × The product cannot be seen. × Smaller audience than TV. × Cannot remember specific details (e.g. phone number & product specifications).

✪ **Point of sale** methods:

Method	Notes & examples
Price reductions	This is simply where a business reduces the prices of products to attract more customers. Whilst this method might generate more sales, the profit per item will be lower. Businesses cannot trick or lie to customers about price reductions – the product should have been on sale at the higher price for at least 28 days, within the last 6 months (source: www.asa.org.uk).
Loss leaders	This is when a business sells a product at a loss, in the hope that it will draw customers into a shop to buy other things, or to make further sales in the future. Examples: ❖ A supermarket might sell baked beans for 1p a tin (making a loss) hoping that it will attract customers to the shop, who then do their weekly shop (making a profit overall). ❖ A printing company might sell its printer at £25 (making a loss) knowing that the customer then has to buy their specific print cartridge for years to come (making a profit overall).
Competitions	These are designed to attract customers to buy one product over another – see examples from Walkers below. Ideally, the extra revenue generated (e.g. £20,000) should be more than the cost of the competition (e.g. a free holiday worth £10,000). 
Free samples	This is where a business gives out free samples to customers to give them a taster, in the hope that they will buy the product. Examples include free taster of 'impulse' buys in shops (e.g. chocolate, biscuits, and drinks) and free sample packets of washing powder / liquid.

✪ **Market data**

- Market data is information that will help a business make marketing decisions.

✪ **What data might be included?**

- *Changes in demand*
- *Target market*
- *Market share* – This is a business' share of the total market for a product or service.
    - Formula to calculate market share as a %: **Business sales/total market sales X 100**
    - Formula if market share % is given: **% (20%=0.20) X total market sales**
    - Formula for calculating a % change:
        - **Calculate the difference between original sales figure and new sales figures**.
        - **Difference in sales/ original sales figure X 100**
- *Product change*
- *Effect of promotion*

Section 3: People

Topic ▪ Content ✓ *Points to include*	Red ☹	Amber 😐	Green ☺
3.1 The role of human resources ▪ The purpose of human resources in business ✓ *identifying and meeting the human resource needs of a business*			
3.2 Organisational structures and different ways of working ▪ Different organisational structures ✓ *tall, flat* ▪ The terminology of organisation charts ✓ *span of control, chain of command, delegation, subordinates, authority* ▪ Why businesses have different organisational structures ✓ *importance of effective communication, different job roles and responsibilities, different ways of working* ▪ Ways of working ✓ *full-time, part-time, flexible working, temporary work, working from home, working whilst mobile, self-employed*			
3.3 Communication in business ▪ Ways of communicating in a business context ✓ *letter, email, text, phone, meeting/presentation, social media, website* ▪ The importance of business communications ▪ The influence of digital communication on business activity			
3.4 Recruitment and selection ▪ Why businesses recruit ✓ *replace employees who leave, business growth, skill gaps* ▪ The use of different recruitment methods to meet different business needs ✓ *internal methods, external methods, job description and person specification* ▪ Methods of selection ✓ *CV, application form, letter of application, interviews, tests, group activities, references*			
3.5 Motivation and retention ▪ Financial methods of motivation ✓ *pay, bonuses, profit sharing, fringe benefits* ▪ Non-financial methods of motivation ✓ *praise, award schemes, working environment* ▪ The importance of employee motivation ✓ *improved employee performance, helps employee retention* ▪ The importance of employee retention ✓ *already familiar with business and customers, saves time & expense of recruitment*			
3.6 Training and development ▪ Different training methods ✓ *induction, on-the-job, off-the-job* ▪ Why businesses train their workers ✓ *development of the business, improve productivity, skill shortages, customer service, motivation and retention* ▪ Staff development ✓ *vocational and academic qualifications, apprenticeships* ▪ The benefits to employees and businesses of staff development			
3.7 Employment law ▪ The impact of current legislation on recruitment and employment ✓ *discrimination, employees' right to a contract, holidays, hours of work*			

