THEME 2 – BUILDING A BUSINESS

2.1 GROWING THE BUSINESS

2.1.1. BUSINESS GROWTH

Businesses can grow through either **internal growth** or **external growth.**

Internal growth is where the business expands by itself, entering new markets or bringing out new products. This method of growth is also known as **Organic growth.**

Innovation means creating new products or services, and can be seen as higher risk as you don't know if it will be a success, therefore market research is important to identify gaps in the market and whether customers may indeed want the new product.

Entering new markets means selling to a new group of people who may be in a different market segment, i.e. the elderly, or female teenagers etc.. E-commerce can also be used to reach new markets which may include overseas customers. The internet allows you to sell anywhere, across geographical boundaries. New markets overseas could also be achieved by opening shops in different countries, but you need to do some research to see if it will be a success. Tesco tried to enter the USA and failed spectacularly losing a lot of money as the US market for supermarkets was already highly competitive.

External growth is where you grow by joining with another business. It can be seen as **Inorganic growth** and is done through **mergers** or **takeovers.**

Mergers are where 2 or more businesses agree to join together. Mergers are normally friendly as both sides agree to join as one new business.

Takeovers are where one business takes control of another and usually it ends up with one business ceasing to exist. Morrisons bought Safeway in 2004 and amongst others the Alnwick store re-changed its name to Morrisons. Some takeovers can be called hostile as a larger business buys up shares in a smaller business who are powerless to stop it happening.

Ownership for growing businesses
In order to grow often a business will become a **public limited company (plc)** as it needs to raise finance and a plc does this by offering shares on the stock exchange to anyone over 18 wanting to buy.

Advantages of a public limited company – can raise additional finance through selling of millions of pounds worth of shares. Seen as more reliable and therefore more prestigious so having a better reputation, and may be able to buy in bulk as it grows so get better prices from suppliers.

Disadvantages of a public limited company – greater risk of being taken over, or of losing control as other people or businesses buy up shares so want a say in what happens. Has to declare all financial records so competitors can see. Increased media attention so if do something wrong or unethical it can ruin a reputation built up over the years.

If a business grows and starts operating in more than one country through factories or offices or shops, it is known as a **multinational.**

Advantages of multinationals – has a much wider target market, can gain a good reputation, spread the risk of failure by operating in a number of countries and and can take advantage of cheaper workers and costs abroad but still be ethical.

Disadvantages of multinationals – cultural and language differences if operating in different countries, could get negative publicity if seen to be unethical, unsure about profits due to exchange rate fluctuations i.e. pound falls or rises significantly against another currency – what does it mean to exports, imports and profits.

Sources of finance for growing or established businesses
As you grow you will need to invest more money into new projects. The key sources can be split into **internal** and **external** sources.

Internal Sources

Retained profits – profit made from previous years. Benefit is that it is money that is there, it is the businesses so can be used and no need to borrow money from banks so do not go into debt. Disadvantage is that the more profit is used to invest back in the business the less is available to shareholders who want payment through dividends for holding shares in the company. This disappoints shareholders who might then look to sell shares and invest elsewhere.

Examiners tip
There are often clues in exam questions as to whether retained profits are a suitable source of finance for a large business. If the business on which the question is based is described as successful or profitable, then retained profits may be a good source of finance. The exam question may also give information about a business's profits in the form of figures.

Selling assets – if you have land, buildings and machinery you do not need then can sell these for money. In some circumstances can sell a building or piece of equipment then lease it back from the new owner. This gives you cash and you then keep using the item for a rental fee, but you no longer own the property.

External Sources

Bank loan and mortgage – you receive the money but need to pay interest on the loan or the mortgage. Bank loans are over a shorter period of say 1 to 7 years and you work out interest at the start, the amount of which is based on the interest rate at the time the loan is taken out and the length of the loan. The interest is added to the loan value and repaid in monthly instalments which never change. A mortgage is over a longer period, say 20 to 30 years and interest rates can change during the course of the mortgage. They are used for buying property.

New share issues – companies can sell shares. Public limited companies (plc) sell shares to the general public. If a private limited company (ltd) wants to raise a large amount of finance i.e. £ millions then they might **float** on the stock exchange whereby they convert to a public limited company and sell shares in order to raise cash. This is another means of avoiding having to owe money through a bank loan or mortgage, however as people or other businesses buy shares they will want some control so the original owners lose some control of the business and they will also want a share of profits.

Deciding which sources to use is a key decision and it depends upon a number of factors and circumstances such as;

Profitability of the business – the more profitable is a business the more it can use such profits to invest in the business, however the more profitable it is the easier it is to get a bank loan and on favourable terms.
Assets owned by the business – having a range of assets allows a business more flexibility in what to sell to raise finance. It also gives it more collateral when taking out bank loans so again they become easier to obtain.

Past history and future prospects – being in a strong position in terms of past profits or future potential makes it easier to persuade a bank to lend money, and critically more of it. A good history of paying debts is also favourable.

Type of ownership – private limited companies can only raise a limited amount of money as they can only sell shares to people if all shareholoders agree, and they may not want to lose control. By converting to a public limited company you can sell shares in large volume to anyone so can raise a lot more money.

Amount of finance needed – this is also important. A company would not give up its private limited status for just a few thousand pounds. It would only float and convert to a public limited company if it needed to raise £ millions.

In reality a business will not use only one source of finance but will use a combination of different methods.

Examiners tip
Exam questions may ask you to choose and justify a source of finance for a business in certain circumstances. You need to use all of the above factors to justify your decision.

2.1.2. Changes in business aims and objectives

Objectives change as a business grows and becomes more established. Original aims and objectives may no longer be appropriate because they have become much larger or because the external environment has changed.

Reasons for the changes:

Market conditions
If there are a lot of competitors then an objective of growth may be revised downwards to that of survival. Or pace of increasing market share may have to change.

Technology
Using e-commerce could mean changing objectives to incorporate the new technology, or could look to minimise costs by using technology in production.

Performance
Based on information the objectives may change. If revenue is well down then objectives will change to survival or lower levels of sales or market share. If production is poor then an objective could be to invest a lot more in staff training. If reviews are bad (trip advisor) then objectives may change towards improving the reputation.

Legislation (Laws)
New employment laws like minimum wage increases or Health & Safety Act changes can lead to changing objectives as costs may increase, so reduced profit levels become an objective as it is harder to maximise profit levels.

Internal reasons
Priorities may change in a business. New owners may be more concerned with being seen to have a good ethical reputation than maximising profits. This could lead to a change in culture.

How the objectives change
With increased competition or during a recession where there are poor economic conditions then a business may have to prioritise survival as an objective, having to cut costs rather than concentrate on increasing sales and profits. This may mean getting rid of staff to save costs.
If a business is doing well then it may focus on growth and expansion. So objectives can move from survival to increased profits to growth.
Entering new markets can be an objective for a growing business. Or, in difficult times a large business may have an objective of closing stores or withdrawing from some markets that may not be profitable – M&S got rid of all

of its electrical products due to intense competition from other retailers specialising in that area.

Marketing mix may change, it may rely on a lot more and different promotions or the product it produces may change to adapt to the market changes. Or product may change due to new technology.

2.1.3. Business and Globalisation

GLOBALISATION is where businesses operate on an international scale, selling and buying in a number of countries.

