

Business growth

Once a business is established and successful, most owners want it to grow. There are different approaches to growth and you need to understand the difference between them.

Internal (organic) growth

A business grows when it sells more output over a period of time. **Business growth** is often an important objective because it may:

- help to increase market share
- lead to lower costs
- result in more profit.

Internal growth occurs when a business expands by itself, by bringing out new products or by entering new markets.

Methods of internal growth

- ✓ New markets – changing the marketing mix to find new markets or expanding overseas.
- ✓ New products – innovating (developing an existing idea or improving an existing product or service) or researching and developing brand new products that are not currently available.
- ✓ New technology – large organisations can benefit from investing in the latest technology or in the ability to develop new technology themselves.

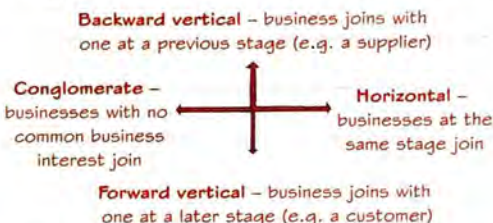
External (inorganic) growth

A faster way for a business to grow is for it to join forces with another. There are two approaches to **external growth**.

- **Merger** – where two or more businesses voluntarily agree to join up and work as one business.
- **Takeover** – where one business buys another. To take over a company it is necessary to gain control by buying enough shares.

Methods of external growth

Mergers and takeovers can take place when firms join at different stages of production.



Worked example



State **one** reason why a business might want to grow.

Higher profit

(1 mark)



Other possible answers include to get a bigger market share, or to dominate the market. Remember that you do not need to write lots when answering 'state' questions – this student achieved one mark for stating one reason.

Now try this



Which of the following is a definition of the term 'merger'?
Select **one** answer:

(1 mark)

- ☐ A Two or more businesses voluntarily join together
- ☐ B One business buys enough shares in another business to control it
- ☐ C Two businesses work together to design a new product
- ☐ D One business takes over another company

Public limited companies (PLCs)

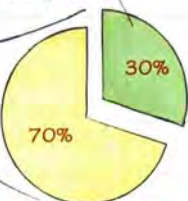
Public limited companies (PLCs) are able to raise capital through selling shares on a **stock exchange**. This form of business ownership makes it easier for businesses to raise money for growth.

Becoming a PLC

Public limited company



30% equity in the business sold to the public through a stock exchange in order to raise share capital to finance growth



A private limited company (Ltd) can change into a public limited company (PLC) through a **stock market flotation**. This is where a business issues shares for sale on the stock exchange.

The benefits and drawbacks of being a PLC

- | | |
|---|--|
| <ul style="list-style-type: none"> Ability to raise finance through share capital. Limited liability. Considered more prestigious and reliable. May be able to negotiate better prices with suppliers. Greater public awareness of business. | <ul style="list-style-type: none"> More complex accounting and reporting procedures. Risk of potential takeovers. Increased public and media attention. Less privacy around financial performance. Greater influence on decision-making by external shareholders. |
|---|--|

Becoming a PLC may enable a business to grow into a **multinational** and operate in more than one country.

Worked example



Discuss the likely benefit to a business of becoming a public limited company.

(6 marks)

A business might become a public limited company in order to finance growth. A PLC can sell shares through a stock market, which a private limited company cannot. This means that it is able to raise capital from a wider number of potential shareholders without the risk of putting the business in debt through taking out a large loan...

This is just part of a student answer.

When answering a 'discuss' question, you must show good understanding of business concepts and terminology. Look through this answer and highlight the key terms and concepts that the student has used in this part of their answer. This student should go on to explain a second reason for transforming into a PLC or to further develop their first point.

Now try this



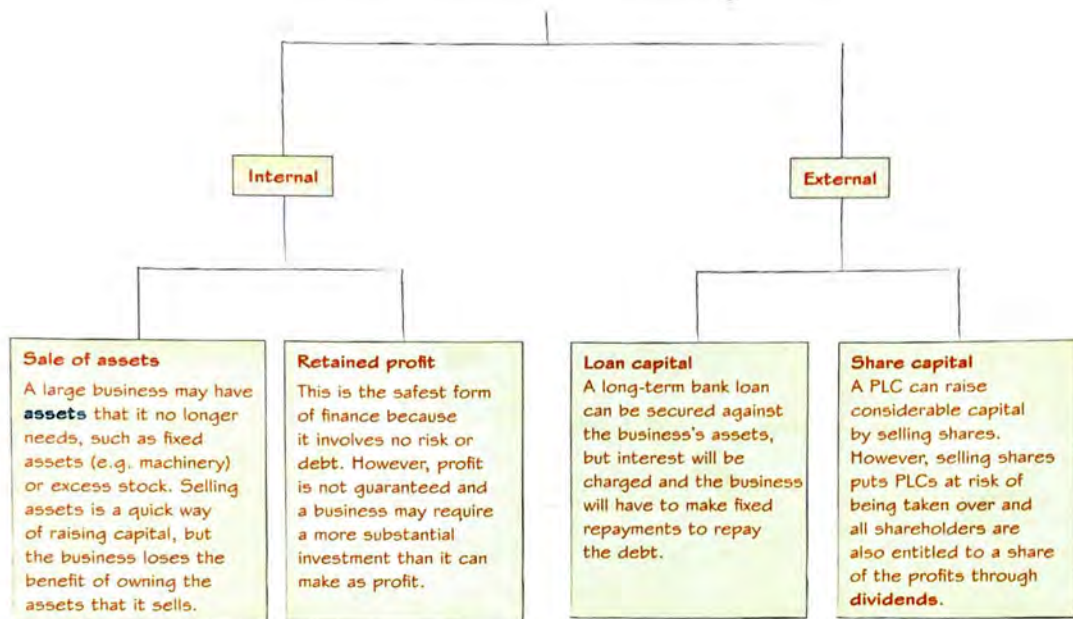
Explain **one** disadvantage of becoming a public limited company.

(3 marks)

Financing growth

To finance growth, a business can use **internal sources of finance** from within the business or **external sources of finance** from outside the business.

Sources of finance for business growth



Worked example



Explain **one** disadvantage to the business of borrowing money from a bank to finance growth. (3 marks)

If a business borrows money from a bank, it has to repay the loan on a fixed-term basis with interest. A business could then struggle to make these regular payments and this could lead to cash-flow problems.

The student has identified a drawback ('repay with interest'), then given two linked strands of explanation.

Comparing sources of finance

- ✓ **Risk** – Selling shares may mean owners lose control, or cash-flow problems may result from meeting loan-repayment terms.
- ✓ **Cost** – The cost of borrowing varies across different sources.
- ✓ **Availability** – Some sources, such as loans or share capital, might not be accessible.

Now try this

- 1 State **one** internal source of finance that a business might use to expand. (1 mark)
- 2 Explain **one** benefit to a business of using loan capital. (3 marks)

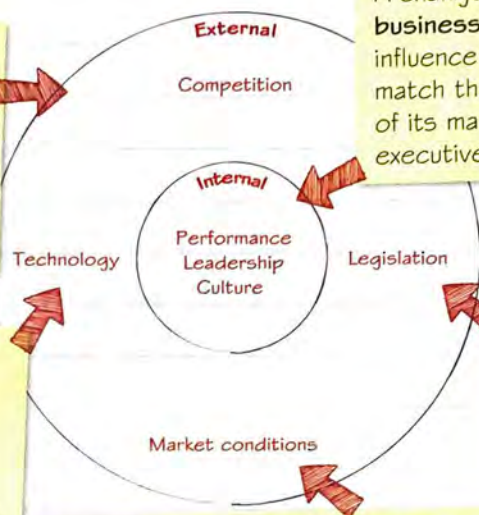
Why business objectives change

As businesses evolve and grow, their objectives change, adapting to their internal needs and the external pressures of the environment. Businesses will also find that objectives need to change as they seek to grow or survive.

Factors affecting business objectives

As new **competitors** enter the market or current competitors grow and become more competitive, a business may change its objectives to become more competitive.

Objectives may be linked to the adoption of **new technology** or the innovation and invention of new products made possible by new technology.



Annual objectives reflect the previous performance of a business. A change in **working culture** or the **business's leaders** is also likely to influence its objectives so that they match the ambitions or personality of its managing director or chief executive officer (CEO).

Legislation may force a business to change its products and services. This may restrict the business's operations or create new opportunities that may be incorporated into its objectives.

The **economic climate** may change the level of demand and spending in the market. A fall or rise in demand will influence a business's ambitions and objectives.

You can revise business objectives on pages 15 and 16.

Worked example



Explain one reason why a business might change its objectives

(3 marks)

A business might change its objectives because the market conditions have changed. This may be caused by customers having less disposable income to spend. As a result, the business might decide to lower its profit objective in order to make it realistic and achievable.

Remember to develop your reasons with causes and consequences when you are answering 'explain' questions.

Now try this



Which one of the following is an example of an internal factor that could influence the objectives of a business?

Select one answer:

(1 mark)

☐ A Market conditions

☐ B Legislation

☐ C Culture

☐ D Competition

How business objectives change

Targets for a growing business

A growing business may set targets that focus on growth, such as:

- expand the product range
- enter new markets
- increase sales
- increase profits
- gain a larger market share
- take over other businesses
- open new stores
- increase the workforce.

Targets for a struggling business

A business that is struggling to survive may set targets that focus on survival, such as:

- decrease the product range
- exit markets
- achieve enough sales to break even
- improve efficiency
- maintain market share
- reduce costs, e.g. close stores or reduce the workforce.

How business objectives react to the economic climate



Retrenchment is when a business downsizes the scale of its operations, e.g. by decreasing the range of products it sells or closing some of its stores.

Worked example



Discuss why a business might set objectives to reduce costs.

(6 marks)

A business might set an objective to lower costs if it is facing the pressure of rising inflation, because rising inflation will increase its costs and therefore lower its profit margins. If a business can improve its efficiency, then it might be able to maintain its profits if it can keep costs low. Another reason is that a business might want to lower its prices in order to be more competitive in the market. One way to do this would be to lower costs so that prices can be reduced and profits maintained. This may work if the business operates in a competitive market that contains many similar businesses.

The student has discussed two reasons why a business might want to set an objective to reduce costs. Although both points are linked to profit, they are two different points and each is well developed.

Now try this



Explain one reason why a business might set an objective to increase recruitment.

(3 marks)

Business and globalisation

Globalisation is where businesses operate internationally and gain a lot of influence or power. Globalisation changes the way businesses operate and creates considerable opportunities and threats.

The impact of globalisation

Globalisation affects businesses in three main ways.

Imports: the flow of goods and services into one country from another country.

Exports: the flow of goods and services out of one country to another country.

Globalisation

Imports

Globalisation allows businesses to import products and raw materials at lower prices than they would be able to produce them for in the UK, either for resale or to produce their own goods. However, importing increases competition from foreign businesses that are able to sell directly to UK customers.

Exports

Exporting opens up new international markets for businesses and gives them the potential to grow. However, operating in international markets can be very different to operating in the UK and businesses may face problems if they lack the necessary expertise or knowledge.

Location

Globalisation brings with it the opportunity for businesses to relocate operations to other countries. This may be to benefit from lower labour costs, to be closer to raw materials or to be closer to the markets to which they sell their products.