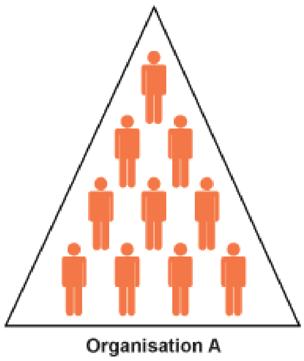
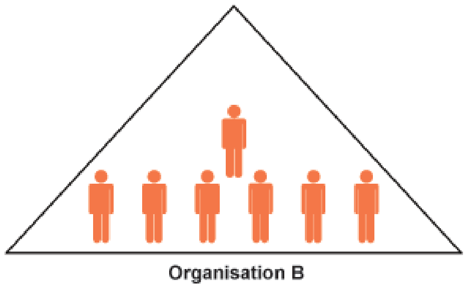
3.1 The role of human resources

✪ The objectives of the human resource department are to…
To ensure the business has the right number & type of workers to meet its objectives. They do this by:

- HR planning - planning ahead to identify when new employees / skills might be needed.
- Recruitment – hiring (& firing) employees.
- Training – identifying training needs.
- Motivation – using financial & non-financial motivation methods to boost the morale and productivity of workers.

3.2 Organisational structures and different ways of working

✪ **Organisation structures** and **ways of working**:

Tall structure	Flat structure
	
Benefits: ✓ Each manager has a small span of control (compared to managers in a flat structure) = better supervision of workers = better productivity / quality / customer service. ✓ Lots of chances for employees to gain promotion up the hierarchy = can be motivational.	Benefits: ✓ Faster communication from top to bottom (& vice versa) than a tall structure = quicker decisions & less likely for messages to be changed / misinterpreted. ✓ Staff at bottom are closer to managers (compared to a flat structure) so may feel more important / more likely to contribute ideas.

Word	Your definition
Delegation	When a manager passes a job down to someone below them in the organisation chart (a subordinate). Managers may do this because a) they don't have the time to complete all tasks themselves, b) the subordinate may specialise in that area, and c) to motivate staff by giving them responsibility. NB. The manager is still responsible for the completion of the task.
Span of control	The number of workers a manager has direct control over. Managers in a tall structure tend to have a smaller span of control than managers in a flat structure. Although this can help with closer supervision of workers, it can also be costly to have so many managers.
Chain of command	The formal route that communication takes in a business; from those with the most authority (at the top), to those with least authority (at the bottom)
Authority	Each employee in a business has a different level of authority / responsibility. Those at the top have the most authority (e.g. the CEO or Managing Director has the power to make decisions) and those at the bottom have the least.
Subordinate	Somebody who works below someone else in a business. E.g. the Head of Marketing is subordinate to the CEO, and a Marketing Assistant is subordinate to the Head of Marketing.

Way of working	Your definition
Full-time workers	Workers who work 35+ hours per week; e.g. Mon-Fri, 9-5.
Part-time workers	Workers who do less than 35 hours per week. E.g. a shop job every Saturday.
Flexible working	This can take a variety of formats: ▪ Zero hour contracts – each week, workers are offered a certain number of hours, based on how busy the business is. ▪ Working from home – see below. ▪ Flexitime – workers must complete a set number of hours (e.g. 40 hours) but can do this at times & days that suit them. ▪ Shift working – factories use this to keep production going 24/7; e.g. shifts of 6am-2pm, 2pm-10pm, and 10pm-6am (the night shift). Workers might swap shift from one week to the next.
Temporary work	This includes work for jobs that only last for a certain period of time; e.g. a job in a shop during the busy Christmas period, or a job at a theme park in the summer.
Working from home	Workers work at home instead of coming into the office; this can work well with computer / telephone based jobs.
Working whilst mobile	This includes jobs that have no fixed office / factory; e.g. a worker completes tasks in a coffee shop, or on a plane.
Self-employed	Working for yourself rather than being employed by a business. E.g. a plumber, a delivery driver, a photographer.

✪ Benefits and drawbacks of **full-time vs part-time** workers:

Benefits of full-time workers	Benefits of part-time workers
✓ It can be cheaper to recruit & train 1 full-time worker, instead of 2 part-time workers. ✓ Other costs can be lower too, due to having to deal with fewer employees; e.g. uniforms, appraisals, workplace facilities.	✓ Hiring part-time workers allows a business to attract / retain good quality & experienced workers who might otherwise not be willing to work for the business (e.g. semi-retired workers, or returning mothers). ✓ Part-time workers can be used more flexibly; e.g. more employees in a shop on a busy Saturday (peak), and less on a Tuesday (off-peak).

