Business Management IB Notes

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Topic 1: Business Organisation and Environment

Business	Primary	Secondary	Tertiary	Quaternary	Description of Main Activities
Coca-Cola					A soft drink company popularly known across the globe for its taste.
HSBC					A bank that was established in Hong Kong that now serves all around the world to give out credits etc.
FAW (China)					A company that produces cars using primary sector materials such as metals, oil etc.
RTZ					A mining company that mines worldwide for precious minerals all across the globe.
Wyndham Worldwide					A company that provides hotel services all across the globe originally created in the U.S.A in FL
RR plc					Is a company that creates engines, cars and uses commodities originally created in the UK.
Capco					A business that dedicates its workforce into creating financial services and serving companies.

Function Name	Function
Human Resources	Ensuring that appropriate people are employed to make a product or service and that the people are suitably rewarded for doing so. To accomplish these goals, the HR department must recruit people, train them, at times dismiss them, and determine appropriate compensation.
Operations Management or Production	Ensuring that appropriate processes are used in order to make a product or service and that the product or service is of the desired quality. To accomplish this goal, the operations management or production department must control the quantity and flow of stock, determine appropriate methods of production, and, in today's competitive world, look for ways to produce the good or service more efficiently.
Finance and Accounts	Ensuring that appropriate funds are made available to make a product or service. To accomplish this goal, the finance and accounts department must forecast requirements, keep accurate records, procure financial resources from various providers, and ensure proper payment for goods and services acquired to operate the business.
Marketing	Ensuring that the business offers a product or service that is desired by a sufficient number of people or businesses for profitable operations. To accomplish this goal, the marketing department must use appropriate strategies to promote, price, package, and distribute the product or service.

All of the sectors are **interdependent**. This means that they all depend on each other in some way. The Finance and Accounts sector depends on marketing which requires some kind of sales to calculate and record payments. Another example would be that production management requires labour and humans to function properly which is entirely dependent on the HR department who hires workers, HR depends on Finance depending on how much salary they pay (budget) etc.

- Capital Intensive - when a business requires lots of capital (money, resources) to be invested otherwise it would not function properly.

- Labour Intensive - when a business requires lots of labour (workforce, humans) to be invested otherwise it would not function properly.

Tangible goods are goods that can be physically touched, measured and **intangible** goods are usually digital goods that can not be touched but possibly measured. **Sector**, a whole different case, can not really be touched nor measured so it is a whole category on its own.

Production Chain

Sector Name	Difference
Primary	Primary sector consists of gathering resources from the world. Some of these examples would be mining, fishing, gathering oil, bottling up water etc. The main difference is that first of all, this is NOT a service. Second of all, it is '**gathering**' resources. This is the main difference when compared to other sectors, it gathers.
Secondary	Secondary section is product and refining. The main difference is that this sector requires primary resources to work with, however, it is also important to note that it's main function is to **produce** products, rather than gathering them or providing a service.
Tertiary	Tertiary is providing a **service** to people, some of the examples would be teaching, banking etc. However, it is important to know that this is immeasurable and it does not provide a 'physical product' to work with. The main difference between quaternary is that it provides service to regular people, whereas quaternary is like sharing ideas.
Quaternary	Quaternary, although similar to tertiary, is different. Although both can be considered as a service, the **service** that is provided is different. Whilst tertiary focuses on providing service on a global scale such as hotels etc, quaternary mainly focuses on research, media, computers and other economic sectors.

Why do people start up businesses?

The primary reason that people startup and create businesses is to make money. Culturally, it is known that creating your own business is more profitable and more gainable rather than working for somebody. It could also be emotionally, people might not want to be controlled by their bosses which is generally the case when you work for a company.

Why governments support businesses

There are four main reasons why the government would support a business:

1. **Reduce unemployment** - with the start of a business the unemployment would be reduced as citizens have an area to work in.

2. **Increase the GDP** - the business increases the value of the country and gains money from potential customers which can increase the GDP if the

business is located in the country.

3. **Strengthen the economy** - more businesses allow a stronger economy because of money gains in the country, this can help strengthen the currency of the country and make it richer.

4. **Innovation and technological change** - new businesses tend to be innovative and this creativity adds dynamism to the economy. This creativity can ‘rub off’ on another business and help to make the nation’s business sector more competitive.

Problems most new business ventures could face

1. **Competition** - this is nearly always a problem for new enterprises unless the business idea is unique. More generally, a newly created business will experience competition from older, established businesses with more resources and market knowledge.

2. **Lack of record-keeping** - accurate records are vital to pay taxes and bills and chase up debtors. Many entrepreneurs fail to pay sufficient attention to this as they either believe that it is less important than actually meeting customers’ needs or they think they can remember everything.

3. **Lack of finance and working capital** - In an International Labour Organisation (ILO) survey of new business start-ups. The problem of finance came at the top of the list of replies from entrepreneurs regarding main difficulty. Why is obtaining finance such a major problem for entrepreneurs?

4. **Poor management skills** - most entrepreneurs have bad form of work experience, but not necessarily at a management level. They need good experience in: leadership, cash handling and cash management, planning and coordinating.

What is in a business plan

- **The executive summary** - an overview of the new business and its strategies.
- **Description of the business opportunity** - details of the entrepreneur: what is going to be sold, why and to whom.
- **Marketing and sales strategy** - details of why the entrepreneur thinks customers will buy what the business plans to sell and how the business aims to sell to them.
- **Operations** - premises to be used, production facilities, IT systems
- **Financial forecasts** - the future projections of sales, profit and cash flow, for at least one year ahead.

Example

Name of Business	Pizza Plaza Ltd
Type of organisation	Private Limited Company
Details of business owners	Peter Chun - chef with 15 years' experience Sabrina Singh - deputy manager of restaurant for three years
Business aim	To provide a high-class takeaway pizza service including home delivery
Product	High quality home-cooked pizzas
Price	Average price of $10 with $2 delivery charge
Market aimed for	Young people and families
Market research undertaken and the results	Research in the area conducted using questionnaires Also, research into national trends in takeaway sales and local competitors Results of all research in the appendix to plan
Human resources plan	Two workers (the business owners) to be the only staff to be employed initially
Production details and business costs	Main supplies - R and R wholesalers Fixed costs of business - $70,000 per year Variable costs - approximately $2 per unit sold
Location of business	Site in shopping street (Brindisi Avenue) just away from the town centre.

	Leasehold site (ten years)
Main equipment required	Second-hand kitchen equipment - $6000 Second-hand motorbike - $2000
Forecast profit	See financial appendix to this plan Summary: In the first year of operations the total costs are forecast to be $55,000 with revenue of $85,000. Predicted profit = $30,000
Cash flow forecast	See financial appendix to this plan Due to the high set-up and promotion costs there will be negative cash flow in the first year
Finance	$10,000 invested by each of the owners Request to bank for a further $10,000 plus an overdraft of $5000 per month

Who would be interested in the business plan

- The plan allows **potential investors** in the new business - and **the bank** - to make a judgement about the viability of the idea and the chances of the owners making success of it.

- The financial forecasts in a business plan can act as budgets and control benchmarks for **internal stakeholders** such as business managers.

- Updated versions of the can be used to apply for additional funding, to attract **additional partners** or to supply data for the **experts** if a stock market flotation becomes an option.

- **Employees** will find that planning helps identify specific objectives and targets and give focus to their work, which aids motivation.

- **Suppliers** may be able to tell from the parts of the business plan that are communicated externally whether it is worthwhile establishing a long-term trading relationship with the business.

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If I was a bank manager reading the plan (see page 5), would I give a loan?

Market research would determine whether the society or the demand is enough for the business to work. It is whether this type of business is lacking within a specific place, and sales would be guaranteed because the demand is high but supply is low. Market research helps determine this. Other benefits of market research would be what target audience is present within a place, and who the business will sell its product to. The current business plan shows no market research whatsoever in whether there is a high demand on high quality pizzas within the area that they will sell, so it is a pass in this section.

Experience of a business owner is essential in order to be skilled and run the business. A person who newly starts a business may not have the required skills such as risk-taking, careful, thoughtful, free in time etc. to run the business. In this case study, although the owners have experience in regular work, they might lack experience in ownership. This also means that the rest of the staff will have to be experienced for the business to be effective in making profit.

Forecast profit of the business is looking positive. A forecasted profit of $30,000 seems plausible but it is also important not to exaggerate what is going to happen. Overall it is very planned, however, it is still rather suspicious whether the forecast profit would be correct as there is a lack in market research within the business plan.

- **Loan** - is a source of capital for a business which contains interest. This means that the business gets money for a bank for a period of time, and pay extra back depending on interest percentage. I.e if a business takes a loan $10,000 and has an interest of 10%, they get $10,000 and will have to pay back the $10,000 + 10% aka $1,000, paying a total of $11,000 back.

- **Overdraft** - when a bank account withdrawals are higher than what is inside the bank account. I.e if there is $500 in the bank and the person withdraws $700, his overall balance will be -$200 and this is an overdraft.

Credit cards are cards that take an automatic loan from a business if their payment is not enough / there are insufficient funds to purchase an item. When attempted to purchase, the credit card automatically takes a loan and purchases that item.

Companies that were established during a recession

Some of the famous examples of companies that started during a recession are: IBM, DIsney, Burger King, General Motors, CNN and Microsoft. There are multiple advantages and disadvantages of setting up a company in a recession. These are:

Advantages	Disadvantages
During an economic recession, many people are searching for work. This means that the labour can be cheaper for companies that start up during those times.	This also means that the currency loses value and companies that started during those times might have little to no value compared to other countries because of the fall of the economy and currency.
It gives advantage to the company that starts during recession as their competitors might be hurt or be losing market share during the recession.	Start-up costs during an economic recession might be a lot and put the owner/CEO of the company into stress for paying debts etc.
Other costs such as raw materials etc. will also be cheap during a recession which can cut costs for the company when they produce their product.	Cash flow for already existing companies will be reduced as people have less spending power across that place that suffers from a recession.

Sole traders (Sole proprietors)

Sole trader - also known as “Sole proprietors” is the simplest form for-profit business. The single owner form of business only requires one minimum of an individual operating the business.

Advantages	Disadvantages
Decisions can be made without consultation	The sole trade has full responsibility over any legal claims and problems
Profits are not shared but retained by the individual operator	Sole traders have unlimited liability meaning that if the business goes bankrupt the debt-payers give rights to debtors to take away property, even personal.
Decision-making is faster, the owner decides everything	There is a lack of ideas for the business to thrive as they’re only limited to one person
Lower start-up costs, making it easier	Capital limited to the single sole trader meaning opening big businesses might be impossible

Able to establish close personal relationships with staff and customers	It can be hard to take holidays
Able to choose times and patterns of working	Retaining high-calibre employees can be difficult
The business can be based on the interests or skills of the owner - rather than working as an employee for a larger firm	Long hours necessary to make business pay

Partnerships

Partnership - when two or more individuals come together they can decide to form a partnership, where they agree on terms using Partnership Agreement, however, if a partner dies with one individual left, the business dissolves, as a minimum of 2 people is required.

Advantages	Disadvantages
More ideas as a partnership consists of 2 or more people which can help the business thrive	Decision-making can be hard as partners might not agree with each other
More capital to start up and keep running the business as 2 or more partners are supplying the capital.	The law might prohibit some businesses becoming partnerships because it can essentially mean a monopoly
Individual members face fines, penalties, etc.	It is possible that the partner in partnership can be 'silent' meaning that he does not do much work
Partners may specialise in different areas of business management	If partners join or leave, the other partner will have to value all the partnership assets and this can be costly
	Each partner is an agent of the partnership and is liable for actions by other partners
	Not possible to raise capital from selling shares

LTD (Private Limited Company)

Private Limited Company - The word 'Limited' or LTD indicates that the business is a private company. Usually, the shares will be owned by the original sole trader (who may hold a majority of the shares to keep control of the company), relatives, friends and employees.

Advantages	Disadvantages
Shareholders have limited liability	Legal formalities involved in establishing the business
Separate legal personality	Capital cannot be raised by sale of shares to the general public
Continuity in the event of the death of a shareholder	Quite difficult for shareholders to sell shares
Original owner is still often able to retain control	End-of-year accounts must be sent to Companies House (in UK) - available for public inspection there (less secrecy over financial affairs than sole trader or partnership)
Able to raise capital from sale of shares to family, friends and employees	
Greater status than an unincorporated business	

Public Limited Company

Private Limited Company - The most common form of a legal organisation for large businesses, for the very good reason that they have access to very substantial funds for expansion. Converting a private limited company to a public limited company status is referred to as a **stock market flotation**.

Advantages	Disadvantages
Shareholders have limited liability	Legal formalities in formation
Separate legal identity	Cost of business consultants and financial advisers when creating a PLC
Continuity in the event of the death of a shareholder	Share prices subject to fluctuation - sometimes for reasons beyond the business's control e.g state of the economy
Ease of buying and selling shares for shareholders - this encourages investment in PLCs.	Legal requirements concerning disclosure of information to shareholders and the public, e.g annual publication of detailed report and accounts
Access to substantial capital sources due to the ability to issue a prospectus to the public and to offer shares for sale	Risk of takeover due to the availability of shares on the stock exchange
	Directors influenced by short-term objectives of major investors

Public Sector Enterprises

Public Sector Enterprise - There are some enterprises that are completely owned by the state - usually central or local government. These organisations are therefore in the public sector and they are referred to as **public corporations**. These organisations usually do not strive for profit but rather focus on improving the conditions of a country or a place.

Advantages	Disadvantages
Managed with social objectives rather than solely with profits objectives	Tendency towards inefficiency due to lack of strict profit targets
Loss-making services might still be kept operating if the social benefit is great enough	Subsidies from government can encourage inefficiencies
Finance raised mainly from the government so not subject to limitations from banks or shareholders	Government may interfere in business decisions for political reasons, e.g. by opening a new branch in a certain area to gain popularity

Cooperatives

- **Cooperatives** - are for-profit social enterprises owned and run by their members, such as employees or customers, with the common goal of creating value for its members by operating in a socially responsible way.

- **Consumer Cooperatives** - owned by customers who buy goods / services for their personal use. In most cases, members get access to goods and services at lower prices than those charged by traditional commercial businesses.

- **Worker Cooperatives** - are set up, owned and organised by their employee members. Examples include cooperatives involved in production and manufacturing, cafes, printers, tourism and communication. By operating as an enterprise, members are provided with work.

- **Producer Cooperatives** - are cooperatives that join and support each other to process or market their products. For example, a farmer cooperative might unite to buy equipment, fertiliser and seeds collectively, by pooling their funds they can enjoy bulk-purchase discounts. Farmers are the most common form of producer cooperatives.

The main people that own cooperatives around the world are regular workers of a business that seek a better price, work etc. all around the world. For example, producer cooperatives include farmers putting their capital all-together so they can all bulk buy for a better price and then distribute it depending how much each person has invested in.

Microfinance

- **Microfinance Providers** - Microfinance is a type of financial service aimed at entrepreneurs of small businesses, especially females and those of low income. They enable disadvantaged members to gain access to financial services which can help eradicate poverty.