IMPORTS

Items bought in from abroad so money moves out of the country. You buy a PS4 game from China then money flows from UK to China. Imports create more competition for domestic businesses and local businesses may suffer if we all buy foreign items, so they end up losing staff as part of having to cut costs.
Imports may allow a business to buy its raw materials cheaper so if costs go down they can then lower their selling prices. This has a positive impact on the business as lower costs should help increase their profits.

EXPORTS

These are goods produced in a country and sold in another country. House of Hardy selling fishing rods to shops in Germany is an example. This allows a business to increase its target market and its market share by opening up to more customers. Selling your products all over the world is an example of globalisation.

Locations
With globalisation a business may choose to locate its offices or premises in a country to help it enter new markets. Costa open shops in China as many more Chinese people are becoming wealthier. McDonalds open restaurants in India to take advantage of a population of 1.1 billion and increase their sales.

Barriers to international trade
Countries do not always want businesses to set up or sell in their country as it may prevent their own local businesses from being competitive and making a profit. Donald Trump does not want to see millions of Americans buying Japanese cars or construction businesses using Chinese steel. He wants Americans to buy American made cars and American made steel. He therefore imposes a tax called a **TARIFF** which makes Japanese cars far more expensive to American people, so they are persuaded not to buy such cars but to buy the cheaper American made cars instead. Similarly for builders if the tax on Chinese steel makes it too expensive then builders will buy American steel.
Such measures protect the local industries and can be seen as **protectionist measures** as they protect local businesses from cheaper imports. It may not

be as good for us consumers however, as it makes prices of imports more expensive.

A **TRADING BLOC** is another barrier to trade. The EU is a trading bloc of 28 countries including the UK and the idea is that all 28 countries can trade freely with each other without any barriers like tariffs. Trading blocs are formed between countries close together. You can move your location within a trading bloc easily so a UK business could set up in France. The hope is that with increased competition within the trading bloc it makes prices cheaper for all of its citizens who are customers.
There is a problem however if a country wants to trade with another country outside of the trading bloc as there will be tariffs. So a UK business buying from in the EU has no tariff barriers but it will have if it buys from America or Russia or China because they are not in the EU trading bloc. The idea is that it makes American or Russian or Chinese prices more expensive.

Use of internet and e-commerce
This allows businesses to compete a lot more internationally. You can communicate around the world 24/7 by setting up websites, e-mail addresses and facebook pages, twitter accounts etc.. Businesses can now access a global marketplace.

Changing the marketing mix
May be important as you try to sell globally. Often it depends on the culture of other countries. McDonalds changes its Product when selling in India as cows and beef are seen as sacred, so they sell a lot more indian foods like bhaji and samosa and also chicken. They have ADAPTED their product to suit the different cultures. Promotion needs to be in different languages so people in those countries understand. Price may change due to exchange rate changes but also different tax laws, currencies and even standards of living. You cannot sell a can of coke for £1 in Ethiopia which is a very poor country as very few would be able to afford it, equally in Norway where the living standards are very high you could sell if for the equivalent of £3 or £4 and that would not be unreasonable. Due to technology the Place is changing as many people can now buy through on-line shopping 24/7, so Place could indeed be anywhere, then you need to consider access to the internet in some countries in the world.

2.1.4. Ethics, the Environment and Business

Impact of ethical and environmental considerations on a business
ETHICS can be seen as moral standards guiding peoples actions. Often seen as ‘doing the right thing’.

- Treating workers fairly, not discriminating, fair wages, safe working conditions.
- Treating suppliers fairly and paying on time
- Sourcing materials not made by child labour or damaging the environment
- Treating consumers right, not misleading them with inaccurate information

- Meeting all government requirements to pay taxes and follow legislation on H&S etc..

Trade-offs between ethics and profit
Being ethical can improve your reputation and allow you to gain customers so more sales revenue and hopefully profits. People may pay a higher price if items have ethically sourced materials. HOWEVER not behaving ethically can lead to negative media publicity and can lose customers and sales.
So there is a **trade-off** between wanting to make as much profit as possible but making sure you pay a fair wage and a fair price for materials. So business costs can go up as they behave ethically.

Influence of environmental considerations
Can lead to air, water and noise pollution. Use of non-renewable resources like oil and coal, poor waste disposal, unnecessary packaging and damage to environment like global warming. Having a large carbon footprint by buying globally.
All of the above can influence a business reputation, either positively if it is seen as taking steps to reduce everything, or negatively if it does not control **Stakeholders** such as customers, employees and investors may be more or less keen to get involved depending upon your reputation with regard to behaving ethically.

Trade-off between sustainability, environment and profit.
Sustainability is making sure that natural resources are used responsibly to protect the environment for the future. But taking action to reduce air pollution helps reduce its negative impact on the environment but it comes at a cost, so profits may be hit. Using renewable energy sources like wind turbines or solar power are seen as environmentally good as it provides sustainability, but they come at a cost of getting installed and changing to such power sources.

Impact of pressure group activity on the marketing mix
A **Pressure Group** is a group of people with a similar aim or interest who join together to influence public opinion on government policy or actions. They pressure businesses and governments to take action. At present there is a lot of pressure to protect the oceans from non-disposable plastic waste. Fairtrade was another issue, making sure farmers in poor countries were not taken advantage of but paid a fair wage for their produce.
Pressure groups can take action through boycotting products or a business with a poor reputation for ethical behaviour, they can raise petitions, protest in public, run media campaigns on tv or in papers or can lobby politicians to get action taken.
Such action may cause a business to change or alter its product, or to make sure they charge a fair price, or to be more open and honest in their promotions and adverts. Place could mean just buying raw materials locally rather than from 200 mile away.

2.2 MAKING MARKETING DECISIONS

2.2.1. The Product

The Design Mix

- Design mix is the three fundamental elements of product or service design that must be taken into account during the research and development stage i.e. prior to launching onto the market

Function is how well it does its job, how easy is it to use, how fast or convenient it is. You can improve competitiveness by improving aspects of ots functionality.

Aesthetics is the look, feel and visual appeal of an item. Is it attractive. Aesthetics are important for some products but not others. Aesthetics of bread or a potato are limited but hugely important for a sports car, designer items of shoes or clothing. A bottle of medicine has no aesthetics, but hopefully its functionality is strong.

Cost is what it costs to make the product. You might have an aesthetically pleasing item that has good functionality but is the cost worthwhile, will it still allow you to make a profit. Businesses can cut costs of production but often this could be at the expense of aesthetics. Does it still look slick and snazzy if cheaper, more basic looking materials are used. Or to keep costs down does its functionality suffer, it may not be as strong or as long lasting.

Balancing the Design Mix
It all depends upon the product and what values are placed on each aspect. If there is strong competition then keeping costs down may be most important,

but also with strong competition you need functionality to be strong to keep a competitive advantage. Or be aesthetically the most attractive to create that competitive edge.

PRODUCT LIFE CYCLE

Tends to have 5 main stages and elements of the marketing mix will change at differing stages.

Development stage is initial idea. Product is developed and tested here. This is a costly stage so need to raise finance for this as spending money but no sales as yet. Cash cows help pay for this, otherwise use other profits or may need bank loans to help out. This period could be weeks/months/years depending on product. Medicines take years to develop; cars take months as do movies to make. No promotion yet.

Introduction is where the product is launched and first sales are made. Lot of money spent on promotion and in early days as people need to be made aware of the product. The place may only consist of a few retailers until more can be convinced to stock and sell the product. Price will depend upon the market and demand. If it is highly sought after AND there are no competitors – PS3 or iPhone then price could be high initially. Most products have many competitors therefore price will be competitive and penetrating.