Multinationals

A multinational is a large company with facilities and markets around the world. They are powerful businesses that can create lots of jobs and growth when they enter a country. However, smaller local businesses can lose out, especially in **less economically developed countries (LEDCs)**.

Benefits and drawbacks of globalisation for businesses

- 👍 New market opportunities.
- 👍 Access to technology and resources.
- 👎 Threat from foreign competition.
- 👎 Challenge of adapting products and services to meet the needs of foreign consumers.

Worked example



Explain **one** benefit of international trade for a UK business. (3 marks)

International trade allows UK businesses to enter new markets abroad. This means that they have a greater number of potential customers to sell to and can therefore maximise sales.

This is a good way to answer an 'explain' question. Give one method, reason or benefit and then two linked points of development. Be careful **not** to give two separate methods, reasons or benefits if the question only asks for **one**.

Now try this



- 1 Define the term 'globalisation'.
- 2 Explain **one** drawback of globalisation for a UK company.

(1 mark)
(3 marks)

International trade

International trade is the exchange of goods and services between countries. **Free trade** is when there are no barriers to trade between countries. However, some governments take actions that restrict the flow of imports into their country. This is known as **protectionism**.



Reasons for trade barriers

- ✓ Protecting jobs in domestic industries.
- ✓ Protecting emerging (infant) industries.
- ✓ Preventing the dumping of cheap goods on the domestic market and the entry of undesirable goods.
- ✓ Raising revenue from tariffs.

Trade blocs

One barrier to international trade is a **trade bloc**. A trade bloc is created when the governments of different countries agree to act together to promote trade among themselves. These agreements give member nations of the trade bloc preferential treatment in other countries within the trade bloc, to encourage trade between the countries.



The Association of Southeast Asian Nations (ASEAN)



The North American Free Trade Association (NAFTA)

Worked example



Explain **one** trade barrier that might have an impact on a business when trading internationally. (3 marks)

One trade barrier is a quota. A business might be affected by a quota if the limit is reached in a country. This means that they cannot sell any more of their goods to that country and therefore sales revenues may fall.

The student has identified a relevant trade barrier and developed their answer to explain the impact this will have on a business trading internationally. Remember, there is no need to give definitions when you answer an 'explain' question.

Now try this

1 State **two** reasons for imposing trade restrictions. (2 marks)

2 Explain **one** drawback to a UK business of a quota placed on imports. (3 marks)

Competing internationally

To compete internationally, a UK business may have to adapt its products or services in order to meet the requirements of the country they are selling to and the needs of foreign customers.

E-commerce

E-commerce enables businesses to access international markets without the need to distribute or sell their products through foreign retailers. Furthermore, businesses can trade 24 hours a day when selling through e-commerce and can promote themselves through social media sites. However, trade barriers may still apply when selling over the internet.

Glocalisation

In order to sell to international markets, businesses often have to change their products in order to adapt to other countries' cultural differences, tastes and legal requirements. This strategy is known as **glocalisation**.



Customers in different countries have different needs. For example, in India consuming beef is illegal in many states, so a Maharaja Mac is made from chicken instead.

How businesses change their marketing mix to compete internationally

Element	Strategy
Product	<ul style="list-style-type: none"> Change technological components (e.g. sockets) Change taste to meet cultural preferences Change components to meet safety regulations
Price	<ul style="list-style-type: none"> Change price to consider tariffs Comply with different tax laws Account for currency conversions Account for incomes in foreign countries
Place	<ul style="list-style-type: none"> Change location of products in line with local preferences (e.g. which shops people visit and what time they shop)
Promotion	<ul style="list-style-type: none"> Revise advertising campaigns to take into account the fact that the meanings of colours, gestures and phrases are different in different countries

Worked example



Discuss how a business might change its products or services in order to compete in international markets. (6 marks)

A business might change its products to compete internationally by changing the features of the product so that it meets the legal requirements of other countries, e.g. adapting electrical components so that they are compatible abroad. There may also be legal requirements for health and safety that a business is required to meet, such as providing certain information on a label. Providing this information would ensure that the business was able to meet safety standards for that country. This would mean more distributors and retailers would be willing to stock their products as they would know they are safe.

This is just part of a student answer.

The student has identified a relevant method ('to meet legal requirements') and has given two good examples. Examples are a useful way of illustrating your point. This answer requires more development and analysis to explain how this will help the business compete.

Now try this



Explain one benefit to a business of changing its product in order to compete internationally.

(3 marks)

Ethics and business

Ethics are the moral principles that guide the behaviours of individuals and businesses. When making decisions, businesses must consider the impact they have on all stakeholders.

Profits or ethics?

A **trade-off** is when something is given up in order to gain or achieve something else. Businesses must balance the drive for profit with their ethical principles.

Paying higher wages and using ethical suppliers is likely to raise costs and lower profits. However, acting ethically can appeal to customers and motivate staff, leading to higher productivity and more sales.



Pressure groups

Pressure groups are organisations that try to make businesses change their behaviour or operations. Pressure groups focus on issues such as animal rights, workers' rights, the environment and world poverty. Pressure groups can cause bad publicity for businesses that act unethically, which can damage the businesses' reputations.



Examples of ethical behaviour by businesses

- ☒ Treating workers and suppliers fairly.
- ☒ Being honest with customers.
- ☒ Ethical sourcing of materials.
- ☒ Investing in the community.
- ☒ Meeting government requirements and legislation.
- ☒ Caring for the environment and operating sustainably.

Worked example





Which **two** of the following are **not** examples of ethical behaviour by a business? (2 marks)

Select **two** answers:

- ☐ A Paying employees a fair wage
- ☒ B Paying a low price to suppliers
- ☐ C Placing full details of product content on packaging
- ☐ D Carefully disposing of waste
- ☒ E Using non-renewable resources

Paying suppliers a low price is unethical if the suppliers have no choice but to accept the price. Non-renewable resources cannot be replenished so their use is not sustainable.

Now try this

-  1 Give **one** method a pressure group could use to persuade a business to act responsibly. (1 mark)
-  2 Explain **one** disadvantage to a business of being ethical. (3 marks)

Environmental issues

Most business operations will have short-term and long-term impacts on the environment. All businesses have to minimise any negative impact that they have in order to achieve long-term success.

Impact on the environment

Short-term impacts	Long-term impacts
Traffic congestion through transport and deliveries	Climate change
Air, noise and water pollution through manufacturing and industry	Depletion of land, food and natural resources

The environmental impact of a business is closely linked to its growth. As businesses expand, they will normally have a bigger impact on the environment.

Reducing the impact

Recycling is one way of reducing the environmental impact of business. Other ways include:

- ✓ using renewable energy
- ✓ replenishing and conserving natural resources
- ✓ using biodegradable packaging
- ✓ reducing food miles
- ✓ partaking in social enterprises.



Business opportunities

As consumers are becoming more environmentally aware, there is an opportunity for businesses to differentiate their products to meet customer needs and make them 'greener', e.g. the development of hybrid cars. There are also growing opportunities for businesses in 'green' industries, such as energy conservation and solar power.

Many businesses have set up recycling schemes. Waste paper is collected and recycled for other uses.

Worked example



Explain one way a business might limit its impact on the environment.

(3 marks)

One way that a business might limit its impact on the environment is by minimising the amount of waste it produces. This means that less waste is going into landfill sites, which ensures that there is less polluting of the natural environment.

The student has identified a relevant way and developed two points explaining how this approach will reduce the negative impact on the environment. The student used specific examples ('landfill sites').

Now try this



Give two impacts a business might have on the environment.

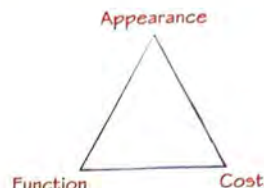
(2 marks)

Product 1

The variables that contribute to a successful design are function, cost and appearance. In order for a business to successfully achieve this **design mix**, it may carry out scientific research and development.

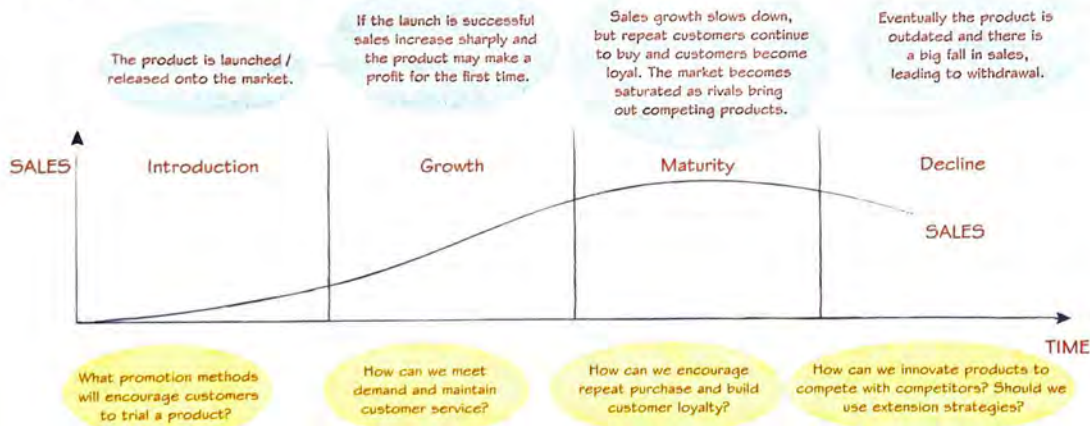
The design mix of a product can **differentiate** it from other products. For a laptop, the design mix may include the following.

- **Function** – This is about how well a product does what it is meant to. For a laptop, this would include processing speed, memory and performance of the software.
- **Cost** – The cost is closely linked to price. Businesses will try to keep costs low, but improved functionality and appearance will increase cost. The better the technology and screen size, the more expensive the laptop will cost to produce.
- **Appearance** – Style and elegance are important for many products. Modern laptops can be found in multiple colours and continue to be designed to be thinner and lighter.



Businesses must find the right design mix in order to make products that are desirable and profitable.

The product life cycle



Worked example



Define the term 'product life cycle'.

(1 mark)

The product life cycle is a business model that represents the sales of a product through different stages of its life.

A definition sentence should be short and to the point, normally giving two specific points.

Now try this



Explain one benefit to a business of balancing its product's design mix.

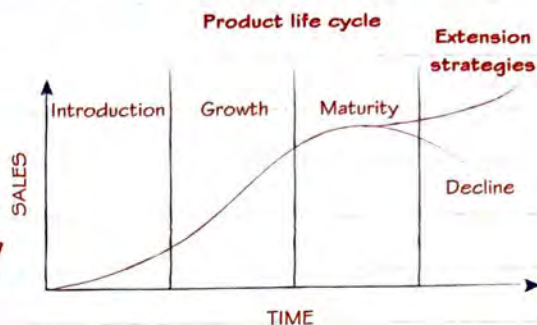
(3 marks)

Product 2

Extension strategies

Businesses can increase the life of a product using **extension strategies**. This involves slightly changing the product so that it has a fresh appeal to the target market or appeals to a new market segment.

Think about how the product life cycle links all aspects of marketing together.



Extension strategies could include a new marketing campaign, a modified product or a change of packaging – anything that will create new interest and boost sales.

Product differentiation

Product differentiation is about making a product different from other products in some way. It is important because it helps businesses:

- to position their products and target different market segments
- to gain an advantage over rivals when faced with competition.