✪ Benefits and drawbacks of allowing workers to **work from home**:

Benefits of allowing working from home	Drawbacks of allowing working from home
✓ There may be fewer distractions at home compared to the workplace. ✓ The worker might feel motivated because of the level of trust and freedom they have been given. ✓ Reduced travel time for the worker can be used to increase working time (productivity). ✓ No need to have a large office space & facilities (reduced costs).	× There may be more distractions at home (e.g. children & the TV). × The worker might feel isolated and demotivated; no social interaction with other employees & unable to contribute ideas at meetings. × The business is likely to have to provide / pay for equipment used at home e.g. a computer, and telephone.

✪ Benefits and drawbacks of temporary workers:

Benefits of temporary workers	Drawbacks of temporary workers
✓The employee will only need to be paid when the business is busy ✓Easier to recruit employees (who want this sort of flexibility) ✓Can check on a potential employee before offering a permanent position. ✓Helps to fill a short-term lack of staff.	✓There may not be suitably qualified/skilled employees looking for work when needed ✓The employees may lack commitment and motivation ✓It may be costly to train a temporary employee for a relatively short employment contract ✓Quality may be affected.

✪ Benefits and drawbacks of flexible working practices:

A flexible workforce may be multi-skilled, part time and temporary, work flexible hours/from home and outsourced where necessary.

Benefits of flexible working for the business	Drawbacks of flexible working for the business
✓ Staff retention –as better job satisfaction and higher staff morale. ✓To take advantage of developments in technology – it is more cost effective to communicate digitally ✓Flexible working makes it easier for businesses to offer extended opening hours ✓To meet employment legislation	✓ Additional administrative work involved in setting up and running flexible working. ✓Lower employee productivity

3.3 Communication in business

✪Communication is the transmission of a message from sender to receiver.

✪**Types of communication**:

Type	Definition
Digital communication	Is the exchange of information electronically using ICT
One way commination	When the message is sent but there is no reply.
Two way communication	When the person receiving the message can reply to the sender. Important for feedback.
Internal communication	Is communication between people employed in the same organisation
External communication	Is communication between people in a n organisation and others outside the organisation
Formal communication	Is communication that uses official channels of communication within an organisation
Informal communication	Is communication that is outside the official channels of communication within an organisation e.g. lunch time
Vertical communication	Is commination up or down the hierarchy within an organisation
Horizontal communication	Is communication between people on the same level of the hierarchy in an organisation

✪ C**ommunication methods**:

Method of communication	Benefits / drawbacks
Letter	✓ A formal method of communication, to be used in formal / serious situations. ✓ Lots of details can be included, which can be read over and over by the recipient (& they have a permanent record of it). × A slow way to communicate if sent by mail (although letters often sent by email nowadays). × One-way communication only; so cannot check understanding and no good for discussing ideas.
E-mail	✓ Can be sent very quickly, across the world, and to multiple recipients in one go. ✓ Lots of details can be included, which can be read over and over by the recipient (& they have a permanent record of it). × Can be misinterpreted / taken badly, depending on the language used & the relationship between sender & recipient. × Possible technical difficulties (internet down), ignored if sent to junk/spam folder, and
Text	✓ A quick way to communicate (e.g. reminder of appointment at dentist). × Not suitable for a lot of detailed information, or when 2-way communication is needed (e.g. discussing ideas).
Phone	✓ 2-way communication; can check to see message has been understood and discuss ideas. ✓ Cost of telephone calls has fallen over time (including international calls).