The aim of a microfinance provider is to create new opportunities for the person that gains financial aid, as well as increase jobs, strengthen the economy, better health, increase income of the country or place. It was first created in Bangladesh in 1970s to aim to reduce poverty within the country by Grameen bank.

Non-Government Organisation

- **Non-government Organisations** - they pursue objectives that the government is unable to meet are referred as Non-governmental organisations or NGO. The United Nations is an NGO that most are familiar with, and its broad mandate for trying to better human predicament.

Examples of real life NGOs:

- WWF
- Red Cross
- Oxfam
- International Organization for Standardization
- International Union for Conservation of Nature
- United Nations

Public Private Partnership

- **Public Private Partnership** - are ventures between the government and the private sector. The government contracts one or more private sector companies to provide specific services to fulfill an object that both parties would have not been able to accomplish alone.

Advantages	Disadvantages
The private sector business, if asked to manage the project, could try to increase profits but cutting staff wages and benefits. In effect, workers would no longer have the security of being employed by the public sector	Many schools, roads, prisons and hospitals have been built through PPP/PFI schemes - it is argued that these would not have been constructed unless the private sector had been involved
PFI schemes have been criticised for earning private sector businesses large profits from high rents and leasing charges - these must be paid for by taxpayers	Private sector businesses aim to make profits; their managers will therefore operate services as efficiently as possible. This could mean that costs to the public sector are lower than if the projects were operated by the government/public sector managers
Private sector organisations may lack the experience needed to operate large public sector profits - such as social housing schemes - and the failure of the scheme could leave vulnerable groups in society at risk	By using private sector business finance, the government can claim that public services are being improved, without an increase in taxes.

There are **3 types of main Public Private Partnerships**:

- **Government-funded** - these are privately managed schemes. In this type of venture, the government provides all or part of the funding, but the organisation is managed by a private business that uses private sector methods and techniques to control it as efficiently as possible.

- **Private sector-funded** - these are government or state-managed schemes. In this type of venture, which often involves large sums of capital investment, the government is released from the financial burden of finding taxpayers' money to pay for the project.

- **Government-directed** - this type of PPP encourages both private sector funding and some private sector management control of public projects.

Charities

- **Charities** - they are useful social and environmental functions that would not be undertaken by private businesses or government-funded organisations. They are dependent on private contributions and these can highly vary in amount, making it difficult for charity managers to plan. **Not to confuse with NGOs**.

Some **examples** of charities include:

1. Prevention or relief of poverty
2. Advancement of education
3. Advancement of religion
4. Advancement of health or the saving of lives
5. Advancement of citizenship or community development
6. Advancement of arts, culture, heritage or science
7. Advancement of human rights conflict resolution or reconciliation or the promotion of religious or racial harmony or equality or improvement
8. Relief of those in need, by reason of youth, age, ill health, disability, financial hardship or other disadvantage
9. Advancement of animal welfare

Types of Business objectives

1. Profit Maximisation - means making as much profit as possible. In fact, everybody has this business objective.

2. Survival - is a short-term business objective. When you have a start-up company, staying alive is uppermost in your mind.

3. Profit satisficing - means making enough profit to keep the owners happy. It is a common strategy in small businesses in which the owners do not work in the company.

4. Sales growth - with sales growth a company gets larger. Most people want their company to grow. In fact, some believe that growth is the only route to survival.

However, some business objectives might clash with each other. A company tries to generally avoid such crashes in order to not deceive their customers or stock owners. E.g profit and growth might clash.

S - Specific - Objectives should focus on what the business does and should apply directly to that business.

M - Measurable - Objectives that have a quantitative value are likely to prove to be more effective targets.

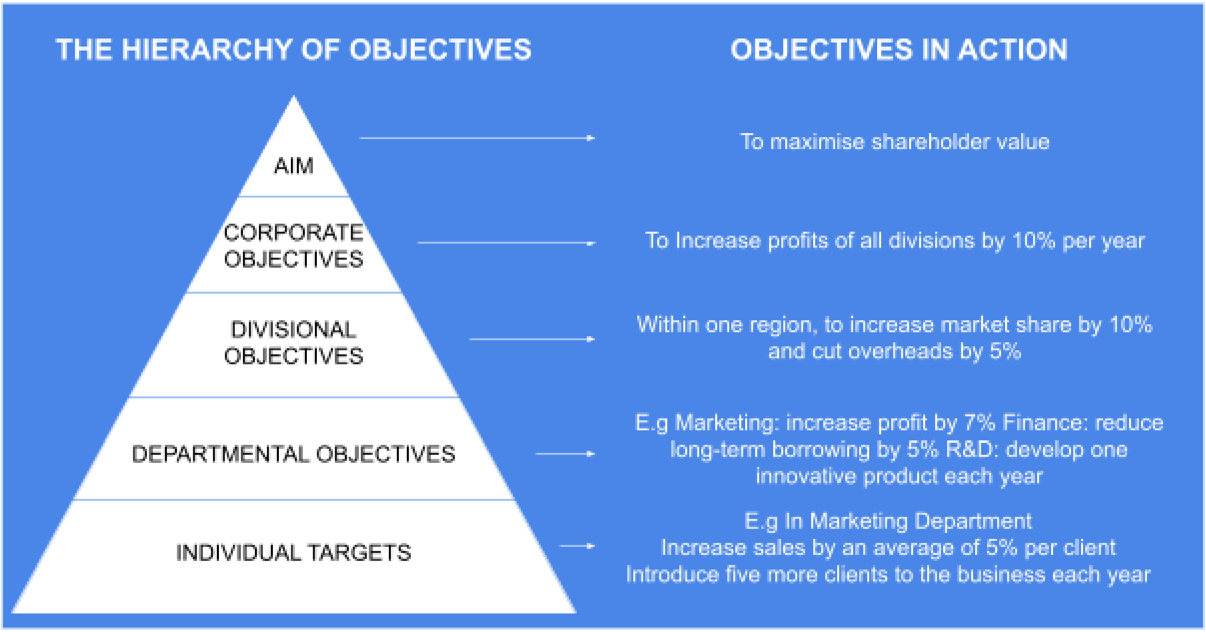
A - Attainable - Objectives must be attainable. Impossible to attain objectives will be pointless.

R - Relevant - Objectives should be realistic. They should be able to be related to the business

T - Time-based - A time limit should be set when an objective is established. This sets a target and makes the audience more informed.

There are several benefits of corporate aims:

- Become the starting point for divisional/operational objectives
- Can help develop a sense of purpose and direction for the whole organisation
- Allow an assessment to be made, at a later date, of how successful the business has been in attaining goals
- Provide the framework within which the strategies or plans of the business can be drawn up



S - Strengths - are internal, positive attributes of your company. These are things that are within your control.

W - Weaknesses - are negative factors that detract from your strengths. These are things that you might need to improve on to be competitive.

O - Opportunities - are external factors in your business environment that are likely to contribute to your success.

T - Threats- are external factors that you have no control over. You may want to consider putting in place contingency plans for dealing with them if they occur.

External Business Factors

S - Social - With the social factor, a business can analyze the socioeconomic environment of the given industry's market to understand how consumer needs are shaped and what brings them to the market for a purchase.

T - Technological - Technology plays a huge part in business, and it can impact it either negatively or positively. With the introduction of new products, new technologies and services, a certain marketplace can have a tough time adjusting so it's important to assess the technology from all angles.

E - Economic - The economic factor examines outside economic issues that can play a role in a company's success.

E - Environmental - Whether the company cares about the environment and controls things such as emissions etc. or tries to reduce it. This can be parried with ethics.

P - Political - Government regulations and legal issues affect a company's ability to be profitable and successful, and this factor looks at how that can happen.

L - Legal - Whether the company does its actions legally, i.e whether it breaks any laws which can be linked with human rights, product poisoning etc.

E - Ethical - Whether the company does its actions ethically, i.e it is ethical meaning that it is morally the right thing to do.

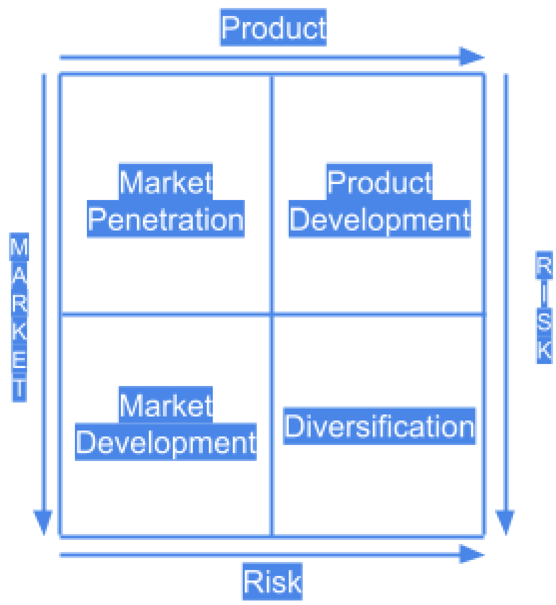
Social Influences	● Lifestyles ● Social mobility ● Demographics ● Education ● Fashion or tastes
Technological Influences	● Technological improvements ● New technology transfer ● Infrastructure ● Ict ● Research and development costs
Economic Influences	● The economic or business cycle ● Rate of economic growth ● Rate of inflation ● Rate of unemployment ● Exchange rate ● Interest rate
Ethical Influences	● Corruption ● Transparency ● Codes of business behaviour ● Fair trade
Political Influences	● Political stability ● Trade policies ● Regional policies ● Lobbying and electioneering

Legal Influences	• Regulations • Employment laws • Health and safety legislation • Competition laws
Ecological Influences	• Depletion of renewable sources • Global warming • Organic farming • Carbon footprint

Ethical Objectives - the moral principles that underpin business behaviour. Whether actions carried out by organisations and their employees are morally acceptable.

Advantages	Disadvantages
Higher revenues – demand from positive consumer support	Higher costs – e.g. sourcing from Fairtrade suppliers rather than lowest price
Improved brand and business awareness and recognition	Higher overheads – e.g. training & communication of ethical policy
Better employee motivation and recruitment	A danger of building up false expectations

Ansoff Matrix



- **Market Penetration** - is a measure of how much a product or service is being used by customers compared to the total estimated market for that product or service. Market penetration can also be used in developing strategies employed to increase the market share of a particular product or service.

- **Market development** - is a growth strategy that identifies and develops new market segments for current products. A market development strategy targets non-buying customers in currently targeted segments. It also targets new customers in new segments.

- **Product Development** - is about developing and selling new products to existing markets. Companies could, for example, make some modifications in the existing products to give increased value to the customers for their purchase or develop and launch new products alongside a company's existing product offering.

- **Diversification** - occurs when a business develops a new product or expands into a new market. Often, businesses diversify to manage risk by minimizing potential harm to the business during economic downturns. The basic idea is to expand into a business activity that doesn't negatively react to the same economic downturns as your current business activity.

Economies of Scale

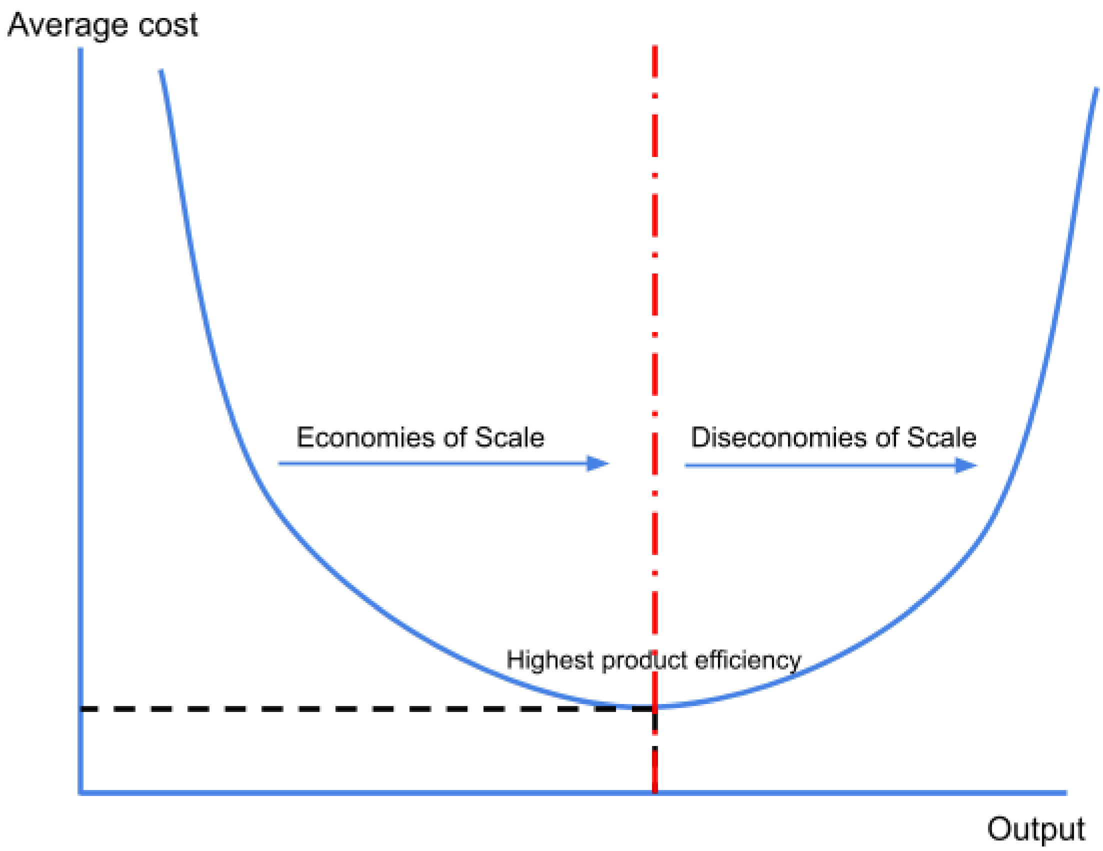
Economies of scale arise when unit costs fall as output increases. You can calculate the average cost per unit using:

$$\boxed{\frac{\text{Total production costs in period}}{\text{Total output in period}}}$$

Output	Total Cost ($)	Average Cost ($)
1000	5000	5
2000	8000	4
3000	9000	3
4000	9600	2.4

5000	10000	2
6000	12000	2
7000	15400	2.2
8000	20800	2.6
9000	36000	4

How it would look like on a graph:



Internal economies of scale:

Type	Explanation
Technical	Bigger units of production can reduce costs because of the law of variable proportions - the increase in variable costs spread against a set of fixed costs.
Managerial	A bigger business can afford to have managers specialising in one job as opposed to trying to do everything.
Financial	Bigger businesses are less risky than smaller businesses.

Marketing	Bigger businesses can direct more effective marketing campaigns.
Purchasing	Big businesses can gain discounts by bulk buying - buying in large quantities
Risk Bearing	Big businesses can afford to produce a bigger product range and in doing so spread the risk of one product failing - hedging their bets.

CUEGIS

C - Change - Driving forces and restraining forces creates change in a business so that they can move forward and remain competitive.

U - Culture - the norms of an organisation, a country, or other social grouping. Culture shapes the values, beliefs, and customs of people. (Internal and External sections of the organisation)

E - Ethics - the socially accepted moral principles that guide decision making, based on the collective belief of what is right and what is wrong.