It allows consumers to see clearly that their needs are being met more effectively by one product than by another.

Differentiating a product

- ✓ Unique and catchy product name
- ✓ Quality
- ✓ Design, formulation or function
- ✓ Packaging
- ✓ Customer service
- ✓ Differentiation across the value chain

Worked example



Discuss the benefit to a business of differentiating its products and services.

(6 marks)

If a business can differentiate its products, then it may be able to create a unique selling point (USP). If the business has a USP, it will stand out from its competitors and may be more attractive to potential customers. When products are unique, certain customers may also find them more desirable or specific to their needs. If a product meets the needs of a specific market segment, then these customers might be happy to pay a premium price for them.

A 'discuss' question can be answered by discussing one issue, with five or more strands of discussion developed from one or two points, each with some development and explanation.

Now try this



Give **two** methods that a business could use to differentiate its brand.

(2 marks)

The importance of price

Price is a key part of the marketing mix. The pricing strategy adopted by a business has a direct impact on customers' perceptions of quality and value, the business's profitability and the demand for products and services.

The importance of price in the marketing mix

- The price of a product gives customers an indication of quality.
- In competitive markets, changes in price can have a significant influence on demand.
- Branded products generally have a higher price than non-branded products because they are more expensive to produce and promote.

Different types of price



Luxury brands can charge a **premium price** for their products.



Many pricing decisions are based on comparing the average market price – what other businesses charge for their products and services. This is known as **competitor pricing**.

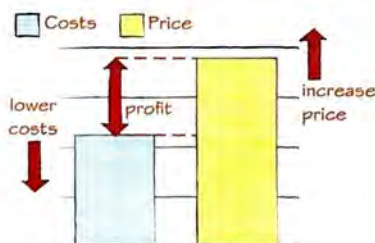


A low price might be used by **generic/non-branded products** or to encourage **product trial** when a product is first launched.

Quantitative skills

Price and profit

A business may try to improve its profits by increasing the price of its products and services. If this strategy is to succeed, customers must perceive the business's products and services to be of sufficiently high value in relation to competitors' products. If they do not, the business may find that its sales volume falls.



Worked example



Explain **one** reason why a business might lower its prices.

(3 marks)

A business might lower its prices in order to sell off unwanted stock. If its prices fall, this would mean that their products would be more desirable and customers may be willing to purchase more, leading to a higher sales volume.

The student has given a valid reason and clearly explained why this might work.

Now try this

1 Give **one** reason why price is important.

(1 mark)

2 Give **one** reason why a business might set a premium price for its products.

(1 mark)

Pricing strategies

A business may adopt a volume strategy or a margin strategy. A **margin strategy** involves setting a price that achieves a high **profit margin**. A **volume strategy** involves setting a price with a low profit margin, which requires high sales volumes in order to be profitable.

Volume and margin strategies

The choice of pricing strategy will often depend on the nature of the product and the quantity of the product that a business intends to sell.

A business with a high volume low margin strategy must be able to keep costs low and have the facilities to produce and distribute large quantities.

A business can adopt a pricing strategy anywhere between these two extremes.



A low volume high margin strategy might be determined by the quality of the product and its brand image. Businesses using this strategy will target the premium end of the market.

Technology – new technology can lower the costs of production and allow a business to set a more competitive price

Competition – a business has to consider its competitors and the position of its brand in the market

Market segment – different prices may be applied to customers with different characteristics

Branding – products with a strong brand can demand a higher price due to the perceived value and desirability

Influences on pricing strategy

Costs – a business may set itself a profit margin target (e.g. 150%) that it adds to the cost of the product or service in order to set its price

Product life cycle – the product's stage in the product life cycle will influence pricing decisions

Worked example



Explain **one** method a business might use to increase its profits. (3 marks)

A business could increase its advertising. This could lead to greater awareness and interest in its products and therefore more revenue through sales.

This is a good answer. Another way to approach this question would be to explain how changing the pricing strategy could lead to increased sales revenue. The student could have referred to a volume or a margin strategy.

Now try this



Discuss why a business might only need to sell low volumes of its products in order to be profitable. (6 marks)

Promotion

Businesses use **promotion** techniques to create customer awareness of, interest in and desire for their products. Effective promotion will also allow a business to build a strong brand image and help boost sales at various times.

Features of promotion methods

Method	Examples	Benefits	Drawbacks
Advertising	TV, radio, magazines, posters, websites, point-of-sales displays, leaflets and brochures	👍 Can have a big impact and grab customers' attention if the advert is in the right place and uses the right medium	👎 Can be expensive and it can also be difficult to work out the impact of advertising on sales
Sponsorship	Sponsoring sporting events, music festivals and good causes such as educational or environmental causes	👍 Can provide a business with a lot of exposure and associate it with a good cause	👎 Communicates very little information about the features and benefits of products and services
Product trials	Free miniatures, product testing and samples given away with other products	👍 Can encourage customers to use a new product or service that they might not try otherwise	👎 Can be expensive to give away free products
Special offers	Buy one get one free (BOGOF), free prize draws and discount sales	👍 Can boost short-term sales and clear stock levels	👎 Not sustainable in the long term as selling at a discount will reduce profits
Public relations <small>You can revise branding in more detail on page 64.</small>	Using a recognisable logo on all promotional materials so that customers remember it and associate it with the product/business	👍 Can encourage customers to connect with the brand, trust it and become loyal to it	👎 Takes a long time to develop a strong brand and brand image can be damaged quickly by bad publicity

The choice of promotion technique or medium will depend on the characteristics of the market segment being targeted (the target market).

Worked example

Discuss the likely benefit to a business of carrying out extensive promotion. **(6 marks)**

Carrying out extensive promotion will benefit a business because people will become far more aware of it and its products. This awareness could lead to customers choosing the business over other competitors. Consumers are more likely to purchase and trust a brand that they have heard of over a brand that they have not heard of before...

This is just part of a student answer.

The student has started their answer by identifying a relevant benefit. They have then gone on to link their answer to how promotion can lead to a strong brand image and the benefits that this might have. Next, the student could go on to explain the link between promotion and increased sales revenue.

Now try this

Explain one benefit to a business of using product trials to promote new products.

(3 marks)

Promotion, branding and technology

Branding

A **brand** is more than a logo or a slogan. Although customers will remember a business's logo and slogan, a brand also represents the characteristics and personality of a business. For example, customers may associate a brand with characteristics such as 'sophistication', 'fun', 'value for money' or 'premium quality'. A strong brand can be created by investing in successful promotion.



The value of a strong brand

A business may benefit from a strong brand in many ways:

- customers may instantly recognise the brand and what it represents
- customers may associate positive characteristics with the brand
- a well-known brand may become a first choice for customers, increasing **brand loyalty**
- customers may trust a strong brand
- a strong brand may allow a business to charge a premium for their products and services.

Social media – a cheap form of communication that provides opportunities for viral advertising

Email – communications such as e-newsletters that can be tailored to the needs and interests of customers

Technology in promotion

Apps – businesses' apps for consumers and the opportunity to advertise through third-party apps

Targeted advertising – website adverts that use cookies and are targeted at particular consumers or market segments

Through technology, businesses are able to reach a wider variety of customers at a lower cost than most traditional forms of promotion. Some forms of technology also allow businesses to deliver a personal message specific to individual customers.

Worked example



Explain **one** reason why a business may want to develop a strong brand.

(3 marks)

A business may want a strong brand because customers trust brands that they recognise and are familiar with. This means that customers may be willing to buy from the brand without needing additional reassurance about a product's quality and features. As a result, a business with a strong brand can expect to achieve more sales.

Make sure you know what a brand is and the benefits of a strong brand. A strong brand is one that many consumers recognise and have positive associations with – i.e. they trust it.

Now try this



1 Define the term 'viral advertising'.

(1 mark)



2 Explain **one** reason why a business may choose to launch its own smartphone app.

(3 marks)

Place

Place is about making products and services available to customers when and where those customers want them. There are a number of channels that a business can use to make it easy for customers to access their products and services.

Channels of distribution

1 Retailing:



2 Retailing:



3 E-tailing:



4 E-tailing:



Benefits of retailing

- Customers have the opportunity to browse and try products.
- Retailing offers point-of-sale promotion (e.g. displays).
- Retailers can provide customers with help and advice.
- Many customers enjoy the experience of shopping in a retail store.

Benefits of e-tailing

- Businesses do not have to rent or own expensive retail space.
- Customers can buy at any time of any day.
- Businesses can access customers around the world.
- Small businesses are able to compete with larger businesses without needing retail space.

Location

When choosing a site at which to locate a retail store, a business must consider:

- cost
- proximity to competitors
- proximity to the labour market
- proximity to resources and transport links.

The importance of each factor will vary for different businesses.

Worked example



Explain **one** reason why place is an important aspect of the marketing mix.

(3 marks)

If a business gets 'place' right they will make their products more accessible to customers. As a result it is likely that there will be greater customer awareness, which could lead to increased sales over time.



When answering this question, the student could have made reference to either **retailing** or **e-tailing**.

Now try this



Which **one** of the following elements of the marketing mix does 'online' represent?

Select **one** answer:

- ☐ A Price
☐ B Product

- ☐ C Promotion
☐ D Place

(1 mark)

Integrated marketing mix

The marketing mix consists of four different elements, but these elements should combine to form one joined-up or **integrated** marketing strategy that the business uses to meet the needs its customers' needs.

Linking the 4 Ps

If one aspect of the marketing mix does not link up with the others, it is highly likely that the business's marketing strategy will fail.

Increasing the features and function of a product will have a direct impact on the business's pricing strategy.

A product targeted at a premium market must be **promoted** using appropriate channels (e.g. magazines or online) to ensure that the message reaches its target audience



Different products can be sold in different places, as some are more suited to e-tailing while others require the experience and customer service provided by retailers.

If a business uses a high volume low margin pricing strategy, it is likely that there will be very little budget available for promotion.

The marketing mix and competitive advantage

An effective marketing mix can help a business build a **competitive advantage** over its rivals.

- **Product** – a product with unique features and a strong brand can be highly desirable.
- **Price** – a business that finds a way to set its prices lower than its competitors' will be more competitive.
- **Promotion** – a successful advertising campaign can attract consumers' attention and build a unique brand.
- **Place** – a highly visible and convenient business location can help a business attract customers that other competitors cannot attract.

A competitive advantage is an advantage that one business has over a competitor. The advantage is unique and difficult to copy.

When reading a business case study, always consider which 'P' might be the most important for the success of the business in question. For example, in a highly competitive market where products are very similar, price may be the most important element of the marketing mix.

Worked example



Explain **one** way that price is connected to place as part of an integrated marketing mix. (3 marks)

Price is connected to place because some products are suitable to sell online as they are easy to package and post. As a result, they do not need to be sold in retail stores and can be shipped directly to customers. This means that costs can be kept down and the price can be lowered.

The student makes the connection between place and price in their last sentence. This answer shows an understanding of how e-tailing can help a business lower costs.

Now try this



Discuss how the marketing mix can help a business gain a competitive advantage.

(6 marks)

Business operations and production

Operations is the business function that organises, produces and delivers the goods and services produced or provided by a business. It is the key function that transforms resources into finished goods (a physical product) and services (a solution or utility).