	✗ There is no record of the communication (so no proof of any agreement made). ✗ Possible issues with time zones, poor connection, and language barriers. Only good for 1-2-1, not group communication.
Meeting / presentation	✓ A very good way for groups of people to discuss ideas; ideas can go back & forth, and be developed. ✓ Presentations can be supported by audio-visual aids to make them more effective. ✓ A good way to build up a positive, personal relationship – e.g. meeting a customer face-to-face. ✗ Not everyone will feel comfortable contributing ideas in front of lots of other people (so potential ideas lost / missed). ✗ Time consuming & expensive for a multinational business to communicate in person with different branches around the world.
Social media	✓ Can be cheap to use (compared to TV). ✓ Can target large, specific audiences. Growing number of social media users. ✓ Quick to communicate (TV can take months to make an advert). ✓ Can get direct / quick feedback from customers (market research). ✗ There are many forms of social media – it may be expensive to target all of them (Facebook, Twitter, Snapchat, Instagram & YouTube). ✗ Message may be distorted through social media users – e.g. 're-tweeting' in a silly / negative way. ✗ May require an employee to manage / monitor the social media accounts. ✗ Not used by every market segment – the elderly?
Website	✓ Growing use of the internet = more potential customers. ✓ Can use moving images (video) as well as detailed written information. ✓ Can include detailed information (e.g. phone number, specifications). ✓ Can link the customer to purchase immediately / directly. ✓ Can update seasonal promotions quickly & cheaply (e.g. Valentine's day). ✗ Not used by all groups of people (e.g. less so by the elderly). ✗ Can be expensive to set up the website in the first place, and to manage the deliveries (delivery vans, petrol, drivers needed). ✗ Most businesses have a website these days, so hard to differentiate (make yours stand out from the crowd). ✗ Potential of cyber hacking – e.g. customer details being stolen, creating a bad brand image.

3.4 Recruitment and selection

✪ Why do businesses need to **recruit** workers?

- ■ When a business first starts up.
- ■ When a business grows / expands – e.g. opens up a new store, expands to a new country, or launches a new product.
- ■ When an existing employee leaves (retirement, maternity, dismissed, promoted, etc.).
- ■ When new skills are needed – e.g. the introduction of new technology.
- ■ To cope with temporary increases in demand e.g. retailers over the Christmas period.

✪ **Internal and external recruitment**:

Internal recruitment	External recruitment
Benefits: ✓ Lower cost to advertise the job internally (e.g. notice board) than externally (e.g. newspaper). ✓ Employee already familiar with the business, so might require less induction training (🡇costs). ✓ Business already familiar with the employee, so less of a risk employing an 'unknown' person. ✓ Can help to motivate employees as they try to impress for the next vacancy.	Benefits: ✓ Brings in fresh, new ideas. ✓ Doesn't leave a gap elsewhere in the business (i.e. when an employee is promoted internally, the business will still need to recruit someone for their old job). ✓ Good for new, or small businesses, where internal recruitment is either impossible, or not enough suitable candidates. ✓ Can avoid resentment / disagreement that might occur when one employee is promoted internally over others (favouritism?).

✪ The **eight steps of recruitment**:

Step	Name	Explanation
❶	Job Analysis	When a job vacancy arises, the first thing a business needs to do is find out what the job entails (before it can do the other 7 steps). This can be done by interviewing the current employee before they leave, or by looking at previous recruitment documents for the job.
❷	Job Description	This is a document that shows the main duties and responsibilities of the job; for example, the job title, hours, pay, location, and main duties of the job. This helps a business design a Person Specification and makes clear to potential applicants what the job entails.
❸	Person Specification	This document identifies what the ideal applicant of the job should be like. For example, it will state what qualifications, previous experience, and personal skills the successful applicant should have.
❹	Job Advert	Job adverts can be placed: ▪ Internally – e.g. noticeboard, newsletter, internal email. ▪ Externally – newspaper, website, shop window, recruitment agency. The decision where to place the job advert will be based on a variety of factors such as the cost of the advert, and the size / nature of the audience. For example, a job advert for a Dog Walker could be placed in a shop window because it is cheap and will be seen by people in the local area.
❺	Sort Applications & Shortlist	Job applications are usually received either on a standard application form (a template is produced by the business) or a CV (a document produced by the job applicants). Businesses are unlikely to invite everyone to interview because a) they might not all be suitable, and b) it takes too long. Therefore, a 'shortlist' is created – e.g. out of 50 applicants, the 6 best ones are invited to interview.
❻	Interview Applicants (& aptitude test)	A job interview usually consists of questions asked to candidates that test their enthusiasm, knowledge, and ability to do the job. Difficult questions might be asked to see how they perform under pressure, or to test their communication skills. As well as asking questions, the business may ask candidates to perform an 'aptitude test'; especially where practical skills are needed to do the job well – e.g. a secretary might have to do a typing test.
❼	Select best applicant & offer the job (check references)	Once all the previous steps have been completed, it's now time to select the best applicant – this should be based on who best meets the requirements in the Person Specification.
❽	Contract of Employment	Within 8 weeks of starting a job, employees are legally entitled to a Contract of Employment. This might include details of hours, pay, duties to be performed, holiday entitlement, and how much notice needs to be given to end the contract. A contract can protect both the employee (e.g. if they are not