G - Globalisation - worldwide movement toward economic, financial, trade, and communications integration in different scales and different countries in order for the company to expand

I - Innovation - Innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding.

S - Strategy - Devising plans to achieve the long-term goals of an organisation

Growth

Although there were many types of growth described already, the main types of growth still need to be explained. There are 2:

- **Organic Growth** - it is when the business grows internally, i.e a new facility within a factory. A good example would be a whiskey producing company to have a new facility that produces other alcoholic beverages such as vodka.

- **External Growth** - primarily achieved by growing externally such as by creating a joint-venture or a strategic alliance. Take-overs in different sectors and take-overs of competitors are all types of external growth.

- **Joint-ventures** - is when two businesses are joined together and have shared ownership of a new business entity so they can experience external growth.

- **Strategic alliance** - an agreement between the companies to achieve goals or achievements whilst still being independent businesses/organisations. They both create a separate business identity helping to achieve goals. An example of this would be Turkish Alliance as a member of star alliance.

Franchises

Franchising, another term of external growth, is becoming increasingly popular for businesses that want to expand globally. Franchising involves the following:

- An original business, known as the franchisor, that developed the business concept and product, then sells to other businesses the right to offer the concept and sell the product.

- Businesses, known as the franchisees, buy the right to offer the concept and sell the product. In other words, the franchisee sells the products developed originally by the franchisor. The franchise usually also has to be consistent with, and in some instances identical to, original business concept developed by the franchisee.

Some examples are: McDonalds as a fast food, Budget as a car hire, Benetton as clothes etc.

The franchisor provides: The stock, the fittings, the uniforms, staff training, legal and financial help, global advertising, global promotions

The franchisee will: employ staff, set prices, set wages, pay an agreed royalty on sales, create local promotions, sell only the products of the franchiser and advertise locally.

Fish Bone Diagram

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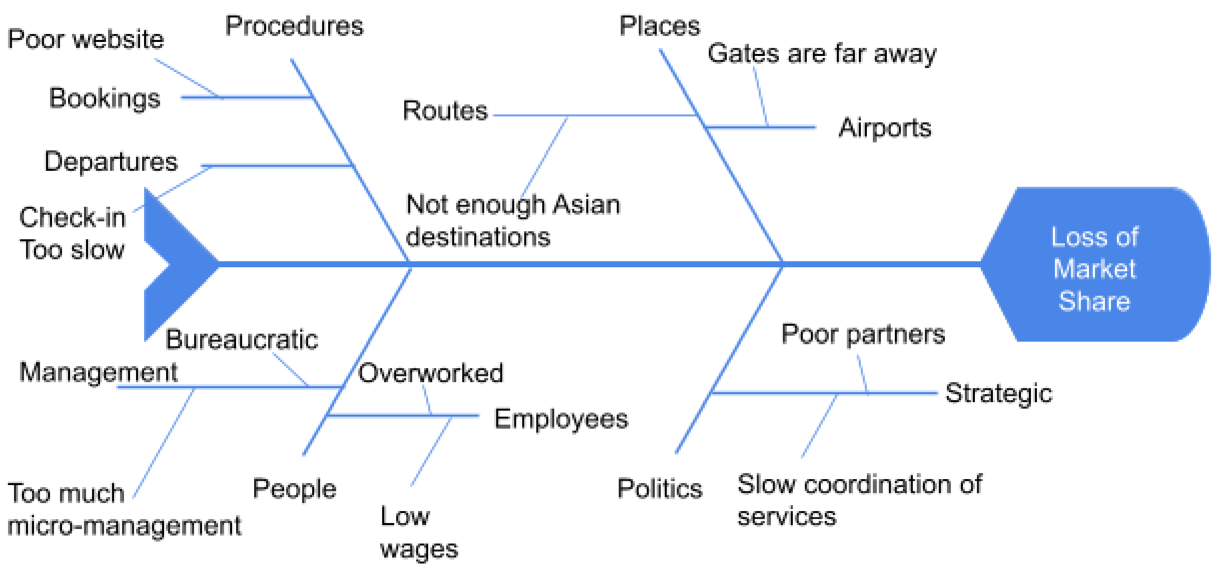
Ishikawa Diagram - a diagram which shows a list of causes of a singular problem with secondary and primary causes of these factors of problems. It was developed in the 1950s

Advantages	Disadvantages
Very easy to understand and visualise	Finding a correlation does not necessarily mean causation
Easy to adapt to	Based on opinion rather than evidence
Educates the whole team as it allows an in-depth discussion of the problem	It makes all problems look equal whilst some maybe more important and effective problems than others.

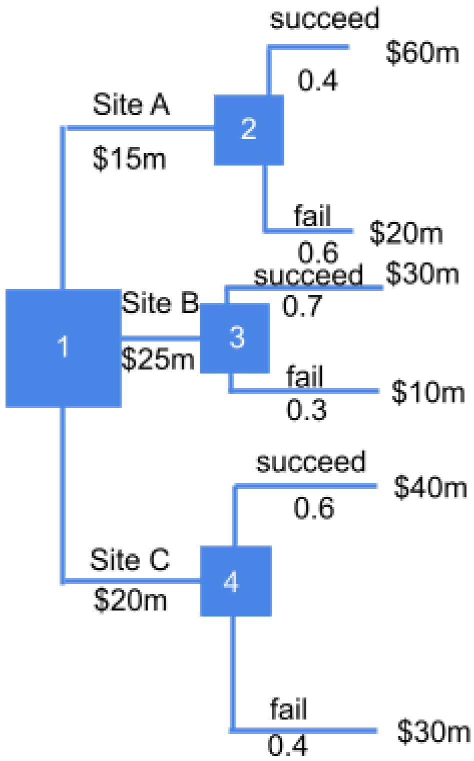
Manufacturing	Services	Administration
Manpower	Places	Surroundings
Machines	Procedures	Suppliers
Materials	People	Systems
Machines	Politics	Skills



Decision Trees

Decision Tree - a planning tool designed to help simplify complex decisions. It is similar to a probability tree used in mathematics. By providing a clear visual structure, a decision tree can help managers make sensible strategic decisions

Video: https://www.youtube.com/watch?v=PYxDkGlpj_U



Advantages	Disadvantages
Gives a clear answer to a complex decision	Is based on estimates of both outcomes and probabilities of outcomes
Is flexible and can be applied to many situations	Is based on quantitative data and so ignores qualitative issues
Is simple and visually attractive	Can be difficult to draw for highly complex decisions with multiple outcomes and interrelated choices

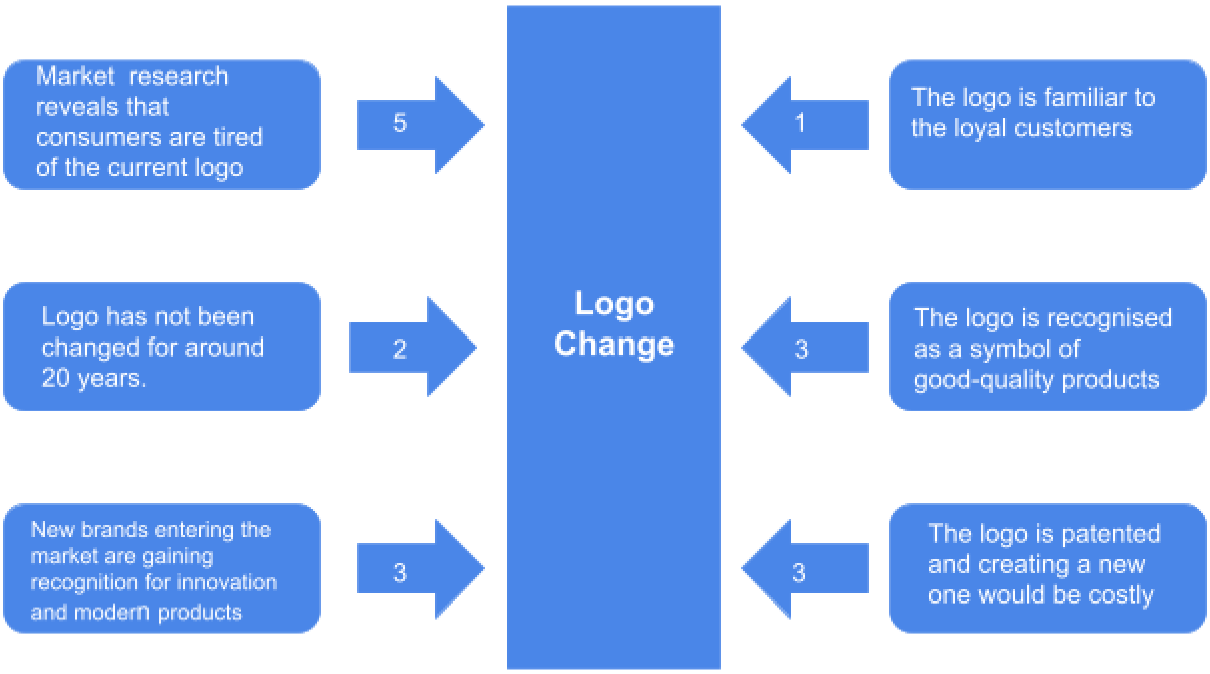
Expected Value node (x) = (probability(x1) * probability(x2)) + (probability(x3) * probability(x4))

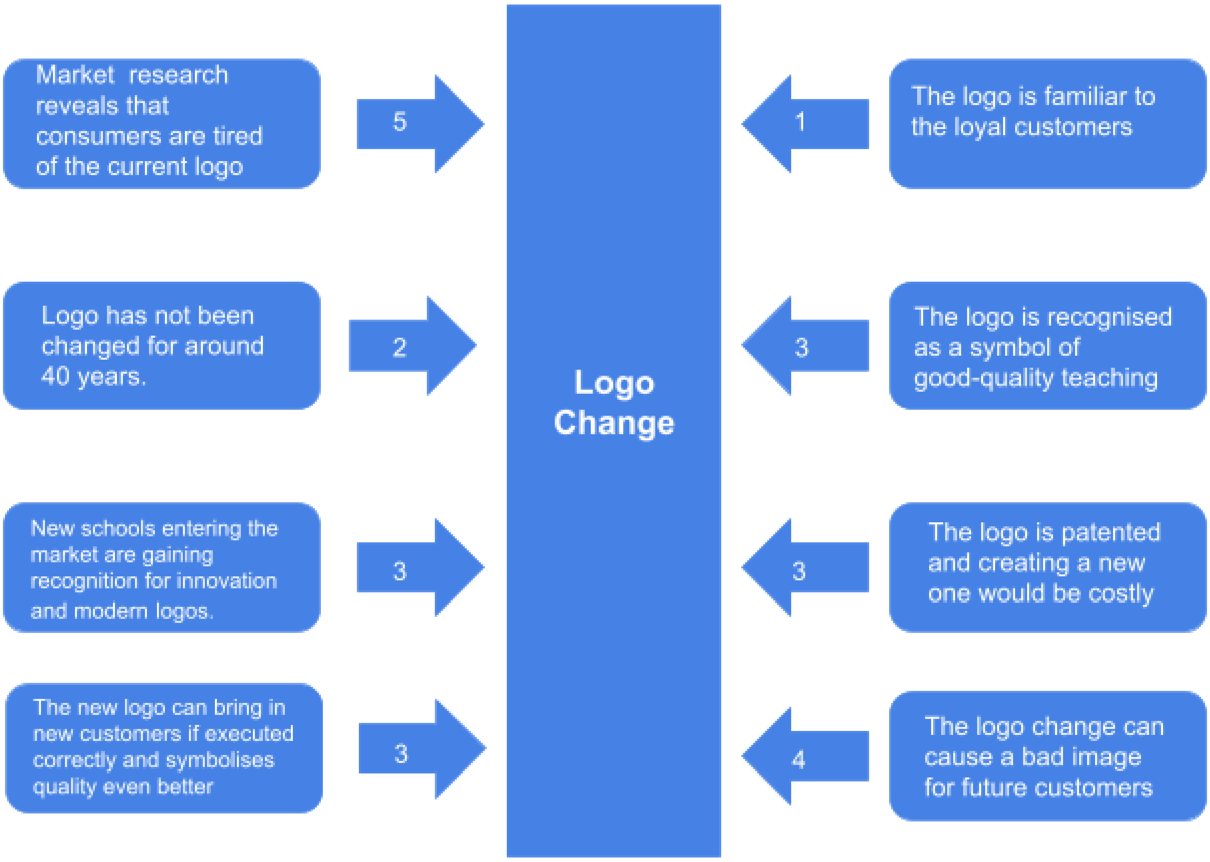
Lewin's Force Field Analysis

Video: https://www.youtube.com/watch?v=X9ujAtYAfqU

Force Field Analysis - was originally designed by Kurt Lewin as a model for use in psychological experiments. It has since been adopted as a planning tool for businesses. Lewin's Force Field Analysis uses the management of change concept to focus on the factors working for and against a planned change in an organisation.

1. First the change factor is considered and highlighted. I.e logo change
2. The decision brainstorm acting positively for that change, which are driving forces, and factors working negatively are called restraining forces.
3. The manager then gives factor a weight corresponding to the importance of the force. Usually between a scale of 1 to 5.
4. The forces are then added up and the greater figure wins. If the forces are the same in a number then there is no change.





Advantages	Disadvantages
Gives a clear answer to a difficult decision	Involves interpretation in determining which factors to include
Is flexible and can be applied to many situations	Is based on estimates of the value of each individual factor
Is simple and visually attractive	Is based on mainly qualitative data, not quantitative issues

Gantt Charts

The Gantt chart was developed by Henry Gantt as a tool to help plan work schedules. It is commonly used for production projects that have multiple tasks. It is a means of organising production in order to determine the most efficient use of resources, whether raw materials, labour or capital. It also gives the project managers a clear overview of the whole project. Progress of the whole project can be measured against key deadlines.

Advantages	Disadvantages
Gives a clear picture of current progress of the various tasks	Is based on estimates of the timings of each task
Gives a clear picture of the overall project	Is difficult to follow when applied to very complex projects
Is flexible and can be applied to many situations	Is based on mainly qualitative data, not quantitative data (such as costs)
Is simple and visually attractive	Cannot separate out independent tasks

Key Terms

- **Interdependent** - when 2 or more things depend on each other, such as the four main business functions.

- **Continuity** - is defined as the ability to maintain operations and services, both technology and business, in the event of a disruption to normal operations and services.

- **Capital Intensive** - when a business requires lots of capital (money, resources) to be invested otherwise it would not function properly.

- **Charities** - they are useful social and environmental functions that would not be undertaken by private businesses or government-funded organisations. They are dependent on private contributions and these can highly vary in amount, making it difficult for charity managers to plan. **Not to confuse with NGOs**.

- **Cooperatives** - are for-profit social enterprises owned and run by their members, such as employees or customers, with the common goal of creating value for its members by operating in a socially responsible way.

- **Command Economy** - economic resources are owned, planned and controlled by the state/government

- **Conglomerate** - when a business sells a large variety of products. Some examples would be samsung selling different technological devices, Tata selling textiles cars etc. in India and Nestle selling different food products.