The production process

The production process involves a business using its resources (e.g. raw materials, finance and the skills and knowledge of its workforce) to produce goods and provide services that customers can buy.

Production methods

A business may use one of three different production methods. The choice of method will depend on the nature of the product and the level of production.



Job production	Batch production	Flow production
 <p>E.g. a house extension</p> <ul style="list-style-type: none"> One-off or bespoke products Focus on customer needs and individual service Specialist skilled workforce increases costs High profit margins Longer production process 	 <p>E.g. a batch of cupcakes</p> <ul style="list-style-type: none"> Larger volume of products than job production Some flexibility (e.g. different flavours) Semi-skilled workforce Some levels of automation Productivity reduced when switching between batches 	 <p>E.g. a mass-produced laptop</p> <ul style="list-style-type: none"> High volumes and low margins (with high productivity) Standardised production Low skilled workforce Highly automated process Setting up expensive machinery increases costs

Production and competitive advantage

Operations is linked to productivity, flexibility, cost and quality. For example, if a business can provide custom products and services, this will make their products more desirable to customers. Similarly, controlling production costs can allow a business to lower prices or increase profit margins. You can revise the definition of productivity on page 68.

Worked example



Explain **one** benefit to a business of improving its productivity. (3 marks)

If a business improves its productivity, it will have more products to sell that are produced at a lower cost. This means the business can improve its profit margins and will have more products to sell to its customers.

The student has made the connection between productivity, costs and profit.

Now try this



Define the term 'job production'.

(1 mark)

Business operations and technology

Technology used in business operations

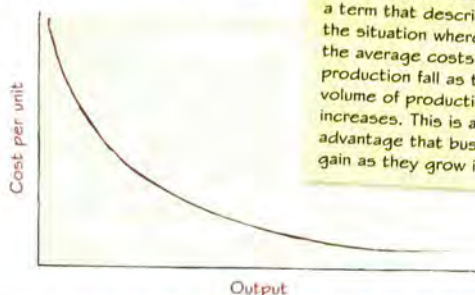
Examples of technology used in businesses' production processes include:

- ✓ computer-aided design (CAD)
- ✓ supply chain management (SCM)
- ✓ geographical positioning systems (GPS)
- ✓ electronic point of sale (EPoS)
- ✓ 3D printing
- ✓ e-commerce.

The impact of technology on operations

- 👉 Speeds up the production process.
- 👉 Keeps businesses in touch with their customers.
- 👉 Lowers production costs.
- 👉 Ensures fewer mistakes and defects.
- 👉 Can involve a costly initial investment.
- 👉 Can quickly become obsolete.
- 👉 Requires employees to be trained to use new technology.

Economies of scale



Economies of scale is a term that describes the situation where the average costs of production fall as the volume of production increases. This is an advantage that businesses gain as they grow in size.

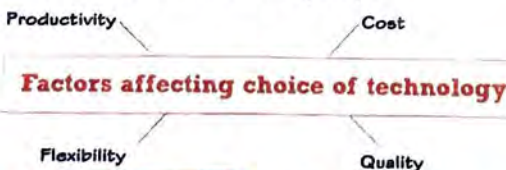
Productivity

Productivity is output per worker. It measures how much each worker produces over a period of time.

Increasing productivity leads to greater competitiveness in a market. Productivity can be improved by increasing output or by lowering the costs of production (inputs) while maintaining output.

Factors influencing the use of technology

There are several factors that need to be considered when a business adopts the use of technology in its operations. Technology can have an impact on each of these factors and they all need to be balanced. For example, a technology that improves productivity may have a negative impact on quality.



Worked example



Discuss how investment in technology can help improve the productivity of a business. (6 marks)

One way that technology can help improve productivity is by speeding up the production process. Many businesses use robotics and computer-aided manufacturing to make their products. Although this can be more expensive, a computer-operated machine can produce more products than a human can and with fewer errors...

The student has used a good example to illustrate their point. How would you finish this answer?

This is just part of a student answer.

Now try this



Give two methods a business could use to reduce costs in the production process.

(2 marks)

Had a look ☐

Nearly there ☐

Nailed it! ☐

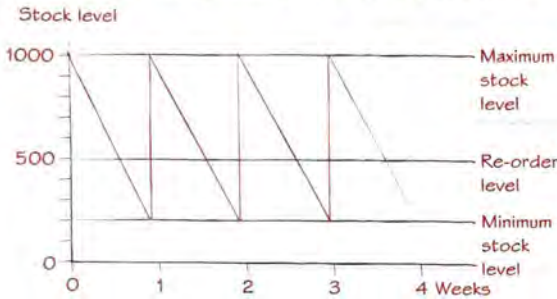
Building a business

Making operational decisions

Managing stock

Managing stock is about managing the materials that a business holds in the most efficient and effective way. Stock can include materials waiting to be used in the production process, work in progress, and some can be finished stock waiting to be delivered to customers.

Interpreting bar gate stock graphs



- The maximum stock level is the most stock that a business can hold.
- The re-order level is the level of stock at which new stock will be ordered by the business. The difference between this level and the point at which stock increases is the time it takes for the stock to arrive.
- Also known as **buffer stock**, the minimum stock level is the lowest amount of stock the business will hold. It is a safety net in case there is a surge in demand.

Just in time stock control

Just in time (JIT) stock control is a stock management system where stock is delivered only when it is needed by the production system, and so no stock is kept by a business. For JIT to work, a business must have good relationships with suppliers, a well-organised production system, and regular demand for their products.

Holding stock

Benefits of holding stock:

- ✓ Any unpredicted surges in demand can be met.
- ✓ Damaged goods can be replaced.
- ✓ Businesses can receive discounts for bulk buying.
- ✓ Limited risk of problems supplying customer demand.



Benefits of holding little or no stock:

- ✓ Cost saving in not having to store stock.
- ✓ Less chance of damaged or stolen stock.
- ✓ Employees can focus on tasks other than managing stock.
- ✓ Can reduce costs of production, which makes product pricing more competitive.



Worked example

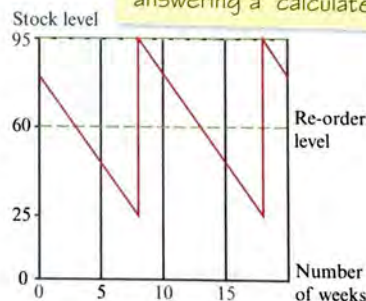


The diagram illustrates the bar gate stock for Movin' Mice at the Chipping Toy Box.

Using the diagram, calculate how many weeks it will take for stock of Movin' Mice to arrive at the Chipping Toy Box after re-ordering. You are advised to show your workings. (2 marks)

Stock is ordered in week 3 and arrives in week 8. Therefore $8 - 3 = 5$ weeks.

Always show workings when answering a 'calculate' question.



Now try this



Using the diagram in the worked example, identify the number of Movin' Mice the Chipping Toy Box holds as a buffer stock. (1 mark)

Suppliers and procurement

Choosing the right supplier to work with is an important decision for a business. Suppliers can have a significant impact on a business's costs, flexibility, reliability and customer relations.

Working with suppliers

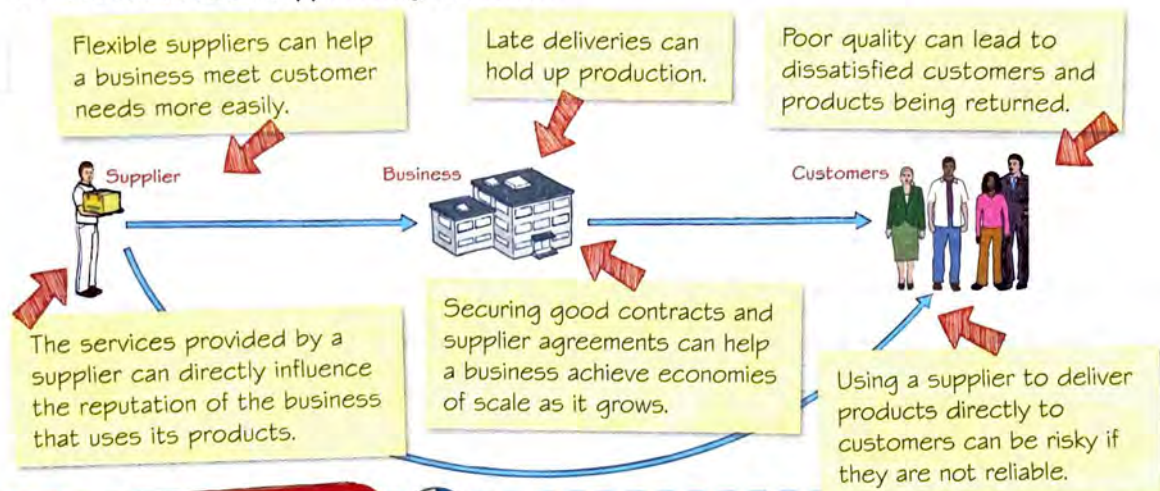
A business may use one supplier or many suppliers. Suppliers are a key part of a business's operation and finding the right supplier could be crucial to a business's competitiveness and success. Businesses may consider several different factors when choosing a supplier. One factor may be more important than others due to the nature of the products and the business.

What makes a good supplier?

- ✓ A good price (value for money) on products and delivery
- ✓ Flexible deliveries
- ✓ Reliable deliveries
- ✓ Discounts for large orders
- ✓ High-quality supplies
- ✓ Availability of products (short lead times)

The impact of logistics and suppliers

Suppliers and **logistics** can have a significant impact on the operations of a business. A business needs a supplier they can trust.



Worked example



Explain **one** reason why a good supplier relationship is important for a business.

(3 marks)

A good supplier relationship could ensure that the supplier is willing to be flexible. This might mean that the business is able to change orders at short notice and get raw materials and products delivered quickly. As a result, the business will be better equipped to meet its customers' needs.

The student has made a connection between a good supplier relationship and the impact this could have on the ability of the business to satisfy its customers.

Now try this

1 Define the term 'stock'.

(1 mark)

2 Explain **one** factor that a business may consider when choosing a supplier.

(3 marks)

Managing quality

There are two ways of achieving good quality in business: **quality control** and **quality assurance**.

- **Quality control** is seen as one part of the chain of production. A quality controller will examine and/or test for quality once a product has been made or a service has been delivered.
- **Quality assurance** involves focusing on quality at every stage of the production process. Everyone is involved and is responsible for contributing to the achievement of a quality standard. As a result, there should be zero defects.

The benefits of good quality

- ✓ Good quality allows for a premium price to be charged.
- ✓ Good quality builds a strong brand image.
- ✓ Good quality is closely linked to meeting customer needs and can help provide a competitive advantage.
- ✓ Quality is a way of differentiating a product.

Quality also ensures that there is less waste because there are fewer faulty products, which helps businesses to control their costs.



Quality assurance checklist

A quality assurance system requires a business to:

- ✓ have quality as the focus of every process
- ✓ involve customers and suppliers at the design stage
- ✓ aim for zero defects
- ✓ have quality as the responsibility of every employee
- ✓ have managers who ensure there are systems in place to assure quality
- ✓ meet a **quality standard**, such as **ISO 9000**
- ✓ make good quality part of the business's culture, so it is something everyone aims for and is involved in.