Growth is where sales are increasing rapidly and more people becoming aware of product. Will need more places to sell product so widen distribution network. Promotion will be reduced as reputation and awareness are increasing. Price will probably not change

Maturity is when sales slow down. Could still be rising but not as quickly as in growth stage. May be competition launching alternatives or simply the market becomes saturated – most people who want the item have bought it. At this stage the business starts looking at promotion and price but may not do anything yet, it depends on what is happening in the market.

Decline is when sales start to fall. Decisions need to be made – do we let the product die or do we try to boost sales. If they want to boost sales then promotion will increase, re-advertise perhaps with a different slant by explaining key features of the product and what it can do for you. This is particularly true if there is now some serious competition. Price may fall at this stage as you need to boost sales. The earlier profits can support a fall in price. Could look at distribution methods here – can we sell direct to customer to increase sales, or can we move into new retail outlets not previously used. Many years ago petrol stations never sold food or other convenience items like milk or bread.

Variations in life cycle.

Some products go from introduction to decline in a matter of months – toys, films, whilst others take either a few years and other products take many years – Cadbury chocolate, Kellogg’s cornflakes

Extension strategies are used to prevent falling sales and to delay the decline stage. Such strategies depend on the product but some include:

- Dropping price
- More advertising, and perhaps with a different theme
- Persuade people to buy more by saying it is good for you when advertising**,** or buy on more occasions i.e. not just turkey at Christmas
- Find new customers by selling abroad
- Find a new market. Lucozade appeals to sports fitness market and not just seen as a health drink when ill. Football shirts now seen as leisure wear not just worn when playing sport
- Change packaging to make more appealing – drinks now in different size bottles, cans, cartons, plastic

Examiners tip
Remember that the marketing mix will change at different stages of the life cycle. For instance you may launch with a high price if demand is high for a new product. Over time the price may be lowered to increase sales. When first launched the promotion may focus on raising customer awareness but once established the promotion may focus on the products benefits to those of a competitor.

Differentiating a product or service
This is critical if a business wants to succeed in a competitive market. You need to develop a distinctive or uniqueness about your product or service. Developing the brand is essential also. People are more likely to buy if you are different and it is something they cannot get elsewhere.

2.2.2. PRICING

There are different ways a business can decide the price of its products. This usually depends upon factors like **cost** of actually making the product, or **demand** in terms of how much is the product wanted, is it high or low. **Competition** is another factor. If there is a lot of competition in the market for very similar products, or no competitors may exist in the market. **Business objectives** can be important – do you want to maximise sales or maximise profits. These two objectives are quite different. **Rest of the marketing mix** is a key feature. If you promote as an exclusive top of the range product then price needs to reflect this whilst if you are trying to sell in as many distribution outlets as possible then price needs to be very competitive.

Pricing strategies

High-volume pricing is where a lot of items are produced at low cost, often due to use of technology and economies of scale. The business will use this simple, standard products and because costs are low they can set a low price. Profit margins per item are low but as large volumes are sold they can still make good profits. This can be seen as more competitive pricing where there may be a lot of competition.

High-margin pricing is where the difference is greatest between the production cost per item and the selling price. This is also known as ADDING VALUE to the item. this tends to be the case for higher quality items that are not sold in high volumes. May also be for items that are a little bit more exclusive or special, perhaps with a strong USP or a strong brand name.

Influences on pricing strategy
A number of factors, such as customers and what they are willing to pay, how much competition there is, the brand reputation, a USP, quality.
TECHNOLOGY has an influence. Online flight prices vary depending on numbers bought each day, or Apps allow businesses to monitor customer activities, like Uber setting higher prices when demand is highest. Technology allows easy online price comparisons and many businesses need to price match so they also monitor competitor prices online.
COMPETITION and how much of it there is also influences price. If you have a lot of competitors and products are very similar – fruit or vegetables then you need to be setting lower prices to remain competitive. Without much competition you have more flexibility to charge higher prices. It is a reason why petrol prices are higher on motorways as you have little alternative.
MARKET SEGMENTS may be targeted at a different price. Idea is to try and meet the needs of the differing segments. Train prices differ for students, OAPs, business travel and normal adult travel. Car manufacturers produce differing models for different prices – basic for those without much money, space for family cars, higher quality and more features for the luxury end of the market, or more sporty for those who can afford.

Mass market products tend to sell for lower prices as customers have similar needs and often a wide choice. It is more generic – products are very similar. Plus with high volume production they can make more cheaply so can lower prices. A **niche market** is much smaller, there is usually less competition and customers have more specific needs or interests. Usually this means you can charge higher prices.

First movers are people who want to be the first to buy the item so they usually get charged a higher price. In time the price will drop so it becomes more affordable to all. Electric cars or 4k TVs or Apple watches were in this category.

<u>2.2.3. Promotion</u>
How you communicate your products and services. Strategies include:
- Advertising
- Sponsorship
- Product trials
- Special offers
- Branding

Advertising
Pay to communicate a message to potential and existing customers. Aim is to grab customers attention. Can do this through colour, humour, imagery, vision and emotive language.

MEDIA used includes tv, radio, digital, print and outdoor.
TV includes local or national and satellite or other subscription channels.
Radio – national, local, online
Digital – website, social media, e-mailing, texting, Apps
Print – national and local newspapers, magazines, brochures
Outdoor – billboards, posters, on buses

Choice may depend upon costs and who your target market is and the type of product or service. Does it need to be seen in action through advert or video clip. TV is very expensive so tend to use when target market is wide and national – walkers crisps, mars, cars, but if you are a local shop then it becomes too expensive and perhaps 99% who see the advert are too far away to visit your shop if its only sold in one or two locations.

Sponsorship where you sponsor a team, an individual or an event which could include a tv programme. This is done due to the publicity you receive from being associated with a team or an event.

Product trials is free access or where the item is given away for free initially in the hope people will come back and buy it. Free subscriptions for 30 days with many online services is a regular feature. The problem is that it can be expensive as you give things away but they still have to be made and paid for.

Special offers are known as sales promotions. They can boost sales over a short period of time. Hoping to keep customers coming back once the offer ends. It is also a method used to get rid of stock that you are struggling to sell. BOGOF is buy one get one free, and this is used as special offers at times.

Branding is where you hopefully use the good reputation of the product or business, its personality and image to get customers to identify with it and a set of characteristics associated with the brand – quality, fun, sophistication, vibrant. Customers may stay loyal to the brand i.e. shopping at sainsburys or M&S, or buying Apple iphones or PS4 or Xbox or Maybelline cosmetic products.

Use of social media, websites and viral advertising
Websites can track customer searches then show adverts linked to these searches. Facebook, twitter, Instagram and snapchat are used by businesses. Many have not only websites but also facebook pages and twitter profiles. These can be used to communicate directly to customers.
Viral advertising is where a message, video or image is shared through social media and so can reach thousands of potential customers very quickly. They do not last long but have a short term impact that could be powerful, depending upon the image or story or video.

Apps is software used on tablets and smartphones. There can be adverts within an App and customers can engage with the business through the App by maybe answering a questionnaire, book an appointment, view a catalogue.

e-mails and e-newsletters
can send details directly to your existing and potential customers. Can build long lasting relations and knowing your customer profile you can tailor the e-mail offer to their needs based on information you have on the customer and purchasing history.