- **Consumer Cooperatives** - owned by customers who buy goods / services for their personal use. In most cases, members get access to goods and services at lower prices than those charged by traditional commercial businesses.

- **Decision Tree** - a planning tool designed to help simplify complex decisions. It is similar to a probability tree used in mathematics. By providing a clear visual structure, a decision tree can help managers make sensible strategic decisions

- **Diversification** - occurs when a business develops a new product or expands into a new market. Often, businesses diversify to manage risk by minimizing potential harm to the business during economic downturns. The basic idea is to expand into a business activity that doesn't negatively react to the same economic downturns as your current business activity.

- **Ecological Footprint** - measures the impact of resource consumption and waste production on the natural environment. it assessed whether people are living beyond the capacity of the planet

- **Ecological Sustainability** - ecological sustainability refers to the capacity of the natural environment to meet the needs of the current generation without jeopardizing the ability of future generations to meet their needs

- **Economic Sustainability** - refers to development that meets the economic needs of the present generation using existing available resources without compromising the ability of future generations to meet their needs

- **Ethical Objectives** - the moral principles that underpin business behaviour. Whether actions carried out by organisations and their employees are morally acceptable must, however, be judged in the context of the society and the times in which they operate.

- **Ethical Code (code of conduct)** - a document detailing a company's rules and guidelines on staff behaviour that must be followed by all employees.

- **Force Field Analysis** - was originally designed by Kurt Lewin as a model for use in psychological experiments. It has since been adopted as a planning tool for businesses. Lewin's Force Field Analysis uses the management of change concept to focus on the factors working for and against a planned change in an organisation.

- **Free-market Economy** - economic resources are owned largely by the private sector with very little intervention

- **Worker Cooperatives** - are set up, owned and organised by their employee members. Examples include cooperatives involved in production and manufacturing, cafes, printers, tourism and communication. By operating as an enterprise, members are provided with work.

- **Producer Cooperatives** - are cooperatives that join and support each other to process or market their products. For example, a farmer cooperative might unite to buy equipment, fertiliser and seeds collectively, by pooling their funds they can enjoy bulk-purchase discounts. Farmers are the most common form of producer cooperatives.

- **Labour Intensive** - when a business requires lots of labour (workforce, humans) to be invested otherwise it would not function properly.

- **Loan** - is a source of capital for a business which contains interest. This means that the business gets money for a bank for a period of time, and pay extra back depending on interest percentage. I.e if a business takes a loan $10,000 and has an interest of 10%, they get $10,000 and will have to pay back the $10,000 + 10% aka $1,000, paying a total of $11,000 back.

- **Market development** - is a growth strategy that identifies and develops new market segments for current products. A market development strategy targets non-buying customers in currently targeted segments. It also targets new customers in new segments.

- **Market Penetration** - is a measure of how much a product or service is being used by customers compared to the total estimated market for that product or service. Market penetration can also be used in developing strategies employed to increase the market share of a particular product or service.

- **Microfinance Providers** - Microfinance is a type of financial service aimed at entrepreneurs of small businesses, especially females and those of low income. They enable disadvantaged members to gain access to financial services which can help eradicate poverty.

- **Mission Statements** - are short statements usually found hanging in the business where they are visible to employers. Most students will confuse Mission statements as goals or objectives. However, a mission statement is a philosophy that answers the question 'why do we exist'.

- **Mixed Economy** - economic resources are owned and controlled by both private and public sectors.

- **Non-government Organisations** - they pursue objectives that the government is unable to meet are referred as Non-governmental organisations or NGO. The United Nations is largues NGO that most are familiar with, and its broad mandate for trying to better human predicament.

- **Non-for-profit Organisation** - are similar in all respects to LTD, other than the fact that they are not allowed to show a financial profit. Doing so would subject them potentially losing their non-for-profit and tax exemption status.

- **Overdraft** - when a bank account withdrawals are higher than what is inside the bank account. I.e if there is $500 in the bank and the person withdraws $700, his overall balance will be -$200 and this is an overdraft.

- **Partnership** - when two or more individuals come together they can decide to form a partnership, where they agree on terms using Partnership Agreement, however, if a partner dies with one individual left, the business dissolves, as a minimum of 2 people is required.

- **Privatisation** - the sale of public sector organisations to private sector

- **Private sector** - comprises businesses owned and controlled by individuals or groups of individuals

- **Product Development** - is about developing and selling new products to existing markets. Companies could, for example, make some modifications in the existing products to give increased value to the customers for their purchase or develop and launch new products alongside a company's existing product offering.

- **Public Private Partnership** - are ventures between the government and the private sector. The government contracts one or more private sector companies to provide specific services of fulfill an object that both parties would have not been able to accomplish alone.

- **Public Sector** - comprises organisations accountable to and controlled by the central or local government (by state).

- **Intangible Goods** - An intangible good is a good that does not have a physical nature, as opposed to a physical good (an object). Digital goods such as downloaded music, mobile apps or virtual goods used in virtual economics are all examples of intangible goods. In an increasingly digitized world, intangible goods play a more and more important role in the economy. Virtually anything that is in a digital form and deliverable on the Internet can be considered an intangible good. In ordinary sense, an intangible good should not be confused with a service since a good is an object, whereas a service is an activity or labor. So a haircut is a service, not an intangible good.

- **Interest** - is a fee after taking a loan. Usually it is percentile depending on the loan taken, and it is how a bank creates profit.

- **Ishikawa Diagram** - a diagram which shows a list of causes of a singular problem with secondary and primary causes of these factors of problems. Was developed in the 1950s

- **Recession** - when a country or a place has a big decline in economic activity. The economic strength of that country or place is then significantly weakened, meaning that the currency etc. loses value.

- **Tangible Goods** - Tangible goods are physical products defined by the ability to be touched. They are distinct from intangible goods, which may have value but are not physical entities. Goods that are tangible play a large part in retail, though the purchasing of intangible goods is now widely available through the Internet.

- **Separate Legal Personality** - Corporate personality is the fact stated by the law that a company is recognized as a legal entity distinct from its members. A company with such personality is an independent legal existence separate from its shareholders, directors, officers and creators.

- **Social sustainability** - examines social interactions and the structures that are necessary for sustainable development. meet social needs for current and future generations

- **Sole Trader** - also known as “Sole proprietors” is the simplest form of for-profit business. The single owner form of business only requires a minimum of an individual operating the business.

- **Stock market flotation** - when a private limited company changes its legal organisation to a public limited company.

- **Vision Statement** - differs from a mission statement in that the mission statements refers to the present while vision refers to the future. The Vision statement lures all employees into a belief about what business wants to achieve.

- **Organic Growth** - it is when the business grows internally, i.e a new facility within a factory. A good example would be a whiskey producing company to have a new facility that produces other alcoholic beverages such as vodka.

- **External Growth** - primarily achieved by growing externally such as by creating a joint-venture or a strategic alliance. Take-overs in different sectors and take-overs of competitors are all types of external growth. Another example would be a conglomerate.

- **Joint-ventures** - is when two businesses are joined together and have shared ownership of a new business entity so they can experience external growth.

- **Strategic alliance** - an agreement between the companies to achieve goals or achievements whilst still being independent businesses/organisations. They both create a separate business identity helping to achieve goals. An example of this would be Turkish Alliance as a member of star alliance.

Topic 2: Human Resource Management

Labour Turnover

- **Labour Turnover** - refers to the movement of employees into and out of a business given time period (usually a year) and is an indicator of how stable a business is.

$$\text{Labour Turnover} = \frac{\text{Number of staff leaving over a year}}{\text{Average number of staff employed in a year}}$$

High labour turnover usually means that business is unstable and can show the root of problems of a business. The reason an employee leaves a business must be caused by a problem in the business. Even if there is no problem in the business and despite that it has a high labour turnover, it can cause self-fulfilling prophecy, so despite having no problems and having a high labour turnover will cause problems.

Low labour turnover on the other hand means that the business is very stable, however, a lack of turnover also means a lack of ideas and can possibly cause a lack of progress within the business as external ideas are lacking.

Furthermore, some countries such as **Japan** have a very high aged population which can cause a lower labour supply.

This aging population causes a lower supply of labour. This causes the government to increase the retirement age between the society to make sure that there is enough and fitting supply of labour throughout the country for development. However, countries such as Japan also introduce pro-natalist policies which promote the idea of reproduction, or allow more immigrants in Japan as a process of 'brain drain'.

Internal & External factors influencing HR planning

Many factors can influence an organisation's HR plan. Even before a business employs someone, some external factors can have an effect on the pool of labour available for the business. The internal factors influence the HR plan that is already in place.

External Factors:

- **Technological Change** - improvements in ICT can lead to infrastructural developments
- **Government Regulations** - changes in laws or government regulations regarding laws, health etc. can cause safety issues and legal issues
- **Demographic change** - an aging population can cause an increase or a decrease in labour supply within the business.
- **Social trends** - changes in society, such as the role of women in society, a rise in the number of single parent families, or the importance of leisure in the 'work life balance' can all have significant impact in the labour pool.
- **The state of the economy** - an economic boom can cause a strain on the business as it will increase labour pool and wages. A recession will have the opposite effect as many unemployed workers are available causing low wages.
- **Changes in education** - rising or falling education levels also affect the demographics of the business. It can change the suitability of the business.
- **Labour mobility** - occupational mobility (changing occupations) or geographical mobility (changing locations). In either case, this will significantly affect the labour poor.

Internal Factors:

- **Changes in business organisation** - changing the way they are organised to meet their objectives will influence HR planning.

- **Changes in labour relations** - If the labour force decides to reunionnaise, the business will have to work with the requirements of the union. If the union becomes weaker, the business will have more control.

- **Changes in business strategy** - changes in market, or re-orienting itself will lead to amendments to their plan.

- **Changes in business finance** - limited resources may not be able to pay the highest wages and salaries, affecting recruitment and retention.

The HR Plan

There are four parts in the plan:

- **Recruitment** - how the business recruits the right person for right jobs

- **Training** - how the business ensures that employees receive proper professional development, whether initial training or ongoing professional development.

- **Appraisal** - how the employee's job performance is evaluated

- **Termination or dismissal** - how the business manages the situation when the employee leaves, whether voluntarily or involuntarily.

Identification process:

- **Job description** - includes the job title, what the employee's task is, the employees responsibilities.

- **Person specification** - the skills required to do the job, what qualification is necessary, what experience is necessary.

- **Internal or external recruitment** - cheaper, quicker, more efficient as the person knows about the business, limits the pool of potential candidates, may cause resentment and causes the 'domino' effect in which person promoted would leave vacancy to be filled, and so on down the hierarchy.

The application process:

- **Job advert** - where to place an advert for the right audience, what should be included, and the legal requirements.

- **Application form** - standardised, designed specifically to match the job requirements, focused on the issues that the business wants, legally binding

- **CV** - is better for jobs with limited applications (such as senior posts), is more personal, can reveal more about the applicant, more flexible, quicker and can be prepared beforehand.

- **Internal or external agency** - cheaper, quicker, more efficient, limits the potential candidates, may cause a lack of focus, may not cater for specialist skills.

The selection process:

- **Shortlisting** - their overall quality, how many are required for the interview, any legal requirements

- **Testing** - aptitude, psychometric, team based

- **Interviews** - face to face, panel, video conference, multi-stage or multi-day.

Training

Furthermore, the second stage of HR plan includes training.

- **Induction** - training that focuses on making a new employee familiar with the way the business functions with lines of authority. A good induction programme helps to ensure that new employees settle in quickly so that they can begin work straight away.

- **On-the-job** - when employees are trained while they are doing their regular job. On-the-job training usually always includes a supervisor as experienced employees guide the new employee.

- **Off-the-job** - when the employees are given time off work in another facility. This training is usually done visually, through textbooks etc. to make sure that they have enough education to attend the job and do it physically.

There are also 2 different types of psychological training:

- **Cognitive training** - training not focused on a particular aspect of the business. Rather, it helps employees develop their thinking and process skills. The assumption is that with enhanced thinking and processing skills i.e cognitive skills, so they can make quicker and more effective decisions.

- **Behavioural training** - similar to cognitive, it helps not focus on a single particular aspect of the business. Instead it helps employees with their intrapersonal skills (i.e how they manage emotions). It is useful for works that include teams etc.

Appraisal

The third stage of an HR plan is the appraisal system of a business. Appraisal is done through management inspection to see whether employees are meeting given goals or at least the minimum that is required by the business. The communication tends to be one-way (i.e it is impossible to respond back).

The benefits of an appraisal for employees include:

- Motivating
- Instructive - employees can learn from past mistakes
- Help employees progress along their career path
- Lead to a change in career direction

The benefits of an appraisal for businesses include:

- Act as a check on performance
- Help to review new initiatives
- Be useful to record and document performance
- Be motivating as it formally recognises good performance

However, appraisal systems can also be very costly capital wise as well as time consuming. Good appraisal systems tend to have these kinds of characteristics:

- **They are not directly linked to pay or promotion.** Linking to promotion or pay can cause employees to backstab (to sabotage other people's positions).

- **Appraisal systems are separate from disciplinary systems.** Sometimes employees have to be punished for some failure to perform. Appraisal on the other hand, is supposed to be positive.

- **Good appraisal systems require minimal paperwork.** Having employees to fill out numerous paperworks or having managers to excessively document the performance can be time consuming.

- **Appraisals provide an honest exchange of views.** It has to be transparent. Everyone involved should their role and the role of those around them. Though appraisal should be positive overall, conversations should be honest, with appropriate conversations about areas of strength and areas that need improvement.

And finally, there are 4 different appraisal systems:

- **Formative** - an appraisal system which is intended to be a learning process, often it is a continuous approach to evaluate performance during an employee's time at work. Typically run in one to three year cycle. The focus is to give effective feedback to the employee when they have done very well and also areas in difficulties.

- **Summative** - an appraisal system which measures an employee’s performance according to set standards. A summative assessment has an element of making a judgement whether the employee has passed or failed. It is usually conducted during the end of a project, a contract or a specific goal. Failure does not necessarily lead to termination.

- **360 degree** - this method provides each employee with the opportunity to receive performance appraisal not only from their line manager but also from four to eight co-workers, subordinates or even clients. This method involves an element of upward appraisal and is the most complex as it requires to directly interact with many other stakeholders.

- **Self-appraisal** - this is an important part of the performance appraisal processes outlined above or it can be used by itself. With this method of appraisal, individual employees reflect on their own performance. Usually his reflection is done with the help of a self-appraisal form on which employees rate themselves on various performance indicators. It can help distinguish needs, and discuss problems, accomplishments etc.

Termination, dismissal and redundancy

The final stage of an HR plan always consists of either terminating, dismissing or making the employee redundant. Reasons can be various, such as retirement age, simply not meeting the guidelines etc. Other reasons can include that the employee has to leave the business, and that both the employee and the employer agree that seperation best interests both parties.

Good businesses will have a set of procedures ready to deal with this part of the HR plan to minimise the impact of losing an employee and acquiring new ones. There are several reasons why termination does not happen too often:

- Employees develop skills and become more experienced as time passes in the business. The cost of replacement increases over time and businesses will be reluctant to go through the whole HR process again.