Worked example



Discuss the reasons why a business may choose to adopt quality assurance in the production process. (6 marks)

A business might choose to use quality assurance because it ensures that every employee takes responsibility for the quality of the products and services they produce, instead of a small number of quality control officers. Consequently, there will be a lower proportion of faulty products and customers who are dissatisfied with the service they receive. This will help a business build a solid reputation for quality and avoid the costs associated with repairing or replacing faulty goods...

This is just part of a student's answer.

The student has identified a reason for using quality assurance. They have then gone on to develop their answer with multiple strands of reasoning to explain the benefits the business might receive. The student could now go on to explain a second point, with several more linked strands of development.

Now try this



Explain one benefit to a business of producing high-quality products.

(3 marks)

Customer service and the sales process

Many customers place the greatest value on the customer service they receive from a business, even more than the price they pay or the quality of the product. Customer service is one way that a business can add value to its products and services.

The importance of customer service

Good customer service leads to:

- 👍 satisfied and loyal customers
- 👍 positive brand image and reputation
- 👍 differentiated products with a competitive advantage
- 👍 increased sales and repeat purchasing.

Poor customer service leads to:

- 👎 poor customer satisfaction and low customer loyalty
- 👎 poor brand image
- 👎 inability to differentiate products and to charge premium prices
- 👎 falling sales and repeat purchases.

The sales process

The sales process identifies the key stages of buying a product or service that contribute to customer satisfaction. This means that it is an important part of providing excellent customer service.



Factors affecting the sales process

Some products have a short sales process (e.g. a bar of chocolate), while others may involve an extended sales process over a number of months (e.g. a house purchase). A business needs to manage each stage of the process effectively to ensure the sale is complete and customers are totally satisfied.

Depending on the product or service being sold, the business may need to consider:

- the product knowledge of its sales staff
- the speed and efficiency of its service
- customer engagement with its products
- its responses to customer feedback
- the post-sales service that it provides.

Now try this



Give **two** drawbacks to a business of poor customer service.

(2 marks)

Considering the sales process

Businesses may consider these questions about the five stages of the sales process.

- 1** How can we grab the attention and interest of potential customers? (e.g. using emotive language in advertising)
- 2** How can we ensure that we respond to customers' needs promptly? (e.g. ensuring all customers receive a call back within 1 hour)
- 3** How can we build relationships with customers and meet their needs? (e.g. having regular communication with customers and inviting them to special events)
- 4** How can we ensure that customers remain happy after buying our products? (e.g. using follow-up surveys to measure satisfaction levels)
- 5** How can we encourage customers to continue to buy and engage with our brand? (e.g. making customers aware of new product launches)

Had a look ☐

Nearly there ☐

Nailed it! ☐

Building a business

Making financial decisions

Gross and net profit

When managing the finances of a business, it is useful to distinguish between two specific measures of profit – **gross profit** and **net profit**. You may want to revisit profit on page 18 before you revise gross profit and net profit on this page.

Calculating gross profit and net profit

Income Statement: Year 1

Sales (Revenue)

Celebration cakes	8979.00
Cakes stocked in store	2742.00
Cafe cakes	6379.00
Total sales	18 100.00

Cost of sales:

Materials and ingredients	3218.00
Gross profit	14 882.00

Expenses (Costs)

Interest on bank loan	240.00
Rent, business rates etc.	1620.00
Salaries	7400.00
Equipment & repairs	3317.00
Electricity, water etc.	743.00

Total expenses 13320.00

Net income (profit/loss) (1562.00)

A profit and loss account for ABC Trading Ltd



Quantitative skills

Gross profit is the profit that a business makes on its trading activity before any indirect costs have been deducted.

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Gross profit = Sales revenue – Cost of sales (or turnover) (the cost of buying, producing and distributing products and services)



Quantitative skills

Net profit (also known as the bottom line) is the profit that a business is able to return to shareholders (owners) or reinvest back into the business.

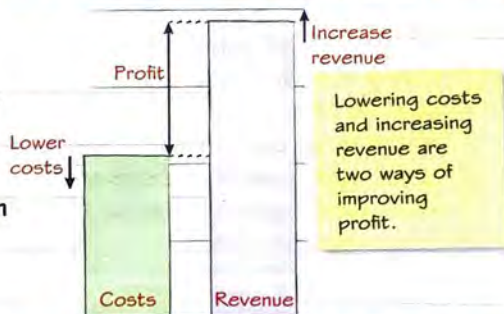
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Net profit = Gross profit – Other operating expenses and interest

Improving profit

A business can **improve profit** by lowering costs or increasing revenue. However, this can cause problems.

- The problem with increasing revenue is that the methods used can also increase costs.
- The problem with lowering costs is that doing so can detract from the value of the product or service, reducing the business's ability to make revenue.



Worked example



Using the profit and loss account for ABC Trading Ltd above, calculate gross profit.

(2 marks)

Total sales	–	Cost of sales (direct costs)	=	Gross profit
£18 100	–	£3218	=	£14 882

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Quantitative skills

The student has clearly shown the steps they have taken to calculate the gross profit, starting with the formula. The direct costs in this example are the materials and ingredients of the cakes.

Now try this



Explain **one** reason a business might calculate its gross profit.

(3 marks)

Profit margins and ARR

A **profit margin** is the ratio of profit compared to sales revenue. Businesses will calculate the **gross profit margin (GPM)** and the **net profit margin (NPM)** of their products and services. Profit margins give an indication of a product's profitability.

Income Statement: Year 1

Sales (Revenue)

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Total sales	18 100.00

Cost of sales:

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Equipment & repairs	3317.00
Electricity, water etc.	743.00

Total expenses	13320.00
-----------------------	-----------------

Net income (profit/loss)	(1562.00)
---------------------------------	------------------



Quantitative skills

The GPM indicates the proportion of sales revenue turned into gross profit. For example, a 40% GPM indicates that 40p in every £1 of sales becomes gross profit.

$$\text{Gross profit margin (\%)} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

LEARN IT!



Quantitative skills

The NPM indicates the proportion of sales revenue turned into net profit. For example, an 8% NPM indicates that 8p in every £1 of sales becomes net profit.

$$\text{Net profit margin (\%)} = \frac{\text{Net profit}}{\text{Sales revenue}} \times 100$$

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Quantitative skills

Average rate of return (ARR)

LEARN IT!

$$\text{Average rate of return (\%)} = \frac{\text{Average annual profit (Total profit / No. of years)}}{\text{Cost of investment}} \times 100$$

A business will calculate the average return that it receives on an investment over the investment's life span as a percentage of the initial cost of the investment. The calculation is used to compare different investment opportunities to identify which is the most profitable.

Year	Net cash flow (£)	
	Option A: New machinery	Option B: Extend factory
0	(£600 000)	(£1 000 000)
1	£200 000	£300 000
2	£300 000	£300 000
3	£200 000	£300 000
4	£100 000	£300 000

Table 1: Investment opportunities for ABC Trading Ltd

Worked example



A number shown in brackets is negative, or a cash outflow.

Using the information in Table 1, calculate the average rate of return for Option A.

(2 marks)

$$\text{Average annual profit} = \frac{(200\,000 + 300\,000 + 200\,000 + 100\,000)}{4} = £200\,000$$

$$\text{Average rate of return} = \frac{\text{Average annual profit (Total profit / No. of years)}}{\text{Cost of investment}} \times 100$$

$$\text{Average rate of return} = \frac{200\,000}{600\,000} \times 100$$

$$\text{Average rate of return} = 0.3333 \times 100 = 33.3\%$$



Quantitative skills

An ARR of 33.3% suggests that, on average, this project gains a return of 33.3% each year based on the initial investment of £600 000.

Now try this



Define the term 'average rate of return'.

(1 mark)

Interpreting quantitative business data

Businesses use **quantitative data** from a wide variety of sources to make informed business decisions. The accuracy and reliability of this data is extremely important in order to help businesses make the right decisions. You can revise the use of data in market research on page 10.

Uses of data

A business will use quantitative data to:

- monitor the performance of the business
- compare its performance with that of its competitors
- anticipate the needs of customers or identify trends in the market
- make business decisions, e.g. production volume and sales targets
- set business aims and objectives.

Graphs and charts

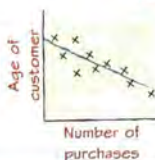
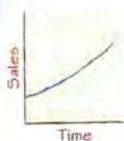
Graphs and charts can be created using quantitative data to:

- demonstrate the relationships or **correlation** between two sets of data
- represent proportions (percentages)
- show trends over time and make forecasts
- measure the performance of a business
- identify unusual factors or events, and their impact on the business.



Interpreting graphs and charts

Make sure you understand what the axes represent. Consider whether the graph or chart shows any of the factors listed above.



A graph is a visual representation of business data. A **chart** is a very easy-to-interpret visual representation (e.g. a pie chart) that shows differences in information.

Worked example



Be prepared to read financial data from tables and charts in your exam.

The chart shows the sales volumes for a business during its first three months of trading. The selling price of its product is £250.

Calculate the business's revenue for the first three months of trading. (2 marks)

Revenue = Price × Quantity

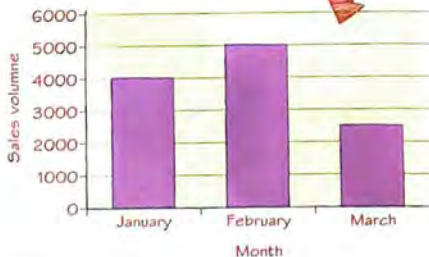
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Jan revenue = $4000 \times 250 = 1\,000\,000$

Feb revenue = $5000 \times 250 = 1\,250\,000$

Mar revenue = $2500 \times 250 = 625\,000$

Total revenue for first three months = £2 875 000



Now try this

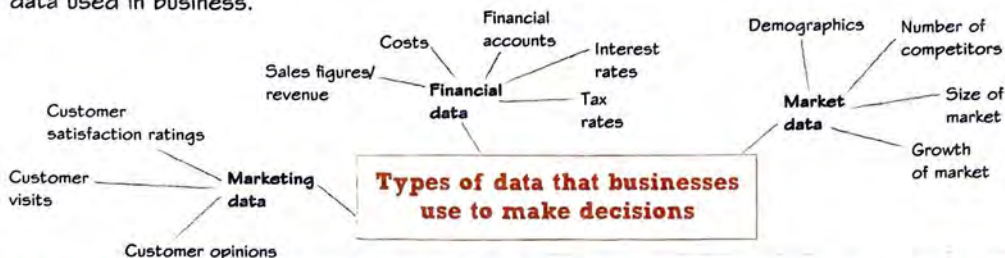


Explain **one** way that a business might use its historical sales revenue figures.

(3 marks)

Limitations of quantitative data

Quantitative data is information that can be expressed in numbers, such as percentages, ratios, profits and indices. Financial data is a particularly important type of quantitative data used in business.



The limitations of financial data

There are several limitations of financial data that businesses need to consider when making decisions that are based on financial information.

- It is **historical** – when using financial data, businesses will make decisions about the future based on past performance.
- The **reasons** behind the numbers – the fact that sales revenue has fallen might not be as important as understanding the market factors that led to the fall in revenue.
- Statistics can be **manipulated** – facts can be expressed in different ways to give them a different emphasis.
- Business performance is **not solely judged** on financial performance – there are many other **qualitative** factors that need to be considered, e.g. business reputation and employee motivation.

Worked example



The diagrams show data on smoothie consumption.