<u>2.2.4. Place</u>

Producers – they supply goods or services.
Wholesalers – buy in from producers in bulk and supply in smaller quantities to retailers. This reduces transport costs to producers who only sell to a few large wholesalers.
Retailers – shops selling goods and services.

Direct Marketing is where the producer/manufacturer goes straight to the customer and this is done through mail-order, telesales or through online selling. This is known as **E-tailing** when sale is through online and goes direct to the customer.

Wholesalers and retailers are intermediaries in the distribution channel.
Zero level distribution is where there are no intermediaries between producer and customer.
One level distribution is where there is one intermediary between producer and customer.
Two level distribution is where there are two intermediaries between producer and customer.

POSSIBLE EXAM Q
Why might a business use intermediaries?

- Going through retailers allows you to reach thousands or millions of customers. Saves producer costs in trying to distribute directly if they can use intermediaries.
- By selling in retail outlets – shops, it allows customers to compare products which is what customers want, before buying. Shops do not sell only one brand so competition is important.
- Each intermediary wants to make a profit so the price increases with each intermediary used.
- Producer loses control of the sale once it goes to an intermediary and this could harm the reputation of the producer.

Selecting the right channel of distribution

Costs – compare cost of selling directly rather than through intermediaries.
Lack of control – does it matter that the producer loses control. Probably not if it is a high volume low cost item, but if it is an expensive high cost fashion item then producers will want to keep control of the sale.
Product – some low cost convenience products that are bought regularly need to be distributed widely as customers will not travel far to buy such products, only to the nearest store and if they do not have an item they will go to the next store, they will not wait for the item. Speciality items are more

expensive and possibly only bought once. Customers will wait for these and will travel longer distances.
Sometimes using more than one distribution channel will boost sales.

Getting the right distribution will affect the success of a business as it can affect **Sales** – if it is not available when a customer wants it they will go elsewhere so sales will fall. **Image** – if a product is sold in the wrong place it could damage the brand name i.e. high quality perfume companies won't sell in cheap brand stores like Lidle or Netto. **Costs** – how it is distributed will affect costs and therefore the final price. The more intermediaries the higher will be the final price as everyone needs to make a profit.

Examiners tip
The 'place' is often forgotten when students write about the marketing mix as they nearly always focus on promotion and the importance of advertising. Place can however be crucial. When you are hungry and want a snack you go to the nearest shop to buy something. You see a brand of crisps you like and buy a packet. Just think how important it is to get these crisps into thousands of shops all over the UK and displayed in a good place. If that brand was not there you would simply have bought something else. Good distribution is essential for you to buy it.

2.2.5. Using marketing mix to make business decisions

How elements of the mix influence one another
Promotion and Price – business may want to charge a high premium price for an item but customers may only be willing to pay such a price if they feel it is worth it. Promotion of the aesthetics and features may be needed to convince customers it is well worth it.
Promotion and Place – once an item or service has been heavily promoted and people convinced it is the item to buy, there needs to be good easy access for customers to buy the item, so promotion may determine the places where the item is sold. No good having a place where no one can find or get easy access to as this will limit sales and destroy the good work created through promotion. This place may need to include online sales.

Are all elements of the marketing mix equally important
It may depend upon the product or service you offer and also the amount of competition. A high end product may sell irrespective of price.

Usually some if not all elements of the mix need to be used together. Best product in the world may not sell if it is not promoted, or there is no place for customers to find it. You may have promoted a product well, have it in many different places but if customers feel its price is too high then they will not buy it. All businesses use the marketing mix to achieve a COMPETITIVE ADVANTAGE, this is where customers will buy their products over other competitors. It may be due to better product features, better pricing giving more value for money, it is more accessible to buy in more places or because you have done a lot more promoting of the product so created a greater awareness.

2.3 MAKING OPERATIONAL DECISIONS

2.3.1. Business operations

A business uses resources like land, labour, capital and materials to produce outputs which are finished products or services. There is a business operation that transforms these inputs into outputs.

The transformation process can be measured.

- How productive is it, in terms of inputs to produce the outputs. Can it become more productive is a key question always asked
- Efficiency, by looking at how they can limit the amount of waste in the transformation process
- Flexibility, can it change what it does easily to meet the ever changing demands of customers.
- Quality, how well does the product or service do its job in terms of giving customers value for money

METHODS OF PRODUCTION

Production is a method of changing materials into goods and services that can be sold.

The process of production brings together machinery, materials, buildings and people as differing resources, to help make finished items.

Job Production

Where an item is made to the exact needs of a customer. Mainly used for very small volume, even one-off jobs. Garden designs, wedding dresses, paintings, personal trainers, tailors are examples.

ADVANTAGES – high quality item made from start to finish by one person or a small team. Provides a personal service so try to gain an advantage over competitors.
DISADVANTAGES – is an expensive and slow method of production. Requires skilled workers, perhaps lots of training and a lot of changes in the production process.

Batch Production

Groups of similar products are made in batches at the same time. A group of items move through the production process together, one stage at a time. Bakeries, clothing manufacturers and fish and chip shops are examples.

ADVANTAGES- Can use machinery to speed up the production process and can make large quantities in batches. Employers can specialise in certain tasks and become efficient in them.

DISADVANTAGES – If making large volume to make use of machinery when it is set up, the business has to make sure it has sales, so will need to estimate its sales. If it gets this wrong it could have a lot of unsold products that may get wasted.

Flow Production

When an item moves continuously from one stage of the production process to another. This is used when businesses expand and need to produce large volume of the same product.

Advantages of flow production

Can produce in huge volumes of output.

Allows for specialisation, which means process is broken down into a series of stages and individuals can specialise in each stage so they become more efficient which speeds up the whole production process and makes people more productive. This is also known as **division of labour.** As production is high volume you tend to get lower average costs as cost of production – machinery, set up, wages, fixed costs etc.. are literally spread over thousands or millions of units of production.

e.g. worker is paid £10 per hour so if they make 10 items per hour ave cost is £1, but if they make 20 items an hour then the ave cost drops to 50p.

Disadvantages of flow production

Initial costs of setting up production are high. Production line can cost £000's.

It is risky due to high set up costs and uncertainty of demand so expensive equipment may not be used efficiently.

Can be a lack of flexibility as flow process geared up for producing similar and often standard items, so maybe cannot change production line to make a new product.

Specialisation can lead to boredom and dissatisfaction as workers doing same task each day. May lead to people leaving – known as high turnover.

Examiners tip

An exam question may ask whether or not a business should introduce flow production. You need to consider issues such as cost, level of demand and the need for flexible production.

HOW PRODUCTION CAN BE CARRIED OUT EFFICIENTLY

Efficiency of a business will improve where it produces more outputs from the same amount of, or fewer resources. Technology through computers, robots, machinery will help to increase production. Technology also allows businesses to reduce costs as they can produce 24 hrs a day and machines once set up can continue producing over long periods of time, often with very little waste.

Costs can also be reduced due to machines replacing the need for workers, so sadly people lose their jobs as wages are saved.

Examiners Tip

There are advantages and disadvantages to small businesses of using technology. A disadvantage is the initial set up cost of the equipment or machinery, and staff need training, but an advantage is that in the longer run through saving wages and making more from the same resources it reduces costs.