- Many businesses prefer such policies as redeployment, or, in times of recession, reducing the working hours rather than having to ‘let workers go’.

- Finally, employees have rights meaning that certain sackings can break contracts and if these are broken court cases can follow. This is called an ‘unfair dismissal’ and can cause damage to the business.

However, at some point in time the employee will have to leave the business. This can happen in 3 different ways:

Termination

Employees willingly leave their contract through a variety of reasons such as:

- Change of career
- Professional development
- Promotion
- Retirement
- Lifestyle choice
- Family reasons

The practice can vary depending on the business, country, and in general the employee has to give some advance notice to the business so that the resignation is effective.

Dismissal

Dismissal is when an employee has broken one or more of the terms of their contract. Reasons can include:

- Continually missing work
- Poor discipline
- Drug abuse
- Theft
- Dishonesty

They can also be dismissed for reasons that do not affect the performance of the business. For example:

- Conviction for offense or imprisonment
- An unresolvable personality clash with a co-worker
- Refusal to accept a company reorganisation that changes terms of employment

If employees are dismissed, they do not receive a reference. In some cases, they might receive a notice that states that for e.g they work another 2 weeks. (2 weeks notice). In severe cases, they can get a summary dismissal, which a dismissal in an instant.

Redundancy

Redundancy is when the employees are no longer needed as a workforce to the business. Reasons can include:

- A drop in demand of the business's products
- Changing market
- A recession
- Restructuring of the industry
- The business becoming bankrupt
- The job has been replaced by mechanisation (replaced by a machine)
- Relocation
- Restructure or reorganisation
- A merger/takeover

In cases such as these, the employees do not leave in their own will, but generally because they are not needed anymore. In cases such as these, the employees are given redundancy payments which give money to the employee until they find a job.

The longer the employee has been in the business, the longer they can be in the job. There are also 2 types of redundancies:

- **Voluntary Redundancy** - Some employees may choose to be redundant. This is generally the type of redundancy that causes the least stress to the business. The problem is that with this type of redundancy they might lose employees that are useful and not lose employees are useless.

- **Involuntary Redundancy** - redundancy is based on criteria of employment such as age, years of service etc. However, this allows the business to actually choose which employees will be redundant hence it might be more useful.

Changes in work patterns, practices and preferences

Work patterns, practices and preferences are constantly changing within a business in order to increase production efficiency through means of motivation. An example would be change in social trends which can cause a better work-life balance and many businesses try to achieve the employee's desires. Some examples of change in work patterns:

- Changing educational background (syllabus, methods etc.)

- An increased participation of a minor group in society (such as females, Africans, etc.)

- Increasing differences in age such as an aging population or the opposite, a young population can change work patterns.

Changes in work patterns

The desire for different jobs changes throughout history. For example, with the introduction of the IT and ICT in the modern world has made it a very desirable job amongst society. Before, in very old times, becoming a pope or something to do with religion was also really popular but this pattern is now showing the opposite.

Change in work practices

Not only the types of jobs changed over time, but the nature of work timings and routines also have changed as businesses responded to a change in working patterns.

Declining work practice:

- **Full time work** - when employees work the maximum amount of time per week accepted by the local law (35 hours a week in Europe)

- **Permanent contract** - An employee who has been hired for a position without a time limit

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Increasing work practice:

- **Part time** - when employees work less than full-time weekly maximum hours.

- **Temporary** - work that is on a fixed-term contract usually of a temporary nature (for example cover-up work if somebody left)

- **Freelance** - somebody that is self-employed working for several different people (i.e a freelance photoshopper)

- **Teleworking** - work taking place from home or a telecommunication centre. Usually the employee would have a core member of hours he/she has to work, rest spent time spent at home.

- **Homeworking** - when an employee works from home. Usually the employee has a core number he/she has to do work at the office, rest at home (IGCSE markers)

- **Flexitime** - Work involving a set number of hours of an employee's own decision. There is a core number of hours they have to work, however.

- **Casual Fridays** - when an employee is allowed to wear less formal dress on Fridays so it is easier to go off to the weekends.

- **Three-day weekend** - Instead of working five days of eight hours, the employee works four days of ten hours and so has a 3 day weekend.

Changes in work preference:

Instead of working 20 to 30 years in the same business, many employees now adapt their work routines to suit changing lifestyles. The most common methods include:

- **Career Break** - an employee's own decision to stop working for a limited time, usually lasting for around a year or more. The employee then returns to his job.

- **Job share** - when two or more employees decide to share their job to free up time

- **Downshifting** - an employee gives up a senior position in order to change career in an area of interest or a lower paid field.

- **Study leave** - an employee is given time off in order to get new qualifications certificates etc.

Outsourcing and Offshoring

- **Outsourcing** - when a business cuts back on its operations to focus on its core activities. This way, it does not need to employ as many workers. It does it by subcontracting a process such as packaging or manufacturing to another company/business.

Advantages	Disadvantages
Business can focus on its core competency	Specialists carry out work when skills are not available internally
Improves workforce flexibility - example no need to recruit during busier periods	Subcontractors might ‘cut corners’ and might hire ‘illegal’ workers
In less busy periods, you don’t have to worry about laying off your own staff	Quality management can be difficult to manage
	Monitoring subcontractors can be tedious and time consuming
	Outsourcing can cause redundancies, thus bad PR and morale within the form

- **Offshoring** - when a business outsources outside its home country. Outsourcing a process or service to another country to reduce costs. It is done by re allocating resources such as employees factories in another location to save costs. Offshoring also includes taking employees from another place.

Advantages	Disadvantages
Economies of scale	Increased unemployment
Close collaboration	Cultural and social differences
Favourable government policies	Security issues

An example of offshoring would be (not real, made up) is if Cadbury was to move its factories from the UK to for example India, in order to cut costs within production as the wages and the fixed costs would be cheaper than it would be in the UK. On the contrary, outsourcing would be if Cadbury was to take their factory in the UK and contract it with an outside vendor who then will look after this part of the company.

The impact of the innovation, ethical considerations and cultural differences

- **Innovation** - this can have a major impact on the HR plan. A business committed to being innovative must have a greater strategic focus on HR than any other business function. Innovations come from people. Inertia is the possible of this.

- **Ethical Considerations** - A strong connection has always existed between HR planning and ethical behaviour. HR plans are based on relationships, which are reflected in the way that business treats its employees.

- **Cultural Differences** - this can also have a significant effect on the HR plan as it will become a multicultural workforce. This will generally be a result of a business as a multinational country.

Types of Management

- **Levels of Hierarchy** - this term refers to levels for responsibility in a business. Each level indicates the seniority in the business.

- **Chain of command** - a formal route by which a decision must travel to the organisation. Traditionally, it travels from the top of the hierarchy to the bottom.

- **Span of control** - span of control refers to how many subordinates are directly under the authority of a manager and whom managers are responsible for.

Terms which an organisation can be structured, not necessarily the organisational chart:

- **Delegation** - when a manager gives authority for a particular decision but not the responsibility for the outcome of the decision. The outcome is still decided by the manager.

- **Centralisation** - when a group of decision makers which are close to the head of the business. Usually present in a business with many levels of hierarchy.

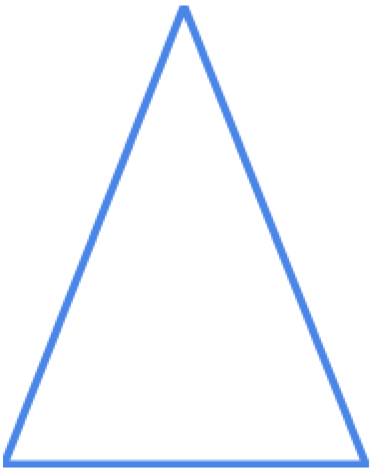
- **Decentralisation** - Senior managers maintain strategic decisions, but the decision making authority is given to middle managers. It is usually democratic.

- **Bureaucracy** - When rules etc. are well established within a business hence own personal thinking, opinion, and own procedures are not expected. It is likely that bureaucratic leadership has many levels.

- **Delayering** - in order to reduce levels of hierarchy, it first needs to remove the levels of management. It is a well established strategy usually that is used by businesses that have been operating for many years. It typically reduces costs as they do not have to employ many managers.

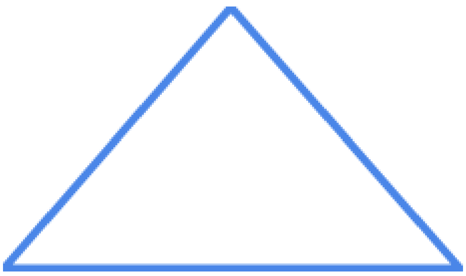
Organisational Charts:

Tall organisational structure



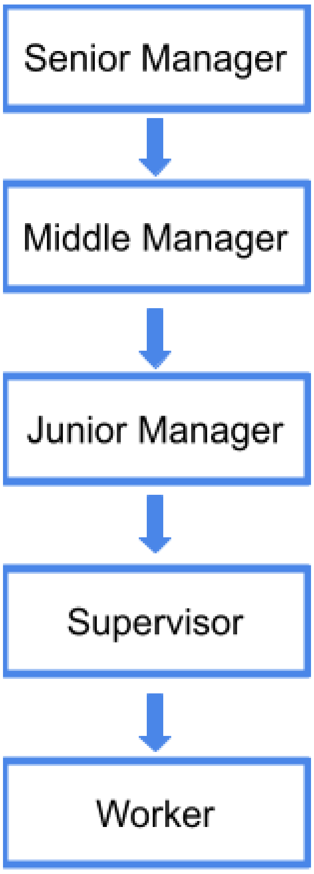
- Many levels of Hierarchy
- Narrow spans of Control
- Centralised decision making
- Long chains of command
- Autocratic leadership
- Limited delegation

Flat organisational structure



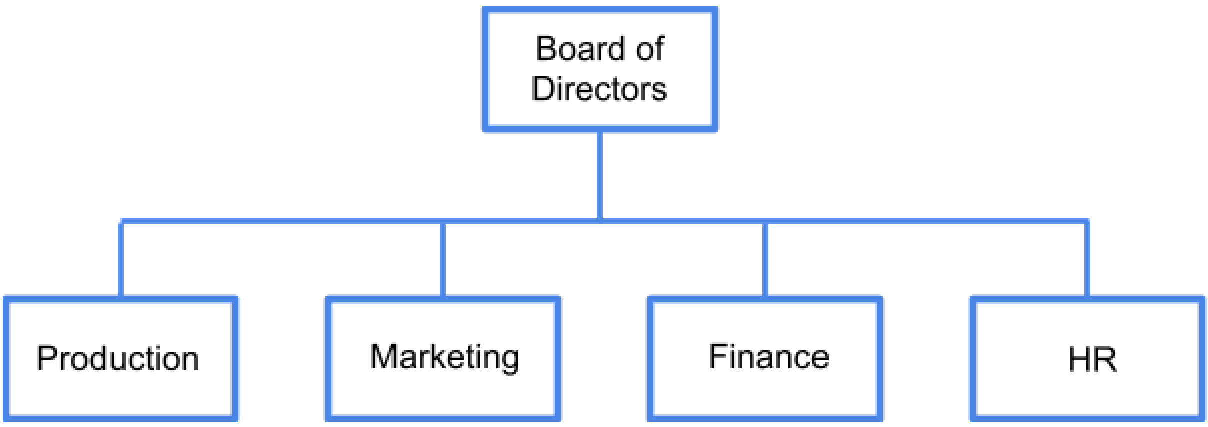
- Few levels of hierarchy
- Wider spans of Control
- Decentralised decision making
- Shorter chains of command
- Democratic leadership
- Increased delegation

Organisational structure by hierarchy



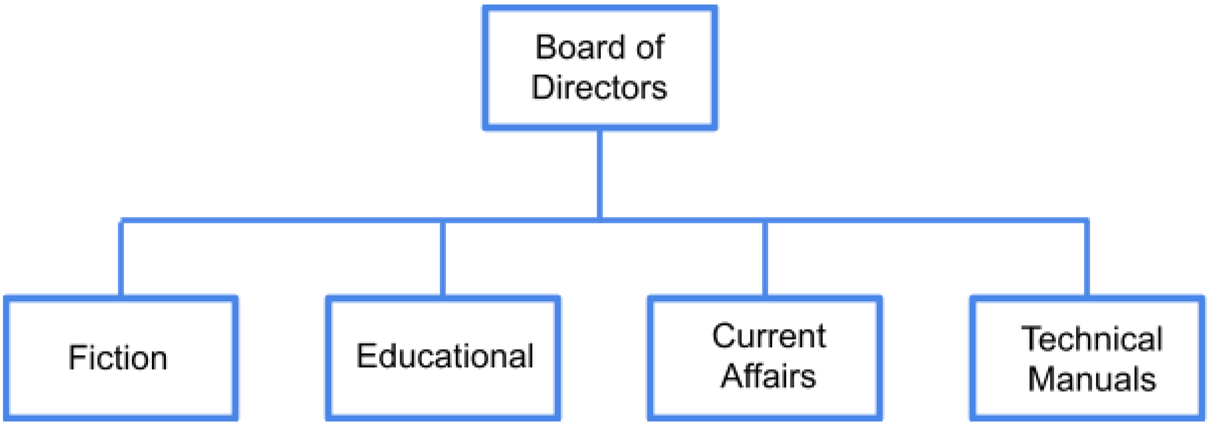
Another way to show organisational structure is by showing hierarchy. Individuals at the top have more hierarchy. Individuals at the top have more authority than those below them. This is the traditional way of presenting an organisational structure.

Organisational structure by function



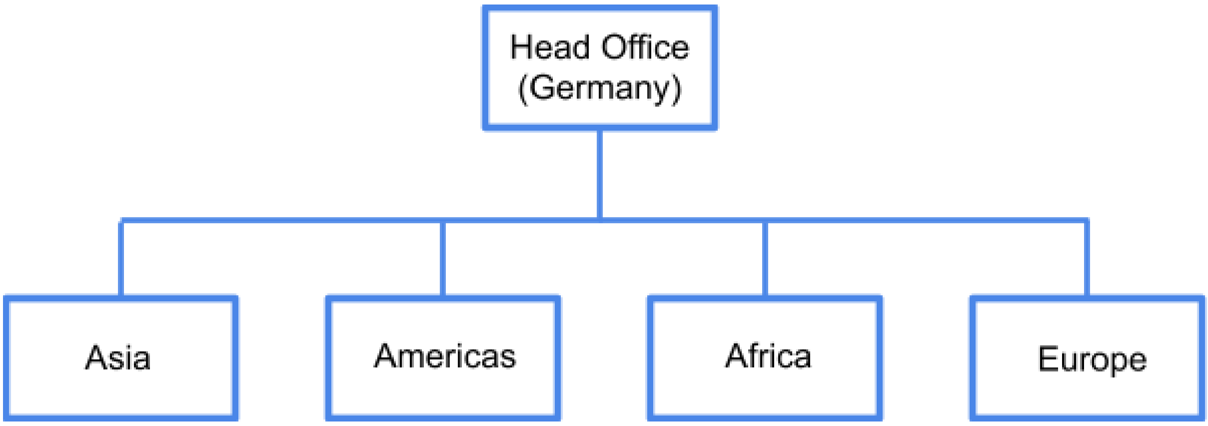
An organisational structure can be presented by function - indicating what employees do. Employees are grouped by department. They will then be organised by seniority.