- (a) Using the information in the diagrams, identify the most popular time to buy a smoothie.

(1 mark)

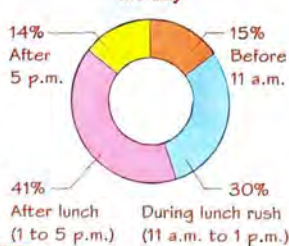
- (b) Using the information in the graphs, identify how the majority of people prefer to consume a smoothie.

(1 mark)

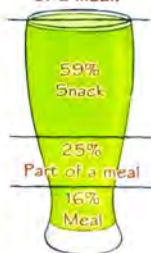
(a) After lunch (1 to 5 p.m.)

(b) As a snack (59%)

Smoothie sales throughout the day



Smoothies: a snack or a meal?



Quantitative skills

'Identify' questions require you to interpret information from a graph, chart or diagram. Make sure you practise reading these.

Now try this



Discuss the reasons why a business should be cautious when using financial data to make business decisions.

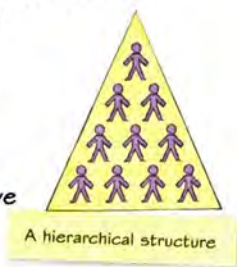
(6 marks)

Organisational structures

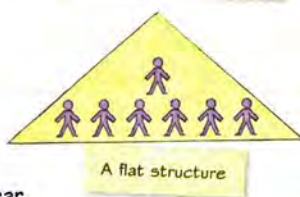
Organisational structure is the way in which a business is structured to achieve its objectives. This is normally through a **hierarchy**. A hierarchy is a structure of different levels of authority in a business organisation, one on top of the other.

Hierarchical and flat structures

A business with a **hierarchical structure** has a long chain of command. This makes the business easier to control and provides opportunities for promotion, but it can be costly and slows down effective communication.

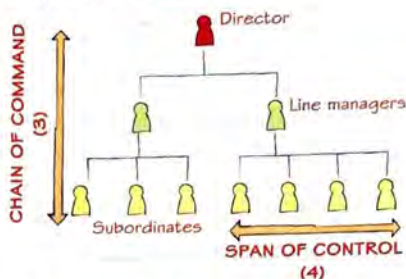


A business with a **flat structure** has few levels of management but a wide **span of control**. This improves the business's flexibility but lines of authority are not always clear.



Organisation charts

A business's organisational structure can be shown using an organisation chart.



Line managers can pass on authority to their **subordinates** through **delegation**.

Centralised or decentralised?

- Centralised decisions are made by senior managers (normally at head office).
- Decentralised decisions are delegated to regional employees at local stores and branches.

Centralised	Decentralised
Increased control and standardisation	Decisions devolved to branches or divisions that may know their local customers better
Decisions can be slow	Loss of control

Size

As businesses expand they will naturally employ more people, increasing the **chain of command** and **span of control**. The size and structure of an organisation can have an impact on communication, control and flexibility of a business.

A business can **downsize** (reduce size) or **delay** (reduce the number of layers in the hierarchy) to:

- reduce costs
- improve efficiency
- improve communication.

Worked example



Explain one reason why a business might choose to reduce the number of layers in its organisational structure. (3 marks)

Making an organisation's structure flatter can reduce costs and unnecessary employees. As a result, the organisation could operate more efficiently and this could lead to increased profitability.

You need to give a clear benefit of reducing the number of layers and then develop two arguments about the knock-on effect of this (such as operating more efficiently and increasing profitability).

Now try this

- Define the term 'span of control'. (1 mark)
- Explain one drawback to a business of having a long chain of command. (3 marks)

The importance of effective communication

Good communication is extremely important in business. Effective communication ensures that the business's vision, mission and objectives are clear, that customers are able to understand its products and services, and that employees feel motivated because they understand their role within the business.

The communication process

For communication to be effective:

- the **sender** has to choose an appropriate **medium** to reach the **receiver**
- **feedback** should also be available to ensure the communication has been successful.

Impact of poor communication

Insufficient or excessive communication can have an impact on:

- ✓ employee motivation
- ✓ customer service
- ✓ the number of mistakes made
- ✓ the understanding of employees
- ✓ the efficient implementation of decisions
- ✓ the image/brand of the business (through advertising).

Types of communication



Formal communication is approved by the organisation. It follows set rules of communication used within a business.



Informal communication (e.g. gossip) is also used in business. It can get in the way of effective communication.

Barriers to effective communication

- Using inappropriate mediums or email system failure.
- Being angry or tired.
- Cultural differences.
- Use of jargon. This depends on the skill or knowledge of the sender or receiver.
- Too much or too little information.

Information overload

When workers are faced with too much information (e.g. receiving more than 100 emails a day or complicated instructions), their motivation and efficiency will fall. Managers must ensure communication is controlled and organised effectively to ensure that this does not happen.

Worked example



Explain one barrier to effective business communication.

(3 marks)

One barrier to effective communication is cultural differences. When a business is working with a foreign company, employees in the two businesses may not understand cultural references or meaning. This can lead to mistakes being made, such as the wrong product being shipped, which could lead to customers receiving the wrong products.

Now try this



Discuss the likely benefit to a business of good communication.

(6 marks)

The student has developed their explanation with two points of development and given a relevant example.

The importance of effective communication

Good communication is extremely important in business. Effective communication ensures that the business's vision, mission and objectives are clear, that customers are able to understand its products and services, and that employees feel motivated because they understand their role within the business.

The communication process

For communication to be effective:

- the **sender** has to choose an appropriate **medium** to reach the **receiver**
- **feedback** should also be available to ensure the communication has been successful.

Impact of poor communication

Insufficient or excessive communication can have an impact on:

- ✓ employee motivation
- ✓ customer service
- ✓ the number of mistakes made
- ✓ the understanding of employees
- ✓ the efficient implementation of decisions
- ✓ the image/brand of the business (through advertising).

Types of communication



Formal communication is approved by the organisation. It follows set rules of communication used within a business.



Informal communication (e.g. gossip) is also used in business. It can get in the way of effective communication.

Barriers to effective communication

- Using inappropriate mediums or email system failure.
- Being angry or tired.
- Cultural differences.
- Use of jargon. This depends on the skill or knowledge of the sender or receiver.
- Too much or too little information.

Information overload

When workers are faced with too much information (e.g. receiving more than 100 emails a day or complicated instructions), their motivation and efficiency will fall. Managers must ensure communication is controlled and organised effectively to ensure that this does not happen.

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Discuss the likely benefit to a business of good communication.

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Different ways of working

People do not have to work for just one business operating from a particular location. The growth of technology and flexible working arrangements mean that employees can work from home or on the road, and businesses can employ workers when the need arises.



Flexible working

If a business can use flexible working contracts, it has more control over its costs and can increase or lower its capacity when it needs to. Freelance contracts are often used when a business needs to employ a specialist, such as a consultant or accountant, for a short period of time. However, the problem with flexible contracts is that employees might not be very committed to the business if they do not have long-term job security.

The impact of technology on ways of working

- **Remote working** – Employees can work from home while keeping in touch with colleagues through teleconferencing and email. Working arrangements can be agreed to meet the needs of the business and its workers, e.g. working from home one day a week.
- **Video conferencing** – Face-to-face communication and presentations can be streamed live over the internet so that employees no longer need to travel long distances to meet clients or share important information. This is more efficient as employees do not have to spend time and money travelling.
- **Management information systems** – Business intranet systems hold vast amounts of information that employees can access using a computer anywhere in the world.

Worked example



Discuss the impact on a business of employing workers on permanent contracts instead of flexible hours contracts.

(6 marks)

With a permanent contract, employees will feel as though they have more job security and this may mean they are more motivated at work. As a result, they are going to be more productive. Furthermore, if an employee has a flexible hours contract, they may not have a guaranteed income and may look for a job elsewhere. This could lead to high rates of labour turnover, which may have an impact on the business's productivity and could result in a rise in recruitment costs.



The student has considered two reasons why one form of employment is better than another. They have also used business terms throughout and developed their answer.

Now try this

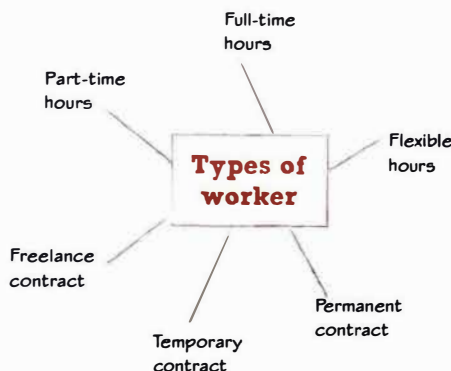


Define the term 'remote working'.

(1 mark)

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The student has considered two reasons why one form of employment is better than another. They have also used business terms throughout and developed their answer.

Now try this



Define the term 'remote working'.

(1 mark)

Different job roles and responsibilities

Within a business there is a wide range of **roles**, which all relate to one another to form the organisational structure. The role at the top of a business is the managing director (MD) or chief executive officer (CEO).

Key roles and responsibilities

Role	Responsible for...	Example
Directors	<ul style="list-style-type: none"> overall business performance business target-setting and strategy formation 	A CEO setting profit targets and making key business decisions
Senior managers	<ul style="list-style-type: none"> management and leadership of key business functions 	The senior managers of a marketing department and the employees within it
Supervisors and team leaders	<ul style="list-style-type: none"> leading a team of workers performance management providing training, support and motivation 	A head waiter supervising a team of five waiting staff, monitoring performance and delivering on-the-job training
Operational staff	<ul style="list-style-type: none"> carrying out the key operations of a business 	A designer working in a fashion company
Support staff	<ul style="list-style-type: none"> providing services that support the main function of a business 	A secretary carrying out administrative work at a dentist's practice

The recruitment process



The candidate selected must have the right **skills** (e.g. the ability to operate computers or machines) and **attitudes** (e.g. flexibility or hardworking).

Shortlisting and selecting candidates

A number of documents are used in the recruitment process to help identify the best candidates. These include:

- application forms
- curriculum vitae (CV)
- job descriptions
- person specifications.

Worked example



Which **two** of the following documents are used in the recruitment process?

Select **two** answers:

(2 marks)

- ☒ A Job description
- ☐ B Business plan
- ☐ C Person description
- ☒ D Application form
- ☐ E Cash-flow forecast

A person specification is used in recruitment, not a person description.

Now try this



Explain **one** reason why a business might employ team leaders.

(3 marks)

Different job roles and responsibilities

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Now try this



Explain **one** reason why a business might employ team leaders.

(3 marks)

Effective recruitment

As small businesses grow, they may employ workers to fill new roles in the business. Businesses want the **right employees for the job**. The recruitment process is crucial in achieving this.

Job description

A job description contains the essential information about a job role. It will include:

- the job title
- who the person is responsible to (line manager)
- who the person is responsible for (subordinates)
- the key duties
- the salary or wage.

Person specification

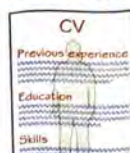
A person specification contains a description of the characteristics, qualifications, experience and skills that are required to meet the needs of the job description. These factors are normally broken down into:

- essential characteristics (must have)
- desirable characteristics (would like).

Curriculum vitae (CV)

A CV is a document that lists a person's experience and qualifications, including details of their:

- education and qualifications
- employment history
- skills and experience
- references from current or previous employers.