Impact of technology on production

Costs are reduced per unit. Computers aiding design and manufacture CAD and CAM, means designs and processes can be easily changed. This also helps improve quality, maybe by designing a slimmer product.

Computers and robots help speed up the production process. Heinz can make 18,000 cans per hour through a fully automated production line (machines only) so costs per unit are dramatically reduced.

Technology also allows you to improve deliveries by tracking the progress of an order, so customers know exactly when to expect the items.

Computer based manufacturing can cut out and make differing sizes and moulds and shapes so this allows a business to be very flexible with what it offers customers and have the ability to change production quickly to meet changing demand.

2.3.2 working with suppliers

Relationships with suppliers are very important, particularly where a business does not want to hold much stock but wants to make sure suppliers always deliver on time. Suppliers need to deliver EXACTLY when the materials are needed and of the right QUALITY so nothing has to be returned as rejects.

Poor suppliers lead to a business losing customers, not being able to offer a wide range of services, gaining a poor reputation and not being able to meet customer deadlines for delivery. Customers of a business blame the business they do not blame its suppliers, so it is vital to establish good close links with the suppliers.

PROCUREMENT is buying items from suppliers. The relationship between a business and its supplier will need to make sure that they agree on the prices of the items being bought, delivery dates are agreed, including who pays delivery costs, the quality of the items is agreed, the availability of the items – don't say ready in 2 weeks if it will take 4 to make, the capacity to make what is required within the timescales, and finally there has to be a good level of trust between supplier and buyer (the customer). Payment details are also important.

Sometimes a business will draw up a contract with a supplier and it may be based on a volume over a period of time. So, based on buying 20 million packets of Weetabix in the next year then the agreed price is 45p per pack.

Logistics

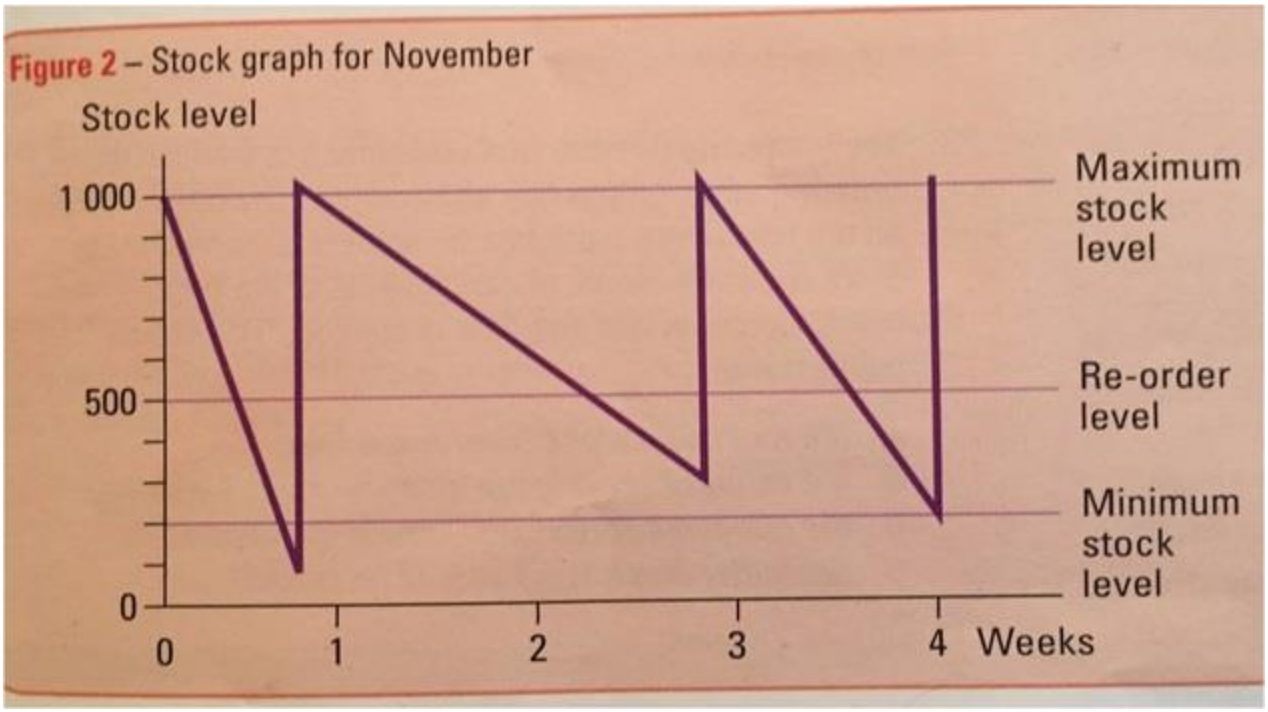
Organisation of transporting products from supplier to customer. If a business can get a reputation for providing a fast efficient service to customers so they are satisfied, is going to get more business.

Managing stock

Stock comes in 2 forms – the raw materials used in the manufacturing or transformation process and then the finished products before they get sent out to the customers.
Controlling stock is important. Run out of raw materials and you cannot produce the finished items so you may upset a customer who may go elsewhere in the future as you have let them down, or there are spaces on the shelves because you cannot make the products. BUT, having too much stock gives you problems as you may run out of storage space, you have bought all the materials but are not using them, or made finished products but cannot find customers to buy them, and all of this increases your costs. In some industries if the stock has a short life span – foods, then it may have to be thrown away, so you have bought the ingredients, paid someone to make the item, then just binned it!

Managing stock is therefore important to a business if it wants to efficiently control its stock levels and its COSTS and ultimately its PROFIT levels.

Two ways of doing this are – **bar gate stock graphs**



You have maximum and minimum stock levels and a re-order level. Based on how long it takes to get the item in, from when it is ordered (known as the LEAD TIME) you set a re-order level around this. In the graph above the business will re-order its stock when it falls below 500. Ideally you do not want to drop below the minimum stock level as there could be danger of running out. The shorter is the lead time, i.e. the quicker your suppliers can deliver then the easier it is to control your stock. If it was next day delivery then you can risk holding lower stock levels, but if the item comes from china and takes 6 weeks then you need to hold a lot of stock and to also place orders for a lot of stock each time you order.

The second way to manage stock is **just-in-time stock control**

This is production to order so you only make when there is a customer. For this to work suppliers need to respond quickly and you cannot afford for anything to go wrong.

e.g. Nissan operate just-in-time so seat and exhaust suppliers deliver right onto production line, they do not deliver into the warehouse. This saves on storage. It is a more effective way of controlling costs as you only buy when you need the materials and don't build up stock just-in-case!

2.3.3. Managing Quality

Good quality is where an item meets its customers expectations. These can vary considerable as one person may want a luxurious hotel room with good quality food and excellent service, whilst another is happy with a low cost hotel room and a lower standard of service. Both can be examples of good quality – if they meet customer expectations.

Introduction to quality problems
As you grow you employ more people and make more products and sell in more markets. Managing can become more complicated and it is easier to make mistakes or for people to start doing things in their own way. This all leads to inconsistencies. Sometimes this leads to **outsourcing** where you get another business doing work for you, be it making products or running a call centre. It is usually cheaper as you use specialists to do work for you as you feel they can do a better job.
You need to make sure the quality of these businesses is equal to your own and there is a need to monitor what they are doing as mistakes by them can affect the reputation of your own business.
A **quality** product is one that meets the customer requirements.