		paid as agreed) and the employer (e.g. the employee refuses to do the hours / duties agreed).

✪ **Methods of selection** are and why they are needed:

Method	Explanation
CV	A CV is a document created by job applicants to show off their skills and attributes to potential employers. It would include details such as qualifications, past work experience, and personal skills. A CV shows the job applicant's ability to organise and present information.
Application form	An application form is a blank template created by a business, with sections for potential employees to fill in such as their qualifications, past work experience, and personal skills. It can be quicker & easier for a business to compare each candidate using application forms as they all have the same format. It also ensures that job applicants fail / forget to give information on a vital area.
Letter of application	Potential applicants write a letter to explain why they want the job, and why they think they are suitable. A letter shows the job applicant's ability to organise and present information, as well as their literacy skills (which might be especially important for some jobs).
Interviews	A series of questions are used to check applicants' enthusiasm and suitability for a job. A job interview is also useful to get a feeling for an applicant's personality, communication skills, and ability to cope under pressure – these things cannot be seen on the application form alone.
Tests	Tests can be used, especially in jobs where practical skills are needed; e.g. a typing test for a secretary, wiring a plug for an electrician, and driving a bus. Tests can also be used for management positions; asking them to give a presentation to test their confidence and communication skills.
Group activities	A group of job applicants can be asked to work together on a task or activity. This may be useful to see how well they work as a team, and also who emerges as a natural leader (i.e. they automatically take charge of the group).
References	A reference is a report written by a previous employer (or educational organisation). A reference can give very detailed information about a job applicant's strengths, weaknesses and suitability. However, sometimes they can be unreliable; e.g. a positive reference written by a business that wants to get rid of an employee / written by a manager who is also a personal friend.

✪ <u>Recruitment agency</u>

Is a specialist agency that carries out all tasks involved in recruitment? And selection of the workers on behalf of an organisation.

✪ <u>Employment agency</u>

Is an agency that has workers readily available for business hire, usually for a short period of time.

3.5 Motivation and retention

✪ Why is it important to **motivate** workers?

- To reduce **L**abour **T**urnover
- To improve the **Q**uantity and **Q**uality of work done.
- To have fewer **A**ccidents in the workplace
- To have less **A**bsenteeism by workers

✪ M**ethods of motivation**:

Financial methods of motivation

Method	Explanation, benefits & drawbacks
Hourly wage	Paying a worker for each hour they work; e.g. £10 an hour. ✓ Motivates workers to <u>attend</u> work so that they get paid. ✗ Does not necessarily motivate workers to work hard / fast.
Monthly salary	Paying a worker each month, based on a yearly salary; e.g. with a £24,000 annual salary, a worker would receive £2,000 per month. ✓ Used for management jobs where it's difficult to count the exact number of hours worked (e.g. work may be done at home in the evenings) & performance is likely to be measured by targets, rather than hours worked. ✗ It's not easy to measure the 'success' of every job accurately, so some workers might be receiving the same salary as others, but be less effective.
Piece rate	Paying workers based on the number of products they make (e.g. 50p for each completed pair of shoes). ✓ Unlike an hourly wage, this encourages workers to work quickly to increase output / quantity. ✗ Quality of products may suffer as workers work as fast as possible to get high wages.
Commission	Paying workers based on the number of products they sell (e.g. a 5% bonus for each car sold). ✓ This creates an incentive for workers to sell more goods / services, which increases sales revenue. ✗ Workers may become very pushy with customers, adopting aggressive sales tactics, which gives the business a bad brand image.
Profit sharing	A percentage of the company profits (e.g. 10% is shared amongst all its workers). ✓ This encourages workers to work together as a team since everyone is rewarded. ✗ By the time 10% of the profit is shared amongst all employees, each employee is likely to get only a small amount. Some likely to have worked harder than others. External factors (e.g. recession) can hinder profits even though employees have worked hard.