CVs can be used to give an employer an overview of the qualifications and experience of potential employees.

Types of recruitment

Internal recruitment	External recruitment
<p>Promoting an employee who currently works for the business to a new role.</p> <ul style="list-style-type: none"> Fast and easy to advertise vacancy. Cheaper than external advertising. Candidates already know the business so will be more efficient from the beginning. Promotion opportunities motivate current employees. 	<p>Recruiting someone who does not already work for the business.</p> <ul style="list-style-type: none"> More potential applicants. New ideas and skills brought into the business. Suitable if the business is growing and needs more employees.

Techniques used to help identify the best candidate for a job may include interviews, tests, role plays, group discussions and candidate presentations.



Worked example



Explain one reason why a business might use external recruitment.

(3 marks)

A business might use external recruitment if it intends to expand. By using external recruitment, the business will attract a wider number of new candidates from outside the organisation to help it grow in size. These candidates might also bring in new ideas and skills that help the business grow.

Now try this



Define the term 'person specification'. (1 mark)

The student has shown a good understanding of external recruitment. The two points of development are linked to the reason that they have given (intending to expand).

Developing employees

A business is only as good as its employees, which is why **employee development** is so important to businesses. Employee training and development improves the business's knowledge and skills.

Formal training

Employees attend specific training courses to improve their skills. These courses:

- 👍 may be provided by external companies who are subject or industry specialists
- 👍 may offer formal accreditation or qualifications
- 👎 can be expensive and time-consuming
- 👎 may require employees to stop working while they are training, so productivity falls.

Informal training

Employees learn skills 'on-the-job', by developing skills and experience over time or by being coached by other employees. This:

- 👍 is cheaper and less-time consuming than formal learning
- 👍 gives employees real or 'hands-on' experience
- 👎 may be stressful for employees if they are doing the job without all of the necessary skills
- 👎 may mean that employees have to take responsibility for seeking or providing training.

Performance management

All employees in a business should receive performance management. This involves setting targets for personal development and performance, and agreeing these targets with their line manager. Performance management may be used to support internal promotion and pay progression. Performance management meetings are formal and may take place several times a year.

It is likely that ongoing training will be made part of an employee's personal development, e.g. gaining relevant qualifications or attending external training courses. These may be set as targets.

Performance management form		
Outcomes	Deadline	Support
Target 1		
Target 2		
Target 3		

Performance management documents are a formal record of an agreement between an employee and their line manager.

Worked example



Explain **one** reason why a business might send its employees on an external training course. (3 marks)

A business might send its employees on an external course in order to develop new knowledge and skills. This means that the employees will then be better equipped to do their job and the productivity of the business will increase.

The student has developed their explanation, making a link between training employees and the impact that this will have on the business. Alternatively, the student could have explained that external training may bring skills into the business that do not already exist or may allow employees to be trained by recognised specialists in a particular subject or industry.

Now try this



Which **one** of the following is **not** a method of training employees?

Select **one** answer:

- ☐ A Conferences
- ☐ B Observing colleagues work
- ☐ C Paying a good salary
- ☐ D Gaining a formal qualification

(1 mark)

Had a look ☐

Nearly there ☐

Nailed it! ☐

Building a business

Making human resource decisions

The importance of training

Skills – training employees will improve their skills and value to the business. Having the most skilled employees may give a business a competitive advantage over its rivals.

Motivation – as employees improve their skills and knowledge, their confidence will also improve. This can lead to a highly motivated and happy workforce.

The importance of training employees

Retention – investing money in training employees shows that the business values its employees. This means they are less likely to leave to find a job elsewhere, so improving the business's retention rates.

Technology and training

New technology has benefits and drawbacks when training employees.

👍 New technology enables training as employees can use computer simulations (e.g. pilots and surgeons).

👍 Training can be more flexible and can be accessed remotely using webinars and online courses.

👎 Employees need to be retrained whenever new technology is introduced. This can be expensive and can lower productivity.



Technology can be used as a low-risk method of training employees to do high-risk tasks.

Self-learning

Employees can now take responsibility for their own learning. Many training courses are available online for employees to complete in their own time.

Technology can also be used to record employees' performances, e.g. a teacher can watch a video of one of their own lessons. This makes it easier for employees to monitor their performance and learn from experience.

Worked example



Define the term 'performance management'.

(1 mark)

Performance management is where employees are set targets for the year ahead. These targets may be linked to their pay and rewards.

Always try to make two clear points within a definition. For example, this student has mentioned 'targets' and 'pay and rewards', both of which are characteristics of performance management.

Now try this



Discuss the reasons why a business may choose not to invest in training its employees.

(6 marks)

Consider the trade-offs that a business faces when deciding whether to spend money on employee training. What else could they spend this money on?

Motivating employees 1

Motivation is an important factor in running a successful business. A highly motivated workforce is more committed to the business and will have a positive impact on customer relationships. Motivated employees are also more likely to continue working for the business and will be more productive.

A motivated workforce

Motivation can:

- ✓ create a hard-working and flexible workforce, that is willing to 'go the extra mile' for the business
- ✓ encourage employees to have greater commitment to the organisation
- ✓ reduce employee sick leave rates
- ✓ improve customer service
- ✓ improve communication within the business
- ✓ attract and retain good employees
- ✓ increase productivity because the workforce is happy.

Financial methods of motivation

Businesses often use a variety of financial methods, such as **remuneration**, to motivate their employees. Different methods work well for different types of role. For example, a commission-based structure works well for sales roles. Choosing the right remuneration method will maximise employees' productivity, whereas using the wrong method could waste money and fail to provide any benefit.

Time-based systems	Salaries	Results-based systems (suitable where output or success can be measured)	Fringe benefits	Career progression
<ul style="list-style-type: none"> Wages for part-time or full-time workers Overtime 	<ul style="list-style-type: none"> For non-manual jobs For professional workers 	<ul style="list-style-type: none"> Piece rate Commission Bonus schemes 	<ul style="list-style-type: none"> Company car Healthcare Pension schemes Company discounts 	<ul style="list-style-type: none"> Promotion

Worked example



Give **two** other financial methods of motivation, apart from salary and payment by the hour, that a business could use to reward employees.

(2 marks)

- Piece rate
- Commission

There is no need to explain in a 'give' question.

How important is money?

Most people think that receiving a fair income is important. However, some theories of motivation state that money alone is not enough to fully motivate people in the workplace. Other needs are as important or even more important motivating factors, such as self-esteem and the freedom to be creative.



Good personal relationships at work can be an important motivating factor.

Now try this



Explain **one** benefit to a business of rewarding workers using a piece rate system.

(3 marks)

Had a look ☐

Nearly there ☐

Nailed it! ☐

Building a business

Making human resource decisions

Motivating employees 2

Job rotation – gives employees the opportunity to work in other areas of the business, experience different roles and develop new skills.

Job enrichment – develops employees' skills by giving them opportunities to lead, make key decisions and take on new responsibilities.

Non-financial methods of motivation

Teamworking – allows employees to develop social bonds through being part of a team.

Employee reward scheme – recognises employees' performance and contribution through schemes, e.g. employee of the week.

Empowering employees



Autonomy

Autonomy means being empowered to make your own decisions. Employees are often more motivated when they can make their own decisions and choices about the best way to work and achieve their goals.

Worked example



Discuss the likely benefit to a business of rewarding the achievements of its employees.

(6 marks)

By rewarding the achievements of its employees, a business will be helping to motivate its workforce. This is because the employees will feel pride and gain greater self-esteem as a result of their achievements at work being recognised. As a result, employees will feel valued and work harder. This can lead to higher levels of productivity and better customer service. Motivated workers are also less likely to leave the business, which means lower recruitment and training costs. These savings can be put into the financial rewards, such as bonuses, for employees to further boost motivation.

The student has developed their answer with several benefits of having a motivated workforce.

Now try this



Explain one advantage to a business of adopting job rotation.

(3 marks)

Case study

In Sections B and C of Paper 2, you will have to review a full-page case study before answering questions. You should aim to spend about 10 minutes reading the case study before you attempt to answer any questions. Have a look at the sample case study below, then look at the worked examples on the next five pages.

Deliveroo

Deliveroo is a takeaway food delivery service that was established in 2013. The business's smartphone app and website allows customers to browse and order from restaurants in their local area, with Deliveroo charging diners a £2.50 fee for the service. Deliveroo uses a network of self-employed cyclists to deliver takeaway food from these restaurants.



Between 2013 and 2017, the business raised more than \$400 million from investors and was considered to be one of the UK's most promising technology companies. Deliveroo employs more than 3000 delivery staff in the UK and said in 2017 that its delivery staff can earn an average of £12 per hour, depending on their location. However, its employees do not receive the benefits associated with being a full-time employee as they are considered contract workers.

Deliveroo operates in a growing but competitive market. In 2016, the business achieved revenues of £130 million from operations in more than 10 countries worldwide. In the summer of 2017, it moved into a new London office and plans to create 300 new jobs.

However, Deliveroo is facing increased competition, such as from the taxi app business Uber, which launched a London-based food delivery service called UberEATS in 2016.

Figure 1: Value of worldwide takeaway delivery brands (2016)

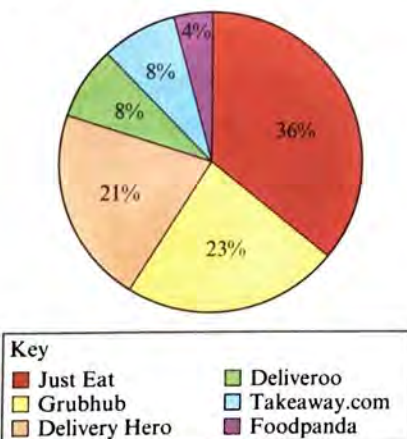
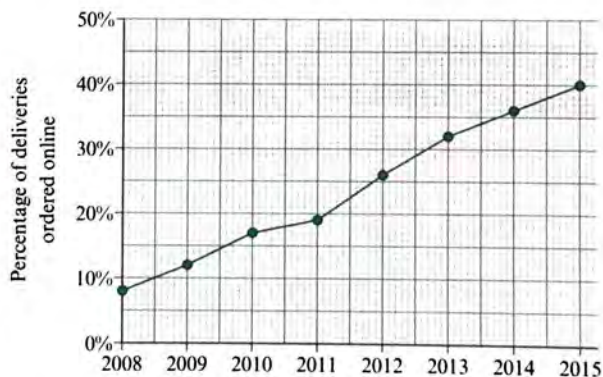


Figure 2: Percentage of takeaways ordered online and delivered in the UK



Source: The NPD Group/CREST*, year ending June 2015

Now try this

Read the case study above.

- Highlight all of the key business terminology in the case study.
- Identify **one** human resource decision that Deliveroo has made.
- List the benefits and the drawbacks of Deliveroo's business model.

Short-answer questions

Worked example



Define the term 'self-employed'. (1 mark)

Self-employed refers to someone who works for themselves and does not have a permanent contract to work for a business.

This is a good answer. The student could also have made reference to self-employed people not having the same benefits and rights as full-time employed workers.

'Define' questions

Try to answer a 'define' question in no more than two sentences.



Links Look at the glossary on page 93 for definitions of key business terminology.



Quantitative skills

'Identify' questions

An 'identify' question requires you to interpret information from a source, such as charts, graphs, infographics, text or financial accounts.