Identify quality problems
Once standards are set you can measure whether they have been achieved. Some examples are;

- a hospital measures quality by checking patient waiting times, or measuring successful operations
- airlines set targets by looking at percentage of planes taking off on time, number of customer complaints, no of bags that go missing
- a chocolate manufacturer may measure products meeting weight targets, taste targets, deliveries to customers on time.

Measuring quality
Need to decide who is responsible for measuring quality

Customers – ask them to complete questionnaires or contact the business if they have a problem. Could also ask customers to recommend idea's for improvement.

Mystery visitors – hotels, restaurants and shops use mystery shoppers/visitors to comment on level of service they receive when visiting. They may purposely ask difficult questions to monitor how staff treat them.
Staff - staff can check quality either as they go along at each stage, or at the end. **Quality inspection** checks to see if mistakes made and there are any defects.
Some businesses look at **quality assurance** – where they get staff to work on preventing mistakes rather than checking for mistakes after the item has been made. This saves on waste and money however staff do need training. Faulty work must not be passed on.

Cost of Quality

There are costs to achieving better quality, these being;

- cost of inspection and checking
- cost of training staff to check their own quality

Costs of poor quality are;

- cost of recalling faulty products – embarrassing if you need to ask customers to give the items back because of a fault
- replacing faulty goods. New items need to be made to replace faulty ones.
- Cost of waste – poor quality needs to be scrapped
- Cost of producing goods that no one wants
- Cost of legal action if you are sued for poor quality. Customer may need items urgently and if you cannot deliver you may get sued.

Maintaining consistent quality

Make sure suppliers are reliable and their products are good quality.
Train staff so know how to do jobs properly and what desired standards are.
Ensure staff have right equipment to do the job.
Inspect products at every stage of production to ensure no defects are sent out.
Involve staff in improving the process i.e. Kaizen groups, and get their opinion on best ways to work or make improvements.

Why does quality matter

Customers are more likely to come back and recommend a business if they can trust its quality. If customers know what they are going to get they are more likely to return and stay loyal with repeat business. A bad experience however may lead to customers not coming back, and telling their friends of their bad experience so new customers could be lost.
Avoiding mistakes also saves money – no need to scrap it and re-make another, or rework a faulty item.
It gives a business a COMPETITIVE ADVANTAGE if it can have a high level of quality whilst controlling its costs.
As customers want reliability, a business with a very good reputation could end up charging a higher price as customers pay for quality and reliability.

Examiners tip

Remember that good quality products are not necessarily expensive – they simply do what they are expected to and are seen as excellent value for money. To achieve quality managers must set the targets that customers want and then make sure they achieve these targets time and time again. To achieve good quality the firm will have to spend money at first but it will save money in the long run.

2.3.4. the Sales Process

Customer interest this is done through marketing activities to get customers attention. Having good product knowledge particularly where detailed technical knowledge is important will help satisfy its customers. This can add value to the product. Also need to show customer how the item or service can meet the customers needs and be a benefit to them.

Approaches split between a **hard approach** where sales employees approach and engage customers, encouraging them to buy, or a **soft approach** where sales employees make customers aware they are available if information is needed but allows customer to look themselves.

Speed and efficiency of service is important. If a customer has to wait for too long them may go elsewhere. A faster delivery service may be required. Websites need to be user friendly as if it is complex then customers may look elsewhere to buy. Similarly the website needs to be easy to look around.

Customer engagement is important during the sales transaction. This is not too critical when buying low cost high volume items but when it is a large purchase there needs to be continual engagement with the customers. Building positive relationships with customers through engagement is important.

Post-sales service and customer feedback is important if the customer needs guidance or support in using the product and dealing with complaints if it is faulty or does not meet customer expectations. Some businesses offer an annual free service so they keep a good relationship with the customer. Feedback is important as a business knows how to improve their sales process in the future. This feedback may include online questionnaires or paper questionnaires.

Customer loyalty will hopefully result from treating customers well. Following the process will help give a competitive advantage over their rivals. Satisfied customers are more likely to return.

Importance of providing good customer service
As expectations can differ between different industries they need to understand its customers and their expectations. Customers can pay more if they know they get excellent customer service with knowledgeable and experienced staff.
Mystery shoppers are used by businesses to check the quality of their sales process, asking awkward questions to test out the level of service offered.

Such shoppers then offer feedback on their experience when buying, how they were treated, did the sales person know their stuff.

2.4 MAKING FINANCIAL DECISIONS

2.4.1 business calculations

Profit and Loss Accounts (P&L) or Income Statement

Such accounts are needed as the **Law** states businesses under the Companies Act have to produce financial statements. This DOES NOT apply to partnerships and sole traders however. The P&L also helps **managers** make decisions, i.e. if profits are lower than expected then decisions need to be taken. The P&L will also help **potential investors** who want to see how much money the business makes before deciding whether to invest or not.

The P&L account is as follows;

Revenue	25,000
Less	
Cost of Sales	8,000
Equals Gross Profit	17,000
Less Expenses/overheads	7,000
Equals Net Profit	10,000

Where Cost of Sales is the cost of making the products that have been sold i.e. material costs. These are the Variable Costs.

Gross profit is the profit made after deducting the costs from making its product or providing its service.

Expenses or Overheads are costs that do not vary directly with production, such as staff wages, advertising, rent, loan repayments. These also known as Fixed Costs.

Net Profit is more accurate as it reflects what the business has left to spend when ALL costs are deducted.

Interpreting Financial Statements

The owners, managers and potential investors will want to judge how well a business is doing. They will want to compare the profit with previous years, or compare the assets against liabilities from previous years. They will also compare profits with similar size businesses.

Ratios are used to make comparisons.

Profits Ratios – we cannot take a profit figure in isolation to judge how well a business is doing. £50,000 may look like a very healthy profit to a certain business, particularly if last year it made only £35,000. However if sales revenue was £3 million then all of a sudden £50,000 does not look too good.

To make better judgements we must compare profits with other figures to determine how successful a business has been.

Gross Profit Margin allows us to compare the gross profit figure from the P&L account with the sales revenue. The higher is the percentage then the better as it shows cost of sales is low relative to revenue.

$$\text{Gross profit margin} = \frac{\text{gross profit} \times 100}{\text{Revenue}}$$ this converts to a percentage

Net Profit Margin is probably a better judgement as it considers the profit left when all costs are deducted and it measures this against revenue.

$$\text{Net profit margin} = \frac{\text{net profit} \times 100}{\text{revenue}}$$ again this converts to a percentage

so if revenue is £250,000 and net profit is £25,000 then net profit margin

$$\frac{25{,}000 \times 100}{250{,}000} = 10\%$$

To decide if a net profit margin of 10% is good it needs to be compared with what it was last year and perhaps the year before.

Should also compare (if possible) with similar businesses to see how well you might be doing.

A further comparison is with the gross profit margin. If the GPM is 80% but the NPM is only 10% then it tells you that a business has low material costs but its expenses are very high and in need of reducing.

Average rate of return is used when making investment decisions. It is the annual amount of income generated over the lifetime of the investment. It is calculated as a percentage and is as follows:

$$\frac{\text{Average annual profit}}{\text{Cost of investment}} \times 100$$

So if a shop is expected to take 25,000 then 30,000 then 35,000 over 3 years then its average annual profit is 90,000/3 = £30,000

If the initial investment was £150,000 then the average rate of return is:

$$\frac{30,000}{150,000} \times 100 = 20\% \text{ per year.}$$

This value is useful to help decide in investment decisions when choosing between 2 options.