Organisational structure by product



Another way of typical presenting an organisational structure is by what the business produces. E.g a publisher categorises by types of books produced.

Organisational structure by product



Another typical way of organising a structure is by the location of the business operations.

Changes in Organisational Structures

There are also businesses which change their organisational structure by adapting to the business environment. There are two main ones:

- Project-based Organisation
- Shamrock Organisation

Project-based Organisation

It is more flexible and responsive to the market's demands. Project-based organisations have project managers who run teams of employees focusing on individual projects. Many teams operate at once but require little to no interaction with each other. This type of business structure is common to construction or IT. An example of it is shown as a matrix below.

	Operations Management	Finance	Marketing	HR	Administration
Project 1 Manager	4 employees	2 employees	1 employee	1 employee	1 employee
Project 2 Manager	3 employees	2 employees	2 employees	2 employees	1 employee
Project 3 Manager	3 employees	2 employees	1 employee	1 employee	1 employee
Project 4 Manager	3 employees	2 employees	2 employees	2 employees	1 employee
Project 5 manager	3 employees	2 employees	1 employee	1 employee	1 employee

Shamrock Organisation

This is a type of organisation that was discovered by a theorist called Charles Handy from Ireland. The theory was invented because of a shamrock, hence the name. His theory states that businesses can be more flexible by taking advantage of the external environment. The model suggests that the business can reduce costs, gain advantage and increase response time by trimming their workforce to retain only a multiskilled core. All other supporting, non-central functions are outsourced wherever possible to the periphery:

- The first leaf of the shamrock represents the core managers, technicians and employees essential to the business

- The second leaf are the contractual fringe, because non-core activities are subcontracted out to specialist business

- The third leaf consists of a flexible workforce made up of part-time, temporary, seasonal workers.

Leadership Styles

Autocratic

Autocratic leadership is when there is a single leader within an organisation that is in charge of everything. They tend not to talk with employees a lot, it can help make decisions quickly.

Advantages	Disadvantages
Easy to learn	Increased work burden
Clear line of control	Bad for highly skilled and motivated workers
Good for inexperienced or unmotivated works	Quality management can be difficult to manage
	Leader dependence

Paternalistic

Paternalistic is similar to autocratic, the only difference is that the leader makes it feel like a family, meaning that there is lots of interaction between the leader and the employees.

Advantages	Disadvantages
High employee loyalty due to employees feeling like they are being heard and their needs are met.	Just like a parent, managers will sometimes have to discipline the employee in non-traditional ways.
Most decisions will be made with the employees' best interests taken into consideration	Issues can be caused and exacerbated with employee legislation and rights.
There is an understanding that the manager wants everyone to succeed, which can result in a lower amount of competition among employees.	Managers can become blind with their power and make decisions that only benefit themselves.
Managers are very involved in the employee's personal lives, which makes the employee feel more connected at work.	If roles are not well defined and employees do not know what is needed from them there can be power struggles and internal issues.

Democratic

Democratic allows for the employees to grouply vote on decisions that are taken by the business. This might not always work out, as the majority might not be as smart as the minority etc.

Advantages	Disadvantages
It creates higher levels of job satisfaction. When people feel like their experiences matter, then it gives them more personal satisfaction over the work being done.	It can cause leaders to start fence-sitting.
It gives team members a look at the bigger picture.	It struggles to offer a clear definition of leadership.
It helps to solve complex problems.	It does not always offer a positive outcome.

Laissez-faire

When employees are left alone to make their own decisions in the business regarding actions etc. It allows employees freedom.

Advantages	Disadvantages
It creates higher levels of job satisfaction. When people feel like their experiences matter, then it gives them more personal satisfaction over the work being done.	It can cause leaders to start fence-sitting.
It gives team members a look at the bigger picture.	It struggles to offer a clear definition of leadership.
It helps to solve complex problems.	It does not always offer a positive outcome.

Situational

Situational leadership is when they change leadership to the most desired depending on the situation or what is needed for the business.

Advantages	Disadvantages
It creates a comfortable environment for workers.	It focuses more on immediate needs rather than long-term needs.

It takes different developmental phases into account.	It can be ineffective in task-orientated environments.
It helps a team be able to work better together.	It does not provide enough information for some leaders.

Ethical Considerations and Cultural Differences

Ethical Considerations

Ethical Considerations can influence both leadership styles and management styles. Leaders, as opposed to managers, focus on 'doing the right thing' with respect to their people, whereas managers tend to do the right thing with respect to their organisations. This can, however, can also be viewed as selfish as the managers will be putting their positions and rewards ahead of their employees for ethics. This also is contradicted by the argument that an unethical leader is not a leader at all.

Cultural Differences

Cultural Differences can also influence leadership and management styles. I.e individualism is valued by Anglo-American cultures whilst Japanese culture values cohesion. Power might resent an autocratic leader and would probably perform better under democratic leadership.

Intrinsic and extrinsic motivation

Frederick Winslow Taylor

Taylor was a mechanical engineer who observed the phenomenal contribution science has made to agriculture and the Industrial Revolution. Taylor believed that standardisation of work methods and enforced adoption of the best ways of working were the ways to ensure that output would be maximised in the shortest possible time.

Abraham Maslow

Maslow is most famous for proposing a hierarchy of human needs to explain motivation. He argued that people have a number of needs and arranged these in terms of their importance.

Frederick Herzberg

He has developed motivation based on hygiene needs and motivational needs. Hygiene needs are those factors that provide dissatisfaction at work if they are not attended to. If these are satisfactory, however, it is unlikely to lead to motivation. Hygiene factors are the things that are necessary for you to get started, but they don't drive you to succeed.

The 'hygiene' needs are:

- Company policy with supervisor
- Relationship with supervisor
- Work conditions
- Salary
- Company Car
- Status
- Security
- Relationship with subordinates
- Personal life

His research identified other true motivators:

- Achievement
- Recognition
- The work itself
- Responsibility
- Advancement

John Adams

Another theorist, he developed a theory based on equities. It is based on 'inputs', 'outputs' and 'equity'. His theory is that employees will be motivated when they perceive that a balance, or equity, exists between their inputs into the business and their outputs from it.

Inputs:

- Ability
- Adaptability
- Attitude
- Dedication
- Determination
- Effort
- Flexibility
- Hard work
- Knowledge
- Loyalty
- Personal sacrifice
- Skill
- Support from colleagues
- Time
- Tolerance
- Trust in superiors

Outputs:

- Fringe benefits
- Job security
- Praise
- Recognition
- Reputation
- Responsibility
- Reward
- Salary
- Sense of achievement
- Stimuli
- Thanks

Daniel Pink

Pink argued that the old motivational theories are flawed in modern day business. This includes Taylor's scientific management.

He believes that a regular system of punishments and rewards for working well simply do not work in modern day employees because they are more complex now. He believes that setting punishments and rewards such as those limits an employee's creativity to a range of what they can do. (They focus on the reward rather than the problem). He believes that they have to use psychological theories such as the Third Drive. (Harry F. Harlow). Which is as follows:

- **First Drive** (biological needs) - hunger, thirst, sex, etc.

- **Second Drive** (response to punishments & rewards) - i.e how well they are motivated depending on the following punishment / reward in the end.

- **Third Drive** (intrinsic motivation) - when somebody gets satisfaction without threats and rewards from outside

Businesses should create settings that allow for the following:

- **Autonomy** - an environment that permits employees to shape their own lives. As much as possible, businesses should give employees freedom in when they work, how they do their jobs and what they do.

- **Mastery** - opportunities that allow employees to learn, innovate, and create new things. Employees will achieve mastery when they are given tasks that matter to them and are neither too easy nor too difficult. Easy tasks bore employees and tasks that outdo their capabilities cause anxiety.

- **Purpose** - a sense that their work betters their own lives and the world. Employees must know and understand the organisation's purpose (other than profit) and how each person contributes to these purposes. Businesses should emphasise 'purpose' goals as much as profit goals as reaching profit goals has no positive impact on a person's well-being (it may actually have a negative impact)

Douglas McGregor

Douglas McGregor, a psychologist, has developed his own theory regarding management of businesses called theory X and Y.

- **Theory X** - he believes that theory should be used when employees are under-motivated (such as disliking work, avoiding responsibility etc.) and require authoritarian management style. They need to be kept under surveillance in order to make sure that they work and not slack off. So they are under constant management.

- **Theory Y** - he believes that theory Y should only be used if the employees are motivated and there is trust in the management. This means that it is preferred to leave these employees under NO surveillance to make sure that they work hard. They want to develop their skills, be given responsibility and would enjoy taking ownership of their work.

Types of Organisational Culture

Charles Handy

He believes that there are 4 main cultures: power culture, role culture, task culture and person culture.

Power Culture: a few individuals retain the essential power. Control comes from these individuals and spreads out across the organisation. Power cultures have a few rules and procedures. People are usually judged by their results rather than how those results are achieved.

Role Culture: these have clearly defined roles and operate in a highly controlled and precise organisational structure. These organisations are usually tall hierarchical bureaucracies with a long chain of command.People avoid taking risks, Examples would be military organisations, civil services etc.

Task Culture: The task culture describes a situation when short-term teams address specific problems. A strong team with good emotional energy can emerge and outperform in a task than what is required. Divisive decisions can, however, also damage the spirit of the team.

Person Culture: A person culture exists when individuals believe themselves to be superior to the organisation and just want to do their own thing. These organisations are where employees simply go to work and they see themselves as separate from it - as free spirits. I.e each star is unique and different in the galaxy, hence that individualisation should be kept in task.

Edgar Schein

He believes that there are 3 main organisational cultures:

Organisational Attributes: You sense organisational attributes when you enter an area with organisational attributes i.e the government. The government clearly imposes rules through things such as signs, statues of leaders etc. People who are outsiders are looked at with caution, viewed with suspicion.

Professed Culture: They all project a certain image. These slogans, statements, or images give clues to how the organisation operates. Websites of most large organisations give clear statements of what the business profess to believe or value.

Organisational Assumptions: people who have been with an organisation for a long time will often talk about 'how things really get done' as opposed to the 'official' channels. These people are referring to the organisational assumptions. People are often afraid to talk about these. The existence of organisational assumptions also help explain why some managers new to an organisation may find it difficult to initiate change.

Deal and Kennedy

> Degree of Risk > v Feedback Speed v	Low	High
Slow	Process Culture	Bet-Your-Company
Fast	Work hard, Play hard	Tough guy, Macho culture

Process Culture - the risk is low and the feedback is slow. Typically banks follow this working culture. Because immediate feedback is lacking, employees generally find it difficult to measure what they do, so instead they focus on how they do it.

Work hard, Play hard culture - when employees take risks, but the feedback they receive is almost immediate. Examples would be the sales team. Employees need to be really energetic. Contests are really common, as everybody is trying to reach new heights. They work as a team, and know that a single person cannot do all of the job single handedly.

Bet-Your-Company culture - are generally followed by pharmaceutical and oil companies because the result to their decision will be determined after a very long period of time. Thus, they focus mostly on long term gains instead of short term ones. They believe that planning ahead is essential.

Tough guy, Macho culture - this is an all-or-nothing culture, generally followed by advertising, sports players etc. They work very hard to be stars. They also enjoy excitement, as it is very fast feedback and the degree of risk is high.

Kotter and Heskett

Believe that healthy cultures outperform companies with unhealthy cultures.

A healthy culture defines:

- A match between characteristics, vision of company and operational goals of the company.

- Needs to emphasise all groups of stakeholders - employees, shareholders, customers, etc.

- Managers must take everyone into account when taking decisions

- Roles are clearly defined, especially for CEOs, such as ‘preserving the firm’s values’ or ‘teaching others’ etc.

- Diversity is valued, meaning that they should not work on their own self-interest and political interest, and promote core cultural values, such as leadership, initiative and collaboration.

And thus, they have found out after research that healthy companies outperform financially compared to the unhealthy ones:

1. Revenue increase over 11 years: 682% versus 166%
2. Workforce expansion over 11 years: 282% versus 36%
3. Net income improvement over 11 years: 756% versus 1%

Cultural Clashes

Cultural clashes can be caused by multiple factors:

- **Lack of focus -** employees may not understand the values and aims of the new organisation or the leader and, thus, are not focused on organisational aims.

- **Preoccupation with the merger** - employees focus their attention and energy on the fact of the merger or the fact of a new leader, rather than on their own jobs. Productivity and job performance suffer.

- **Sense of Division** - Employees focus on their attention and energy on employees for the merger company.

- **Sense of Isolation** - while managers focus on the strategy of the new organisation, employees feel isolated and ignorant of what is happening.

- **Unresponsive management** - employees feel like managers do not care for their well-being

Causing things such as labour turnover, lower productivity, bankruptcy/failure etc.

Industrial Conflicts

Sources of conflict:

Change - this can be driven by either internal or external factors. Either way, change causes stress. I.e introduction of new technology. Employees might not respond well to these new changes.

Different interests - when workers have different values and cultural norms, they will have different interests. This can cause a conflict between the manager and the workers,s or even workers between workers, because they want different things.

Different values - lack of acceptance and understanding of differences in values can cause conflict in a business. Especially from the management team.

External factors - changes in economic factors, for example, can affect the resources available for the business. Migration of labour can bring new workers which are accustomed to the business's traditional culture, etc.

Insufficient resources - resource allocation is very important. Having insufficient resources also touches employee's pay and motivation, often arising from demanding more payment from the managers by the workers.

Poor communication - clashes can also happen because of lack of communication. Often from misunderstandings, or lack of communication simply because some information can not be disclosed.

Poor performance - sometimes people do not do their jobs properly, a situation that occurs in any type of business. This can lead to conflict, such as the poor performing employee being sacked, demoted, reprimanded etc. It can also cause conflict.

Examples of companies which had conflict:

https://www.dw.com/en/germany-lufthansa-arbitration-with-cabin-crew-union-falls-apart/a-51325960

“Last week, Lufthansa and UFO agreed to enter arbitration to resolve ongoing wage disputes, though neither side had yet named their respective arbitrators. The two sides have been at odds over pay for some 21,000 staff members as well as the union's legal status. However, Lufthansa withdrew its approval for arbitration because UFO did not agree to completely renounce strikes at four Lufthansa subsidiaries. Meanwhile, a UFO spokesman said Lufthansa was trying to "blackmail" the trade union.”

Approaches to conflict resolution

- **Conciliation and arbitration** - Sometimes the employer and employee representatives will seek help from a third party to resolve a dispute. This process is often referred to as conciliation and arbitration. The aim of conciliation is to bring together groups in dispute and help them to find a resolution.

- **Employee participation and industrial democracy** - In industrial democracies, often partial or complete participation by the workforce in the running of an organisation occurs. At one extreme, industrial democracy implies workers’ control over industry. For others, it takes the form of ‘Employee participation’, such as collective bargaining in which trade unions negotiate with managers.