Non-financial methods of motivation

Method	Explanation, benefits & drawbacks
Praise	Saying ‘well done’ to workers. ✓ Praise does not cost anything to give and can be highly valued by some employees, and helps to boost their self-esteem. × Some employees would rather not be singled out, and some employees would prefer a financial benefit (e.g. bonus / pay rise), rather than just praise.
Award schemes	For example, have an ‘employee of the month’ scheme, or end of year award ceremony: ✓ This is very similar to praise; it can really boost employees if done well. × They can be expensive (↑costs ↓profits) and can lead to resentment when some employees are chosen over others.
Working environment	This includes having a safe and pleasant working space; for example, at Google HQ employees are entitled to free meals at any time, there are relaxation and ‘play’ areas, and offices are well-lit & nicely decorated. ✓ This can help to attract and retain good quality workers. ↑Employee Retention = ↓Recruitment & Training costs. × This can be very expensive to set up and run, and can be abused by some employees.

✪ Examples of **fringe benefits** that can be given to workers:

Fringe benefits are the additional bonuses and perks that are given to employees (on top of their wage / salary). For example, in the sales industry, workers might get a company car or a clothing allowance. In the retail industry, workers might be entitled to a percentage off their shopping. Fringe benefits can help to attract and retain workers, but do not necessarily boost productivity, and can be expensive to provide.

3.6 Training and development

✪ **Training & development**:

Method	Explanation & examples
Induction training	Induction training is the training that a new employee receives on the first day / week in their job. For example, they might be given a tour of the workplace, Health & Safety training, introduced to colleagues & company rules, and be shown the basics of how to do their job. A good induction programme will make employees feel welcome at the business (thus reduce labour turnover) and allow new employees to get on with their job quickly & productively.
On-the-job training	This is where an employee is trained whilst actually doing their job. For example, they might work on a till in a shop with real customers, being given guidance and tips by a colleague as they go along.
Off-the-job training	Off-the-job training is where an employee is trained away from their job or workplace. For example, they might receive some training at the back of the shop away from customers, or they might be sent off on a training course.

On-the-job training	Off-the-job training
<u>Benefits:</u> ✓ On-the-job training is typically cheaper than off-the-job, as it can be done without the employee having to have a whole day off to travel to a course (the course itself might cost £100s). ✓ On-the-job training allows the employee to be productive whilst training. ✓ Some jobs can only be learnt by 'doing' and are impossible to be taught simply by attending a course / reading a book.	<u>Benefits:</u> ✓ Allows employees to learn and make mistakes without affecting real customers. ✓ Courses might be run by industry experts who have a higher level of skill / experience than the business can provide itself. ✓ Workers may be motivated as they feel highly valued by the business (i.e. the business has invested a lot of money in their development, which might help them get a promotion in the future).

✪ Benefits and drawbacks of training to the **business**:

Benefits	Drawbacks
✓ Health & Safety training ensures the safety of employees (see further details below). ✓ Likely to increase productivity rates = lower cost per unit = can maximise profits / lower prices to attract customers; for example: • An employee is paid £10/hour and makes 1 product per hour = £10 wages per product. • After training, the same employee can make 2 products per hour = £5 wages per product. ✓ Likely to improve the quality of products / customer service = better brand image = helps to attract & retain customers.	× The cost of training (e.g. a training course) = ↑costs =↓profits (or less money available for other areas of the business e.g. advertising. × Lost productivity – whilst on a training course, an employee is not making any products (yet still being paid). × Workers that have been trained may be headhunted (stolen) by other businesses who will benefit from their improved skills without having paid the cost of training. × Workers may expect a pay rise if they have new skills that benefit the business. If a pay rise is given then costs rise / if it's not then it may cause demotivation & ↑labour turnover.