Quantitative skills

The student has interpreted the pie chart correctly to identify Just Eat as the business with the largest value. This would suggest they are the market leader.

Worked example



Using the information in Figure 1 (see page 86), identify the worldwide market leader in the takeaway delivery industry in 2016.

(1 mark)

Just Eat



Links You can revise interpreting graphs and charts on page 75.

Worked example



Outline **one** method of raising capital that could be used by a limited company such as Deliveroo. (2 marks)

A limited company such as Deliveroo could raise capital through selling shares in the company. However, it could not raise capital by selling shares to the public as it is not a public limited company.

'Outline' questions

An 'outline' question should always give a point with some form of development or explanation. The answer must also be in context.

The student's answer is in context since the method identified is appropriate for a private limited company. There is also some development in relation to the limitations of share capital as a private limited company.



Links You can revise raising capital to finance growth on page 51.

Now try this



Outline **one** reason why Deliveroo might use self-employed cyclists and drivers.

(2 marks)

'Calculate' questions



Quantitative skills

Using the case study

In this 'calculate' question, the student has been given one piece of information (net profit £15 million). The student also has to use the case study to identify the other piece of information needed to complete the net profit margin calculation (sales revenue of £130 million).



Quantitative skills

This student has learned the net profit margin formula and their answer shows their workings so it is clear to see how they have reached the answer.



Links

You can revise net profit margin on page 74.

Worked example



Consider a scenario whereby Deliveroo generated a net profit of £15 million in 2016. Taking the above statement to be true, calculate the net profit margin for Deliveroo in 2016. You are advised to show your workings. **(2 marks)**

LEARN IT!

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Sales revenue}} \times 100$$

$$\frac{£15 \text{ million}}{£130 \text{ million}} = 0.11538$$

$$0.11538 \times 100 = 11.54\%$$

$$2016 \text{ net profit margin} = 11.54\%$$

Worked example



Using the information in Figure 2 (see page 86), calculate the percentage growth rate of the UK online order and delivery market since Deliveroo launched in 2013. You are advised to show your workings. **(2 marks)**

LEARN IT!

$$\% \text{ growth} = \frac{\text{Increase in size}}{\text{Original size}} \times 100$$

$$\frac{8}{32} = 0.25$$

$$0.25 \times 100 = 25\%$$

$$\text{Market growth} = 25\%$$



Quantitative skills

The student has used Figure 2 to work out that there has been an increase of 8 percentage points (32% to 40%) since Deliveroo launched in 2013.



Quantitative skills

Calculating percentage increase

Percentage increase is a key calculation that you may have to perform in your exam. This could be a percentage increase in sales revenue, profit, costs, interest rates or market growth.



Quantitative skills

A common mistake might have been to give 8% as the answer. However, this is simply the increase in the proportion of takeaway meals that are ordered online for delivery, not the growth of the online order and delivery market.

Now try this



Natalya is planning to set up her own takeaway delivery business. The following information is taken from her business plan.

Year 1 sales revenue: £20 000

Year 1 cost of sales: £13 725

Calculate Natalya's expected gross profit margin in Year 1.

(2 marks)

'Analyse' questions

Worked example



Analyse the impact on Deliveroo of not having its own restaurants. (6 marks)

As Deliveroo does not have its own restaurant businesses, it is able to keep its overhead costs very low. Even though Deliveroo has a head office in London, it does not need to rent expensive locations or have bases from which its delivery drivers work. With low overheads, Deliveroo is able to make a greater contribution towards profits on every order that it delivers.

One issue with not having its own restaurants is that Deliveroo relies on partnerships with restaurant businesses. If Deliveroo's suppliers (the restaurants) decided not to use the business or agreed contracts with other firms such as Just Eat, then Deliveroo could quickly go out of business. If Deliveroo eventually grew into its own restaurant chain, then it would start to gain economies of scale as it would be able to make a greater profit on every order it delivers.

How else could you link this answer to the context of Deliveroo? Try to identify two issues relating to Deliveroo that you might connect in your own answer to this question.

'Analyse' questions

An 'analyse' question is very similar to the 'discuss' questions that you will find in Section A of Paper 1 and Paper 2. However, an 'analyse' question needs to be answered in the context of the case study. For example, an answer in context may use specific information in the case study to make assumptions or conclusions. It may also apply the nature of the business (Deliveroo is a delivery business) or the nature of the product (takeaway food).

The first paragraph in this answer explains a benefit to Deliveroo of not running its own restaurants (low overhead costs). Another benefit might be that Deliveroo can focus on its core business of delivery, rather than having to compete in the takeaway food market.

This answer is clearly in context because the student refers to Deliveroo's 'head office' and competitors such as 'Just Eat'.

The second paragraph analyses the limitations of Deliveroo not having its own restaurants. The student has explored the relationship between Deliveroo and its suppliers. The student could have also discussed the fact that Deliveroo can only make a small profit on each delivery. As the business grows, it could expand into other markets in order to increase its potential profits.

Your answer needs to consider the context of the case study (in this case, Deliveroo).

Now try this



Analyse the impact on Deliveroo of using self-employed workers instead of permanent employees. (6 marks)

'Justify' questions

'Justify' questions

A 'justify' question requires you to consider two different options. This might include considering the relative benefits and drawbacks of two alternative strategies. Your answer will need to be in context and must finish with a justified conclusion based on your analysis.

Balance

A balanced answer identifies the benefits and drawbacks of something. Using balance is a good technique when answering 'justify' and 'evaluate' questions.

The student has shown an understanding of customer needs and considered the advantages and disadvantages of Option 1.

The student has shown an understanding of the benefits and drawbacks of advertising. They have also demonstrated context by giving an example of a competitor ('Hungry House') and referring specifically to the Deliveroo app ('download the app').



You can revise advertising on pages 63 and 64.

This paragraph gives the student's conclusion. They have made a decision and provided a justification for their choice, as well as explaining a limitation of the option they have not chosen.

Worked example



Deliveroo is looking to expand its business and is considering one of two options to increase sales. The two options are:

Option 1: Increasing the number of restaurants it works with

Option 2: Promoting the Deliveroo app through advertising

Justify which one of these two options would most help Deliveroo increase sales. (9 marks)

Increasing the number of partner restaurants could allow Deliveroo to offer a wider range of products to its customers, such as different types of food or food from less common cuisines. This could attract more customers as there may be people whose needs are not being met by the current range of foods delivered by Deliveroo. It may also help it to expand into new areas of the UK, where customer needs may not be fulfilled. However, increasing the range of restaurants may take a long time so will not increase sales in the short term.

On the other hand, promoting the Deliveroo app will make people more aware of the service that Deliveroo offers. This will encourage people to download the app and try the service, especially if Deliveroo introduces a special offer such as free delivery on the first order. Furthermore, promoting the app might encourage some customers who already use other delivery services, such as Hungry House, to switch to Deliveroo. On the other hand, increasing advertising will increase the business's costs.

Overall, I believe it is better for Deliveroo to spend money advertising its app. Although building links with more restaurants will increase customers' choice, it will not directly increase the number of people using Deliveroo in the short term as it already delivers for a wide range of restaurants. The decision may depend on the popularity of the restaurants that Deliveroo is in partnership with.

The student has made good use of an 'it depends' statement.

Now try this



Deliveroo is considering two different options to finance its plans to expand into a new country. The two options are as follows.

Option 1: Raising additional share capital from investors

Option 2: Crowd funding

Justify which one of these two options would be the most appropriate method of financing its plans. (9 marks)

'Evaluate' questions

Worked example

Evaluate the impact on Deliveroo's long-term success of not providing its delivery workers the same rights as permanent employees. You should use the information provided as well as your knowledge of business. (12 marks)

Improving an answer

By paying its delivery staff as contract workers, Deliveroo has been able to create a flexible workforce and to employ people who are looking for both full- and part-time work delivering for the company. By having a flexible workforce, Deliveroo can keep costs down which has meant that the capital it has raised could be invested in developing the app, building relationships with restaurants and promoting the brand. Furthermore, this approach has kept labour costs low and, although we do not know how much profit Deliveroo made in its first three years, this will certainly have helped the business achieve a good profit margin. Using contract workers also makes it easier to recruit the 3000 delivery workers that Deliveroo needs in order to meet demand.

...Overall, paying delivery staff as contractors has allowed Deliveroo to be very competitive because it does not have to pay National Insurance and offer holiday or sick pay. This has led to Deliveroo being able to grow very quickly in its first three years of trading. However, to secure the long-term success of the business, it is important that Deliveroo starts to invest in its workers now that it can afford to do so, in order to ensure that its ethical reputation is not damaged, which may cause customers to choose other delivery services that provide better conditions for their employees.

The student's first paragraph offers a number of limitations and drawbacks for Deliveroo of not providing its workers with employment benefits.

This is just part of a student answer. It is **not** a model answer. It is a sample answer for you to improve.

The second paragraph of this answer has not been included here. However, this paragraph might look at some of the limitations or risks of not providing its delivery workers with benefits and good working conditions.

The student has used their knowledge of ethics and motivation to answer this question.



Turn to page 57 for a reminder about ethics. Turn to pages 84 and 85 to revise motivation.

Marking an 'evaluate' answer

The following bullet points are taken from Level 3 (9–12 marks) of the mark scheme used to mark an 'evaluate' question. Do you think the student's answer meets these criteria?

- ✓ Demonstrates accurate knowledge and understanding of business concepts and issues throughout, including appropriate use of business terminology (AO1b).
- ✓ Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2).
- ✓ Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a).
- ✓ Draws a valid and well-reasoned conclusion based on a thorough evaluation of business information and issues (AO3b).

Now try this

Ensure that the paragraph you write is in the context of Deliveroo.

Write the second paragraph needed to complete the student's answer to the 'evaluate' question.

Formulae

You will not be given these formulae in the exam, so you need to learn them!

LEARN IT!

Total costs

Total costs (TC) = Total fixed costs (TFC) + Total variable costs (TVC)

Variable costs

Variable costs = Cost of one unit × Quantity produced

Revenue

Revenue = Price × Quantity

Break-even

Break-even point in units = $\frac{\text{Fixed costs}}{(\text{Sales price} - \text{Variable cost})}$

Break-even point in costs / Revenue = Break-even point in units × Sales price

Margin of safety

Margin of safety = Actual or budgeted sales – Break-even sales

Interest (on loans)

Interest (on loans) in % = $\frac{\text{Total repayment} - \text{Borrowed amount}}{\text{Borrowed amount}} \times 100$

Net cash flow

Net cash flow = Cash inflows (receipts) – Cash outflows in a given period (payments)

Opening and closing balances

Opening balance = Closing balance of the previous period

Closing balance = Opening balance + Net cash flow

Profit

Profit / loss = Total revenue – Total costs

Gross profit

Gross profit = Sales revenue – Cost of sales

Gross profit margin

Gross profit margin (%) = $\frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$

Net profit

Net profit = Gross profit – Other operating expenses and interest

Net profit margin

Net profit margin (%) = $\frac{\text{Net profit}}{\text{Sales revenue}} \times 100$

Average rate of return

Average rate of return (%) = $\frac{\text{Average annual profit (Total profit / No. of years)}}{\text{Cost of investment}} \times 100$

Percentage growth

Percentage growth = $\frac{\text{Increase in size}}{\text{Original size}} \times 100$