- **No-strike agreement** - A no-strike agreement occurs when a trade union has agreed not to undertake industrial action unless procedural steps have first been undertaken. Unions usually agree not to strike when the management team has agreed to certain conditions.

- **Single-union agreement** - Where one union is recognised as the only representative of employees. This situation saves managers difficulties of negotiating with several unions and reduces competition between unions to get a higher pay increase than rivan unions.

Reasons for resistance to change

Workers might resist any upcoming changes to the business due to these reasons:|

- **Discomfort** - employees are often happy with the current situation and to maintain the status quo.
- **Fear** - changes often make employees afraid simply because they do not know what will happen.
- **Insufficient reward** - employees often perceive that implementing the change requires them to do more work for no increase in compensation.
- **Lack of job skills** - employees may not have the skill necessary to perform in the changed work environments.
- **Loss of control** - when managers insist on change, employees feel that they do not have control over their lives.
- **Mistrust** - employees sometimes do not trust managers.
- **Poor communication** - employees do not know why the business needs to change.
- **Poor timing** - change is brought about for the needs of organisation but might occur at a time that, for either professional or personal reasons, may fit poorly with the needs of an employee.
- **Prior experience** - an employee may have had a bad experience with change in another organisation or at an earlier time with his or her current employee.
- **Social Support** - an employee who works with a group of people resists change may choose to resist for the sake of maintaining social relationships.

Kotter’s 8 Steps Theory For Leading Change

1. **Create a sense of urgency** - help others see the need for change through a bold opportunity statement

2. **Build a guiding coalition** - a volunteer army needs a coalition of people - born of its own ranks - to guide it, coordinate it and communicate services.

3. **Form a strategic vision and initiatives** - clarify how the future will be different from the past and how you can make that future a reality

4. **Enlist a volunteer army** - large scale change can only happen when a massive amount of people rally around a common opportunity.

5. **Enable action by removing barriers** - removing barriers such as inefficient processes and hierarchies provides the freedom necessary to work across silos and generate real impact.

6. **Generate short term wins** - wins are the molecules of results. They must be recognized, collected and communicated – early and often – to track progress and energize volunteers to persist.

7. **Sustain acceleration** - press harder after first success. Your increasing credibility can improve systems, structures and policies.

8. **Institute change** - articulate the connections between the new behaviors and organizational success, making sure they continue until they become strong enough to replace old habits.

Relations

Employer-employee relations and innovation:

Product and process innovation can lead to conflicts between employees and employers. New products often require workers to acquire new skills to allow the innovative product to be assembled cost-effectively. Process innovation can result in significant changes. It is also possible that such changes are resisted by employees.

Employer-employee relations and cultural differences - international examples:

Japan - Japanese managers regard HR as the most critical asset affecting the performance of their enterprises. They have a high value on family relationships and responsibilities, and this carries over in the workplace. They see each worker as a family member, and have lots of unity within the firm, as such it becomes a corporate objective.

Saudi Arabia - Saudi Arabia is contrasted with Japan. Saudi Arabia is found to be violating all core labour standards. Lack of trade unions, workers committees etc. are all banned within Saudi Arabia. Unions, collective bargaining, strikes, even public demonstrations are banned.

Germany - Collective bargaining at industry level between individual trade unions and employers' organisations is still the main method for setting pay and conditions in Germany. This reinforces employer-employee relations. Separate agreements between trade unions and specific companies are rare, but they do exist such as the agreement covering the motor company Volkswagen.

Employer-Employee relations and ethical considerations

They are important when the relationship between employee and employer is determined. Examples of dilemmas concerning this relationship:

Is it ethical when:

- Nurses and doctors take strike actions
- Employers do not recognise trade unions, in countries where this is not a legal requirement
- Employers lower wages against union opposition, in times of economic recession
- Major decisions about the future of the business are taken without consulting the employees

https://quizlet.com/au/281526960/ib-business-26-employer-and-employee-relations-hl-flash-cards/

Key Terms

- **Bureaucracy** - When rules etc. are well established within a business hence own personal thinking, opinion, and own procedures are not expected. It is likely that bureaucratic leadership has many levels.

- **Career Break** - an employee's own decision to stop working for a limited time, usually lasting for around a year or more. The employee then returns to his job.

- **Casual Fridays** - when an employee is allowed to wear less formal dress on Fridays so it is easier to go off to the weekends.

- **Centralisation** - when a group of decision makers which are close to the head of the business. Usually present in a business with many levels of hierarchy.

- **Chain of command** - a formal route by which a decision must travel to the organisation. Traditionally, it travels from the top of the hierarchy to the bottom.

- **Commission** - a method of advertisement. When 2 organisations join together and pay each other for completing goals i.e Fighting fit club and BISI. BISI advertises FFC in P.E lessons, and for every student that joins FFC, BISI is given 10% of profit from each student etc.

- **Conciliation and arbitration** - Sometimes the employer and employee representatives will seek help from a third party to resolve a dispute. This process is often referred to as conciliation and arbitration. The aim of conciliation is to bring together groups in dispute and help them to find a resolution.

- **Cultural Differences** - this can also have a significant effect on the HR plan as it will become a multicultural workforce. This will generally be a result of a business as a multinational country.

- **Decentralisation** - Senior managers maintain strategic decisions, but the decision making authority is given to middle managers. It is usually democratic.

- **Delayering** - in order to reduce levels of hierarchy, it first needs to remove the levels of management. It is a well established strategy usually that is used by businesses that have been operating for many years. It typically reduces costs as they do not have to employ many managers.

- **Delegation** - when a manager gives authority for a particular decision but not the responsibility for the outcome of the decision. The outcome is still decided by the manager.

- **Dismissal** - see page 39

- **Downshifting** - an employee gives up a senior position in order to change career in an area of interest or a lower paid field.

- **Employee participation and industrial democracy** - In industrial democracies, often partial or complete participation by the workforce in the running of an organisation occurs. At one extreme, industrial democracy implies workers' control over industry. For others, it takes the form of 'Employee participation', such as collective bargaining in which trade unions negotiate with managers.

- **Employee Stock Options** - is an option that is given to an employee which allows him/her to buy stocks off of the company. Usually this price is discounted.

- **Flexitime** - Work involving a set number of hours of an employee's own decision. There is a core number of hours they have to work, however.

- **Formative** - an appraisal system which is intended to be a learning process, often it is a continuous approach to evaluate performance during an employee's time at work. Typically run in one to three year cycle. The focus is to give effective feedback to the employee when they have done very well and also areas in difficulties.

- **Freelance** - somebody that is self-employed working for several different people (i.e a freelance photoshopper)

- **Fringe Benefits** - giving an employee a form of payment that is not through cash or credit card money. I.e giving the employee a company car.

- **Full time work** - when employees work the maximum amount of time per week accepted by the local law (35 hours a week in Europe)

- **Homeworking** - when an employee works from home. Usually the employee has a core number he/she has to do work at the office, rest at home (IGCSE markers)

- **Induction** - training that focuses on making a new employee familiar with the way the business functions with lines of authority. A good induction programme helps to ensure that new employees settle in quickly so that they can begin work straight away.

- **Job share** - when two or more employees decide to share their job to free up time

- **Labour Turnover** - refers to the movement of employees into and out of a business given time period (usually a year) and is an indicator of how stable a business is.

- **Levels of Hierarchy** - this term refers to levels for responsibility in a business. Each level indicates the seniority in the business.

- **No-strike agreement** - A no-strike agreement occurs when a trade union has agreed not to undertake industrial action unless procedural steps have first been undertaken. Unions usually agree not to strike when the management team has agreed to certain conditions.

- **Offshoring** - when a business outsources outside its home country. Outsourcing a process or service to another country to reduce costs. It is done by re allocating resources such as employees factories in another location to save costs. Offshoring also includes taking employees from another place.

- **Off-the-job** - when the employees are given time off work in another facility. This training is usually done visually, through textbooks etc. to make sure that they have enough education to attend the job and do it physically.

- **On-the-job** - when employees are trained while they are doing their regular job. On-the-job training usually always includes a supervisor as experienced employees guide the new employee.

- **Outsourcing** - when a business cuts back on its operations to focus on its core activities. This way, it does not need to employ as many workers. It does it by subcontracting a process such as packaging or manufacturing to another company/business.

- **Part time** - when employees work less than full-time weekly maximum hours.

- **Permanent contract** - An employee who has been hired for a position without a time limit

- **Performance related pay** - depending on how well the employee performs, their payment also varies. I.e if a teacher gets 5 A* students from 6 students, then the payment will be high.

- **Profit related pay** - when the employee is based on the profit of the company during a given time. I.e if a company makes no profit, then the wage of the employee would be low.

- **Redundancy** - see page 39

- **Salary** - is a constant payment which does not vary that is given to the employees for their work.

- **Self-appraisal** - this is an important part of the performance appraisal processes outlined above or it can be used by itself. With this method of appraisal, individual employees reflect on their own performance. Usually his reflection is done with the help of a self-appraisal form on which employees rate themselves on various performance indicators. It can help distinguish needs, and discuss problems, accomplishments etc.

- **Single-union agreement** - Where one union is recognised as the only representative of employees. This situation saves managers difficulties of negotiating with several unions and reduced competition between unions to get a higher pay increase than rivan unions.

- **Span of control** - span of control refers to how many subordinates are directly under the authority of a manager and whom managers are responsible for.

- **Study leave** - an employee is given time off in order to get new qualifications certificates etc.

- **Summative** - an appraisal system which measures an employee's performance according to set standards. A summative assessment has an element of making a judgement whether the employee has passed or failed. It is usually conducted during the end of a project, a contract or a specific goal. Failure does not necessarily lead to termination.

- **Teleworking** - work taking place from home or a telecommunication centre. Usually the employee would have a core member of hours he/she has to work, rest spent time spent at home.

- **Temporary** - work that is on a fixed-term contract usually of a temporary nature (for example cover-up work if somebody left)

- **Termination** - see page 39

- **Three-day weekend** - Instead of working five days of eight hours, the employee works four days of ten hours and so has a 3 day weekend.

- **Wage** - payment that varies, which can be determined by lots of factors such as performance, profit etc.

- **360 degree** - this method provides each employee with the opportunity to receive performance appraisal not only from their line manager but also from four to eight co-workers, subordinates or even clients. This method involves an element of upward appraisal and is the most complex as it requires to directly interact with many other stakeholders.

Topic 3: Finance and Accounts

To start it off, a business will require start-up capital in order to actually create the business, and will require working capital to keep the business working.

Sources of finance

Sources of finance can be both external and internal. External sources refer to capital that is raised from outside sources e.g. loan and internal sources refer to capital that is raised from things such as internal profit.

Internal finance

Personal finds - Owner's savings are a commonly used source of finance for sole-trader businesses - especially for starting up a new business. This means that the initial sources are also limited to the sole trader's funds. The advantage is that the funding does not have interest, and has full control of the business this way

Profits retained from a business - if a company is trading profitably then some of these profits will be taken in as tax by the government. If any profit remains, this is called retained profit. This profit can be used to further invest back into the business, and can be a permanent source of finance.

Sale of assets - established businesses can sometimes find assets that are not longer in use and can be sold to raise cash. In addition, some businesses will sell assets that they still intend to use, but which they do not need to own. In these cases, the assets might be sold to a leasing specialist and leased back by the company. This will raise capital – but there will be an additional fixed cost in the leasing and rental payment.

Managing working capital more efficiently

When businesses increase stock levels or sell goods on credit to customers (debtors), they use a source of finance. When companies reduce these assets – by reducing their working capital – capital is released, which acts as a source of finance for other uses. There are risks in cutting down on working capital, however. Managing working capital by cutting back on current assets by selling stocks or reducing debts owed to the business may reduce the firm's liquidity – its ability to pay short-term debts – to risky levels.

External finance

Short term finance

There are the three main sources of external short term finance

Bank overdrafts - this is seen as the most flexible option, for which a business receives money depending on what it is needed during that time from day to day. However, this method also comes with high interest rates.

Trade credit - delaying payment or bills is in effect a source of finance. Many businesses aim to pay their suppliers within one or two months. Further lengthening this trade will become also a source of finance for the debtor business

Debt factoring - when a business sells goods on credit, it creates a debtor. Assume, for an example, that the company has a debtor. However, at a sudden time, they want this money immediately to improve liquidity. The company sells this debt that it owns to a debt factor, who pays the business immediately. The debt factor then legally owns the debt that was meant to be paid to the business.

Medium term finance

Hire purchasing and leasing are methods of medium term finance

Hire purchasing - buying an equipment over a given period of time, with fixed repayments. Leasing on the other hand allows one to pay for a fixed period of time for an asset without ever having to own it.

Leasing - hiring an item over a period of time without ever purchasing it.

Long term finance

Debentures - (also known as long term stocks or corporate bonds). A company wishing to raise funds will issue or sell these to interested investors. The company agrees to pay a fixed rate of interest each year for the life of the debenture, which can be up to 25 years. The buyers may resell to other investors if they do not wish to wait until maturity before getting their original investment back. Debentures are not usually 'secured' on a particular asset. When they are secured debentures are known as mortgage debts.

Sale of shares, equity finance - All limited companies issue shares when they are first formed. The capital raised will be used to purchase essential assets. Both private and public limited companies are able to sell further shares – up to the limit of their authorised share capital – in order to raise additional permanent finance. This capital never has to be repaid unless the company is completely wound up as a result of ceasing to trade. Private limited companies can sell further shares to existing shareholders. This has the advantage of not changing the control or ownership of the company – as long as all shareholders buy shares in the same proportion to those already owned. Owners of a private limited company can also decide to 'go public' and obtain the necessary authority to sell shares to the wider public. This would obviously have the potential to raise much more capital than from just the existing shareholders – but with the risk of some loss of control to the new shareholders. In the UK, this can be done in two ways and these are quite typical for many countries:

• Obtain a listing on the Alternative Investment Market (AIM), which is that part of the London stock exchange concerned with smaller companies that want to raise only limited amounts of additional capital. The strict requirements for a full stock exchange listing are relaxed. debentures or long-term bonds: bonds issued by companies to raise debt finance, often with a fixed rate of interest Finance and accounts 232 3.1

• Apply for a full listing on the London Stock Exchange by satisfying the criteria of (a) selling at least £50 000 worth of shares and (b) having a satisfactory trading record to give investors some confidence in the security of their investment. This sale of shares can be undertaken in two main ways:

- Public issue by prospectus – this advertises the company and its share sale to the public and invites them to apply for the new shares. This is expensive, as the prospectus has to be prepared and issued. The share issue is often underwritten or guaranteed by a merchant bank, which charges for its services.
- Arranging a placing of shares with institutional investors without the expense of a full public issue – once a company has gained plc status, it is still possible for it to raise further capital by selling additional shares. This is often done by means of a rights issue of shares.

By not introducing new shareholders, the ownership of the business does not change and the company raises capital relatively cheaply as no public promotion or advertising of the share offer is necessary. However, as the rights issue increases the supply of shares to the stock exchange, the short-term effect is often to reduce the existing share price, which is unlikely to give existing shareholders too much confidence in the business if the share price falls too sharply.