✪ Types of **staff development** is with examples:

Type	Explanation & examples
Academic qualification	Academic qualifications include GCSEs and A Levels gained whilst at school, and a degree gained by attending university. These usually include theoretical knowledge rather than practical skills.
Vocational qualification	Vocational qualifications relate to a particular job / industry, typically where practical skills are required. These might include qualifications in Hair & Beauty, Plumbing, or Accountancy.
Apprenticeship	An apprenticeship is a training programme where employees learn a combination of practical skills on-the-job, and theoretical knowledge off-the-job. For example, a car mechanic might attend the garage 3 days a week to fix cars, and then go to college the other 2 days to get a qualification.

3.7 Employment law

✪ Six main areas of **The Equality Act** (types of discrimination) and why it is important for a business not to discriminate against workers:

The six main types of discrimination that are illegal in the UK are sex, race, disability, religion, age, and sexual orientation.

It is important for businesses not to discriminate on these grounds because:

- It is illegal and the business can be fined (↑costs ↓profits).
- It is likely to give the business a bad brand image, which could:
    - Put off potential customers & drive away current customers = ↓ revenue.
    - Put off potential employees & demotivate current employees = harder to recruit & retain the best quality workers.
- The business is limiting its own potential to get the best quality applicant.

✪ **UK minimum wage** rates are (www.gov.uk):

- The UK National Minimum Wage (for those aged 25 and over) is £7.83 per hour (April 2018).
- This is set to rise to £8.21 per hour in April 2019.

✪ Potential consequences to a business of a **rise in the UK minimum wage**:
For a business that employs mainly highly skilled / qualified workers (e.g. a firm of accountants) there may be little or no effect on the business of a rise in the National Minimum Wage (NMW). However, businesses in the retail & agricultural sectors are likely to have a lot of workers working at, or close to the NMW. Therefore, a rise in the NMW can have a big effect on them. For example:

- Imagine a business that has 100 employees, currently being paid the minimum wage (7.83/hour), and each employee works 40 hours per week.
- When the NMW rises to £8.21 in April 2019:
    - That's a rise of 38p per hour.
    - 38p x 40 hours per week = £15.20 per employee
    - £15.20 x 100 employees = £1,520 per employee per week
    - £1,520 x 52 weeks per year = £79,040 in total per year!
- A rise in the cost of wages means either:
    - A fall in profit, or

- To maintain profits, prices need to be increased (which might put some customers off), or
- Costs elsewhere in the business will need to be cut (e.g. advertising).

✪ Identify some of the main features of **The Health and Safety at Work Act**:

<u>Employers must provide:</u>

- Health and safety training.
- Health and safety equipment (e.g. hard hats).
- Regular risk assessments to identify & minimise potential hazards.
- Regular maintenance / servicing of equipment & machinery to make sure it is safe.

<u>Employees must:</u>

- Attend H&S training provided.
- Wear H&S equipment provided.
- Behave in a safe and sensible manner and report any H&S issues that arise.

✪ Benefits and drawbacks to businesses of having to follow **The Health and Safety at Work Act**:

Benefits	**Drawbacks**
✓ Fewer staff injuries = fewer staff absences. ✓ Fewer staff injuries = less likely to be fined. ✓ Improved brand image = might help to attract / retain / motivate employees.	× The cost of training, equipment & maintenance = ↑costs ↓profits (or less money available for other areas of the business). × Time taken to train workers and follow H&S procedures = lower productivity rates.

✪ <u>Main features of a **contact of employment** and why it is important for both employers and employees to have one:</u>

A contract of employment is likely to include details such as the starting date of employment, hours, pay, main duties of the job, holiday entitlement, and notice required (for either the employee to leave their job, or the employer to end the contract). A contract of employment protects both parties:

- For example, if an employee refuses to work on a certain day or carry out certain tasks that are in the contract – they can be forced to do it, or be dismissed from their job.
- If the business fails to pay the employee as agreed, or asks them to carry out duties that were not agreed, the employee can legally object / ask for their wages.