2.4.2. understanding business performance

Reading performance data is important to a business to make judgements about how they are performing and to be able to identify trends.

Using and interpreting graphs and charts
Sales revenue or profits can be plotted either on a weekly, monthly or yearly basis. It allows easy monitoring of how well or badly a business may be doing against some time in the past. It may show profits over the past 10 years, or revenue on a monthly basis over the course of a year. This could be a line graph or a bar chart. Pie charts can also be used particularly when showing percentages.

A scatter graph can also show the difference between 2 variables, as they can identify strong positive or weak correlations.

Market data
This may provide information on market size, number of competitors in the market, average prices, average incomes, population changes and unemployment rates.
Market data may help with decisions about locating a shop – considering the amount of competition, average incomes in the area or the amount of unemployment. Is there a younger or an ageing population may be an issue.

QUANTITATIVE data allows you to look at surveys and feedback to monitor customer satisfaction ratings.
QUALITATIVE data is harder to collect as it is about individual customer opinions and attitudes. It is not as easy to quantify as what quantitative data is by way of graphs.

Interpreting financial data can include sales revenue, costs, profits. As mentioned earlier a business can calculate its gross and net profit margins.
There can be problems with the information.
Time delays can be difficult as it takes time to gather information so it can quickly become out of date.
This financial information can help in decision-making. It can monitor how revenues or costs are progressing against previous years or months, and also against what was forecast. Businesses do need a lot of data however to be able to make proper comparisons. This is difficult for a new business or one

that is only 2 years old, as they struggle to work out whether there is a trend or is it a one-off.
There can also be differences in interpretation. A 5% increase in sales may look good but if the market has increased by 15% in the same period then it is not so good, or if sales have increased by 10% but net profit margin has fallen by 3% then there are concerns with costs over the same time period as costs increase will have outstripped sales increases. Also depends on the positive or negative slants you can put on things. 8 out of 10 prefer sounds a lot better than saying 20% would not like…
Having non-financial aims and objectives can also blur the figures. Financial figures are what everyone looks at, but the business may be gaining a very good reputation for being ethical and environmentally friendly. So whilst profits are not being maximised its reputation may be growing massively.
Most financial figures are QUANTITATIVE, just looking at figures. There is a place for QUALITATIVE information however. A business may be showing good financial figures in terms of profits but its reputation may be suffering, and employee morale could be low. Some would argue Amazon and Sports Direct show good financial figures but reputation amongst its employees may not be good as their working conditions are tough.

2.5 MAKING HUMAN RESOURCES DECISIONS

2.5.1. Organisation Structures

As businesses expand they take on more employees and as a result of this there is a need for **Organisation Structures.** Such structures will show levels of authority and who reports to who, i.e. who is the line manager for each employee.

As an example, in an organisation you will typically get a chief executive at the top, then 3, 4 or 5 directors reporting to the chief executive. These directors will have 3,4 or 5 managers reporting to each of them, then the managers will each have 3 or 4 team leaders reporting to them. Beneath the team leaders there will be shop floor workers.

A **span of control** is the number of employees who report directly to someone.

Tall organisation structures are where there are a number of levels of authority. Each person has a narrow span of control so in reality each person only has 4 or 5 people who report directly to them.
In tall organisations there can be delays in communication as there are many levels of authority for messages to pass through. Messages could take time and people but different interpretations on information so things may not be clearly understood.

Flat organisation structures are where there are only 2 or 3 levels of authority. Each person has a wide span of control with perhaps 7 or 8 people reporting directly to them.

In flat organisations it is easier for communication as there are only one or two levels for messages to pass through.

In flat structures the manager has to be responsible for a wide range of employees within their wide span of control. This means they have to **delegate** more by giving such employees responsibility to make their own decisions.

Examiners tip
Do not forget that a span of control refers to the number of employees who are directly managed by a more senior employee. This means that these employees are on the next level of hierarchy down and report to this particular manager.

Management styles. In some businesses the senior managers make all of the decisions and give very little freedom to junior employees. They have little independence or **authority** to make decisions. This is known as **Centralisation**.

In other businesses the senior managers are happy to give junior workers the freedom to make decisions, so many employees will make decisions on behalf of the business. This is known as **Decentralisation**.

POSSIBLE EXAM Q
How can decentralisation improve a business.

- reduces pressure on senior managers and allow them to concentrate on the key decisions of the business
- motivates employees as they become more involved in decisions
- those lower down making decisions may be best placed to make them, rather than someone at the top
- can give quicker decisions as don't need to clear things with senior managers
- senior managers may feel undermined and lose motivation
- are junior employees up to the job of taking extra responsibility, may need training
- everyone must understand business objectives so all decisions taken are seen to be in the best interests of the whole business

Some businesses may decide to remain centralised as this enables the senior managers to keep the decision making to themselves, and they may feel it is putting too much pressure on junior employees to ask them to make decisions.

Importance of effective communication
This can include holding conversations, meetings, phone conversations or through skype, video conferencing etc..
Communication can also be in writing in the form of letters, reports, posters, e-mails, texting, facebook and all other digital methods of social media.

Impact of insufficient communication
This means people not talking enough so managers not keeping employees updated so leads to mistakes. Can also mean not communicating enough to customers or suppliers so people are not kept informed. All of this leads to possible mistakes and consequences could be higher costs or lower sales and therefore less profits.

Impact of too much communication
If workers or managers receive too much information or instructions then they may also get mixed messages and cannot do their jobs effectively. May take time to read through all instructions so it becomes slower, and whose instructions do you follow? This can be a result of too many meetings, too many e-mails and too many forms to complete.
E-mail overload is an increasing problem in all businesses.

Barriers to effective communication
These are all the things stopping communication from reaching their intended audience. Some of these are as follows:
Written - spelling errors, illegible handwriting (cannot read it), poor presentation.
Verbal – different languages spoken, accents not understood, speaking too fast
General – use of jargon, cultural differences and different interpretations of something, timeing, communication structure not clear.

Different ways of working
People tend to work either **Full-time, part-time or on a temporary basis.**
A temporary worker is one with a fixed term contract so they may work for say 3 months over the summer, just December for the Christmas rush, or could have a one year contract (we have some teachers who are temporary for one year then if they are not needed they will finish).
Temporary workers can either be classed as Full-time or part-time.
Part-time is usually seen as less than 30 hours a week. Anyone on a zero hours contract will be part time and also temporary.

Generally having part time and temporary workers allows you to control your costs as you only pay for staff when you need them. A shop may use part time workers between 10am and 3pm where they might be busiest or the Alnwick Castle will use temporary workers for bank holidays, school holidays and other functions, but not during quiet periods. Permanent staff can be expensive if they are full time so businesses keep these numbers to a minimum then increasingly top up with temporary or part time workers.
A part time worker could be either permanent – working say 20 hours every week, or temporary i.e. 20 hours but just May to September.

Impact of technology on ways of working
Obviously technology has a massive impact on how people communicate. Technology can improve efficiency as it is far quicker to send an e-mail than a letter, or to reach people nationally or globally through digital technology –

websites and social media. People do not need to travel thousands of miles for meetings due to technology like skype or facetime or video conferencing.

2.5.2 Effective Recruitment

Recruitment process.

There are stages within the recruitment process and they are as follows:

- identify need for new employees
- create a job description and person specification
- advertise the job, internally or externally
- receive applications from candidates

Job description explains title of job, what you need to do, hours and who you report to.

Person specification considers skills, experience and qualifications needed to do the job. Some qualities and qualifications are essential and others are only desirable. The more essential criteria you have enables you to more easily short list down to a small no of 5 or 6 to interview.

Job advert can be placed in local or national newspapers, specialist magazines, job centres or internet. It all depends on the job and specialist skills needed.

Applications can be through letter of application, a curriculum vitae (CV) or an application form. This includes personal information relating to how well they think they can do the job.

Selection process

There is a need to short list by matching applications to the job description and person specification. Once a short list of 5 or 6 is drawn up then they will look to select the best person for the job.

Interviews – meet candidate face-to-face to ask questions on their ability to do they job and to see what they are like. May not get best person because some people are good at interviews but others who could potentially be a better person for the job get nervous and interview badly.
Could do a series of interviews using different people in order to get a range of opinions, or could have a panel of 3 or 4 doing the interview.

Psychometric tests – multiple choice tests to find the personality of the candidate to see if it suits what you are looking for and if the person will fit into the business or team.

Assessments – this is a form of test to see if the candidate is up to certain tasks i.e. teachers may have to teach a lesson and be observed, or candidates given a problem to discuss and contributions are observed.

Methods of Recruitment
Internal – This is where you promote someone from inside the business or transferring to another job. This is advertised by notices or internal adverts on business computer system.

Advantages of Internal –
- Have experience of the business
- Cheap method of recruitment as no need to advertise in newspapers
- Know the other workers
- Offers opportunities for promotion

Disadvantages of Internal –
- Choosing from a limited field of candidates
- Creates bad feeling amongst the unsuccessful candidates
- May not be able to step up e.g. a worker now becomes a supervisor and now has to control those he/she was previously part of
- Lose out on fresh ideas and skills from outside
- May need more training if it is a promotion

External – Getting someone who does not work for the business. There are a few methods;
- Advertising, can be done via local or national newspapers, or local radio or now through social media
- Job Centres, run by Government and they will advertise for you and put potential employees in touch
- Recruitment Agency. They give you details of suitable candidates from their records (people register with a Recruitment Agency) and they may even do the initial interviews for you. This saves you time but it comes at a cost as you need to pay the Agency for this work.

Advantages of External –
- Get a wider range of candidates applying so get higher quality.
- Brings fresh ideas and enthusiasm
- Gets people with right skills immediately so no need for a lot of training

Disadvantages of External –
- It can be very expensive putting adverts in papers (£000's) or with a Recruitment Agency
- Don't really know the person you are getting and they might be good liars in interviews, but cannot do the job

<u>2.5.3. Effective Training and Development</u>

Induction – training given to new employees on things like equipment, knowing who is who, key information on the business and their role in the business.

On-the-job – given in the workplace, working with more experienced employees who provide guidance whilst working on the job itself. This is cheap but won't necessarily bring in new ideas. Does give exact training that is needed however.

Off-the-job – can involve attending a course or a college. Will bring in new ideas and approaches. Because it is off site it can be expensive and who does employees job whilst they are out being trained. Could be expensive and employees might leave once money has been spent on their training.

Examiners tip
Do make sure you know the advantages and disadvantages of the types of training as this is a common area for examination questions. You should also know the ads and disads of training in general.

Exam Q – Explain the advantages and disadvantages of training

Employees learn new skills so it makes them more flexible and knowledgeable and better at their job so they make less mistakes and may be motivated to make or sell more thus improving levels of sales and profits. Employees feel more valued, loyal and motivated.
There are disadvantages however – it is costly, particularly off-the-job training, and the job may not get done when training is happening off site. If employees leave now they have developed new skills then it is money wasted and need to spend more on new recruitment and training of replacements.

Formal training
Conferences, webinars, presentations, professional exams or tests, online training course, workshops, qualifications at college.

Informal training methods
Talking with colleagues, talking to people from other businesses, observing colleagues, reading papers and articles.

Some training can be **on-going** where the employee may continue training and updating skills over a long period of times. This leads to higher levels of **productivity** as workers become more familiar with their widening job role.

Target setting and performance reviews, or appraisals
Most employees will set targets with their bosses. These then need to be monitored to see how well they are doing against such targets. It is a judgement about someones performance over a period of time, identifying where someone has areas of weakness and what they are good at. Training needs are identified but it is also an opportunity for employee to say how they feel, what they are doing well and how they want to improve in the future. Employees can identify where they may want to work and training they want in the future.
Targets are set for a future period of perhaps 6 months or a year. These are monitored. The key aim of an appraisal is to improve business performance.

Reasons to train and develop employees
Shows employees how much the business values them.
Ensures employees are up-to-date with latest changes
Identify any gaps in knowledge or way their role is performed
Allows employees to do their jobs well and continually improve
These 4 points are a good way to **motivate** their employees.
Retention rates are important for a business. They show how many workers remain at the business over a period of time, usually measured as one year. A retention rate of 95% is very good as it means that most workers have chosen to stay with the business over the year. A retention rate of say 70% is not so good as it means that 30% of workers have left within the year, and most if not all would need to be replaced. This is a lot of people and is costly to recruit the replacements.
Types of business have different retention rates. A business only having full time employees may find it has higher retention rates than a business only employing temporary, part tie or zero hour contract staff, who will often be looking for more job security elsewhere.

Retraining to use new technology
With all the technological advances it is important to keep updating staff training to develop staff with the new techniques. This allows a business to adapt and keep up to date with new systems and technology.

2.5.4.Motivation
This is a range of factors designed to influence people to behave in a certain way. It can come from within a person – their own desire to do well and do a good job, and from outside – the promise of a reward, extra responsibilities. It could also be by way of threats of punishment. This is usually short term as if you are in fear of being punished then it is likely you will soon look for another job elsewhere.

Benefits to a Business of motivated staff
- Hard working employees who want to do a good job and do it as effectively as possible
- Employee loyalty. If staff are treat well they will want to stay with the business. Saves money on the need to train new staff and saves on the recruitment costs of always having to replace staff.
- Supportive employees. They will look to offer and contribute more. May have good contributions to offer their bosses.

MONETARY BENEFITS GIVEN TO EMPLOYEES
These may be necessary to attract people and also keep good staff, stopping them from wanting to leave.
- Bonuses. These are based on either sales targets or production targets being achieved.
- Pension contributions. Pensions are essential for when you retire and some businesses will pay into an employees pension fund each month so it helps the fund grow, which means better pensions in retirement.

- Profit sharing. If a business dos well and makes good profit then as a reward to its staff it could offer to give them a share of the profit.

NON-MONETARY BENEFITS

Often a business cannot afford monetary benefits as it may not be making much profit and monetary benefits can greatly increase costs, so the following could be given instead:

- Flexible hours. Staff do not need to be in the same time each day, so long as they work their 38 hours (or so) a week then they can start early and finish early or start late. They have the flexibility so may be able to work around things like childcare.
- Job enrichment. Give workers a range of challenging and testing tasks that are more demanding.
- Training. Staff feel better if they can contribute more and do more. Training helps them to achieve this.
- Team working. By organising workers into teams they have more sense of responsibility and develop working relationships with other employees.
- Financial rewards. Though not great if not much money is available there could be scope for a small pay rise or for a share of profits.