Grants - there are many agencies that are prepared, under certain circumstances, to grant funds to businesses. The two major sources in most European countries are the central government and the European Union. Usually, grants from these two bodies are given to small businesses or those expanding in developing regions of the country. Grants often come with 'strings attached', such as location and the number of jobs to be created, but if these conditions are met, grants do not have to be repaid.

Venture Capital - Small companies that are not listed on the stock exchange can gain long-term investment funds from venture capitalists. These specialist organisations are prepared to lend risk capital to business start-ups or purchase shares in them. In addition, venture capitalists can provide fnance to small to medium-sized businesses that might fnd it difcult to raise capital from other sources. This could be because of risks of the business. These risks could come from the new technology that the company is dealing in or the complex research it is planning, in which other providers of finance are not prepared to get involved. Venture capitalists take great risks and could lose all of their money – but the rewards can be great. The value of certain 'high-tech' businesses has grown rapidly and many were fnanced, at least in part, by venture capitalists. Venture capitalists generally expect a share of the future profits or a sizable stake in the business in return for their investment and this can mean that a successful business start-up, if it develops into a large company, will always have some control exercised over it by the original venture capitalist.

Business angels - These should not be confused with venture capitalists although they perform a very similar finance function. Angels are wealthy individuals but venture capitalists are specialist institutions. Most of these are successful business people who would like to help other entrepreneurs start their own business. Generally they offer a link from the initial stage of the business and carry on to the point at which the business would require a greater level of funding than the business angel investors could offer.

Subsidies - Governments or groups of governments – such as the European Union – often provide financial support to businesses to allow a reduction in costs and to encourage increased output. Subsidies are most commonly offered to businesses which:

• might otherwise fail causing significant unemployment and regional imbalances
• need assistance to start up due to high costs or high risk of failure

• produce strategically important products e.g. agriculture
• need help to reduce costs to remain competitive against foreign rivals.

Subsidies are criticised by 'free-market' economists as encouraging inefficiency as businesses do not have to pay the full costs of their operations. It is also argued that they might lead to poor allocation of resources if subsidies are paid from taxes on successful, profitable businesses that, as a result, have less capital for investment. Businesses should avoid becoming dependent on subsidies as they might be reduced or withdrawn due to government policy changes.

Choosing appropriate sources of external finance

Source of finance	Short-, medium- or long-term	Advantages	Disadvantages	Most appropriate for	Least appropriate for
Sale of shares	Long	Permanent capital No interest charges	Some loss of control by original owners Dividends will be expected by shareholders	Long-term expansion of the business Taking over another business	Buying inventories (stocks) Temporary increase in working capital needs
Sale of debentures	Long	Fixed interest paid	Must be repaid at end of term Interest payable has to be competitive	Long-term uses such as expansion or purchase of equipment expected to last several years	Short-term financing needs, e.g. paying for unforeseen maintenance
Leasing	Medium	Gives business full use of an asset without need to finance purchase	Asset is never owned/purchased Expensive	Vehicles Equipment Computers	Major expansion or takeover project
Debt factoring	Short	Releases liquidity from accounts receivable (debtors)	The full value of accounts receivable will not be recouped by the business	Short-term liquidity needs such as financing increase in sales on credit	Major expansion or takeover project Purchase of equipment
Bank overdraft	Short	Flexible amount can vary with daily needs	High interest Bank can call in overdraft if they are concerned about liquidity of the business	When the amount of finance needed varies on a regular basis, e.g. daily expenses might exceed daily cash revenue	Major expansion or takeover project Purchase of equipment (too expensive)
Subsidies	Time period fixed by government	No interest No repayment	Can be withdrawn at short notice, e.g. change of government	To make production of a product viable that would otherwise be unprofitable	Financing a long-term commitment of the business – because the subsidy could be withdrawn
Venture capital	Long	Provides finance when other sources might not be available due to risk	Some loss of ownership Share of profits payable to venture capitalists	To finance a relatively risky business start-up or expansion of a recently formed business	A profitable family business in which the family owners want to retain full control
Ten-year bank loan	Long	Fixed interest (usually)	Interest payments must be made on time or 'security assets' might be sold	Finance expansion that is expected to lead to higher revenue to allow for the loan to be repaid in the time limit agreed with the bank, e.g. new factory	Purchasing an increase in inventories to meet expected demand over a festival period
Trade credit	Short	Finances purchase of inventories with no interest costs	May be loss of discounts for rapid payment of invoices	To finance an increase in inventory held or sales – especially when the sales are on credit and cash will not be received quickly	Purchasing land on which to build an extension to the factory or offices of the business

Costs and Revenues

Direct costs

The two most common direct costs are labour and materials. The most important direct cost in a service business such as retailing is the cost of the goods being sold. E.g.

- One of the direct costs of a hamburger in a fast-food restaurant is the cost of meat
- One of the direct costs for a garage in servicing a car is the labour cost of the mechanic
- One of the direct costs of the business studies department is the salary of a business studies teacher

Indirect costs

These costs cannot be allocated correctly and precisely to the cost center.

E.g.

- The costs of cleaning a school
- The rent towards a garage
- The purchase of a tractor for farm

Costs and level of output

Fixed costs are costs which do not vary with the level of output.
Variable costs are costs which always vary with the level of output e.g. direct cost of materials
Semi-variable costs are costs which have fixed costs and variable costs all together. E.g. the electricity standing charge plus cost per unit used

Revenue

Revenue is not the same as cash flow forecast unless all goods have been sold for cash. Revenue is recorded on a firm's accounts whether the cash has been received from the customer/debtor or not.

Overall, revenue is the income received from the sale of a product, total revenue is the total amount of income received from selling all products in stock, revenue stream is the income that an organisation gets from a particular activity.

Break even analysis

Break even analysis is finding the time at which the total costs = total revenue.

That is, consider the following definitions

$$Total\ costs\ =\ fixed\ cost\ +\ variable\ costs$$
$$Revenue\ per\ unit\ \times No.\ units\ =\ Sales\ revenue$$

$$Total\ cost\ =\ Sales\ revenue$$
The above relation breaks even. Therefore, one could obtain the graph

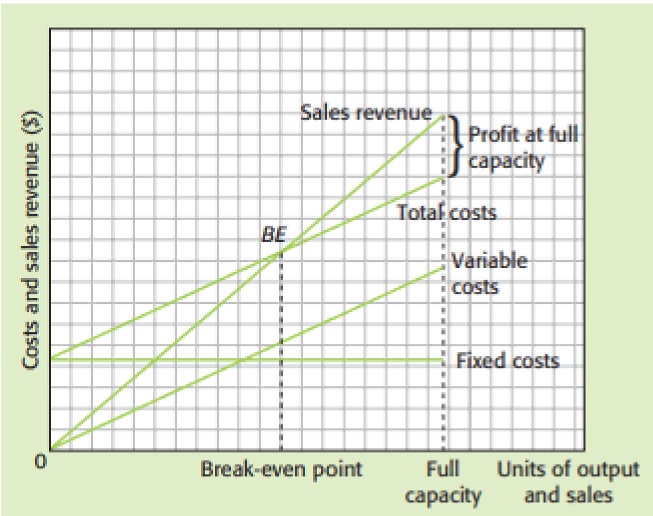


Figure 3.3.2 A typical break-even chart

This introduces the concept of margin of safety, for which, for example, if the break even occurs at 400 units, and the business produces 600 units, then the margin of safety is 200 units. However, notice that if a business produces below the break even point, then it is in danger.

Furthermore, one could also derive the break-even formula by introducing the concept of contribution per unit. That is, if revenue from 1 product is r, and the variable cost is v, then $contribution\ per\ unit\ =\ r\ -\ v$. if we consider how many of these have to be sold such that $fixed\ costs = units \times contribution\ per\ unit$, then $units = \frac{fixed\ costs}{contribution\ per\ unit}$ QED.

Break even analysis can be used for multiple things, such as:

1. A marketing decision - the impact of price per increase. This raises the sales revenue line at each level of quantity sold. The assumption made in this example is that maximum sales will still be made. With a higher price level, this is unlikely.

2. Operations Management decisions - the purchase of new equipment with lower variable costs. This will lower the variable costs line at each level of quantity.
x
3. Choosing locations - i.e. variable and fixed costs differ at each place

However, what if the business is looking for a target profit? Then, consider the following:

$$units = \frac{fixed\ costs + target\ profit}{contribution\ per\ unit}$$

This is evident from $fixed\ costs + target\ profit = contribution\ per\ unit \times units$ as we are looking to break a new goal instead.

And calculating the break even revenue, that is, the revenue when it breaks even:

$$break\ even\ revenue = \frac{fixed\ costs}{1-price}$$

Finally, if a business wants to calculate the target price, or for example, wants to break even at a specific amount of units, then

$Total\ cost = x \times revenue\ per\ unit$
Let $x = 1000$, hence
$\frac{Total\ cost}{1000} = revenue\ per\ unit$
Otherwise
$\frac{Fixed\ cost + 1000 \times variable\ cost}{1000} = revenue\ per\ unit$

Final accounts

Key Terms

- **Start-up Capital** - capital needed by an entrepreneur to start up a business

- **Working Capital** - the capital needed to pay for raw materials, day-to-day running costs and credit offered to customers. In account terms: $Working\ Capital\ =\ Current\ Assets\ -\ Current\ Liabilities$

- **Internal finance** - raised from the business's own assets or from profits left in the business (ploughed-back or retained profits)

- **External finance** - raised from sources outside business e.g. loan

- **Liquidity** - the ability of a firm to pay its short-term debts

- **Overdraft** - bank agrees to a business borrowing up to an agreed limit as and when required

- **Debt-factoring** - selling of claims over debtors to a debt factor in exchange for immediate liquidity; only a proportion of the value of the debts will be received as cash

- **Hire purchase** - an asset is sold to a company which agrees to make fixed repayments over an agreed time period; the assets belongs to the company

- **Leasing** - obtaining the use of equipment or vehicles and paying a rental or leasing charge over a fixed period. This avoids the need for the business to raise long-term capital to buy the asset; ownership remains with the leasing company

- **Equity finance** - permanent finance raised by companies through the sale of shares

- **Long-term loans** - loans that do not have to be repaid for at least one year

- **Debentures or long-term bonds** - bonds issued by companies to raise debt finance, often with a fixed rate of interest

- **Rights issue** - existing shareholders are given the right to buy additional shares at a discounted price

- **Venture capital** - risk capital invested business start-ups or expanding small businesses, which have good profit potential, but do not find it easy to gain finance from other sources

- **Business angels** - individual investors who put in their own money in a variety of businesses and are seeking a better return than they would obtain from conventional investments

- **Subsidies** - financial benefits given by the government to a business to reduce costs and encourage increased production

- **Direct costs** - these costs can be clearly identified with each unit of production and can be allocated to a cost centre

- **Indirect costs** - costs which cannot be identified with a unit of production or allocated accurately to a cost centre - also known as overhead costs

- **Fixed costs** - costs that do not vary with output in the short run

- **Variable costs** - costs that vary with output

- **Semi-variable costs** - costs that both a have a fixed and a variable cost element

- **Revenue** - the income received from the sale of the product

- **Total revenue** - total income from the sale of all units of the product

- **Revenue stream** - the income that an organisation gets from a particular activity

- **Break-even** - the level of output at which total costs equal total revenue

- **Margin of safety** - the amount by which the output level exceeds the break-even level of output.

- **Contribution per unit** - selling price of a product minus variable costs per unit $selling\ price\ per\ unit\ -\ variable\ cost\ per\ unit$

- **Total contribution** - $unit\ contribution\ \times\ output$

- **Break even revenue** - the amount of revenue needed to cover both fixed and variable costs so that the business breaks even

Topic 4: Marketing

Differences between marketing goods and marketing services

Tangible, physical consumer goods are often marketed in different ways to intangible consumer services. Managers responsible for selling services - such as banking or hotel services, hairdressing and beauty treatments - have to recognise several key differences between goods and services:

- Services are consumed immediately - they cannot be stored - so empty hotel bedrooms during the off-peak season may have to be filled by charging much lower prices.
- Services cannot be taken to be repaired or replaced
- Consumers find it more difficult to compare service quality than for manufactured goods - so promotion of services must be informative and detailed about the precise nature of the range and quality of services offered.
- People

Building trust

‘The business entrepreneur is the product’ In other words, the entrepreneur has to sell confidence and trust in themselves, and their ability to perform the services as described.

Time for delivery

Accurate time estimates and effective time management when delivering services to clients will allow more customers to be seen and provided with services to an appropriate standard.

Deliverability

A major challenge with marketing services is being able to convince customers that quality results can be delivered within a period of time.

Relationship

Marketing a service-based business relies more on building long-term relationships with consumers than marketing goods does.

Market Orientation and Product Orientation

Market orientation requires intensive market research and market analysis to indicate and represent future demand. The consumer is put first - the business attempts to produce what consumers want rather than try to sell them a product they may not really want to buy.

As such the following **advantages** are present using this methodology:

- Chances of newly introduced products failing is lowered.
- If consumers need are being met with appropriate products, then they are likely to survive longer and make higher profits.
- Instant feedback from consumers.

Product orientation assumes that there will always be a market available for every product that they create.

- They believe that inventing and developing products will find consumers by itself and purchase them.
- As such, they concentrate on creating very high quality and efficiently produced products.

Marketing Objectives

Many factors can change the marketing objective of a business.

E.g:

- **Corporate objectives** - the most influential part of marketing objectives. These two should not conflict in between.

- **Finance** - profitability, cash flow, liquidity etc. directly affect the marketing objectives and activities

- **Human resources** - the quality and capacity of the workforce is a key factory of market objectives.

- **Operational issues** - Helps compete of efficiency and productivity alongside quality. Effective management helps make these efficient.

- **Business culture** - marketing-oriented business is constantly looking for ways to meet customer needs. A production-orientated culture may result in management setting unrealistic or irrelevant to marketing objectives.

- **Economic environment** - Recessions etc. can all affect exchange rates, impacting objectives concerned with international marketing.

- **Competitors actions** - Action's approach to marketing can also help develop new methods of countering and producing new objectives

- **Market dynamics** - Size, growth and segmentation changes everyday. Market growth slow means that revenue is lost etc.

- **Technological change** - rapid technological change can shorten product life cycles which creates opportunities for innovation.

- **Social & political change** - This may create and also prevent marketing opportunities. Change in trends, news etc. can all impact the objectives of a business.

Marketing objectives can help the business set goals for the future, as well as help detect any problems that might be causing a loss in revenue and thus increase profit margin.

As such, the objectives between types of business can also differ. E.g Non-for-profit organisations may be seeking the following:

- High ethical standards
- Constant feedback to maintain public interest and awareness
- Free publicity

Whilst a for-profit organisation might have the objectives of the following:

- Maximise revenue from trading activities
- Increase recognition of the organisation by society
- Promote the work and aims of the organisation to a wide audience

Types of marketing

Commercial marketing involves creating, developing and exchanging goods or services that customers need or want. In this case, market research to establish consumer demand and business will supply what is demanded.

Social marketing helps bring about changes in behaviour that ultimately benefits society. The Social Marketing Institutes defines it as:
'The use of commercial marketing concepts and tools in programmes designed to influence individuals behaviour, their well-being and that of society.'

Market share

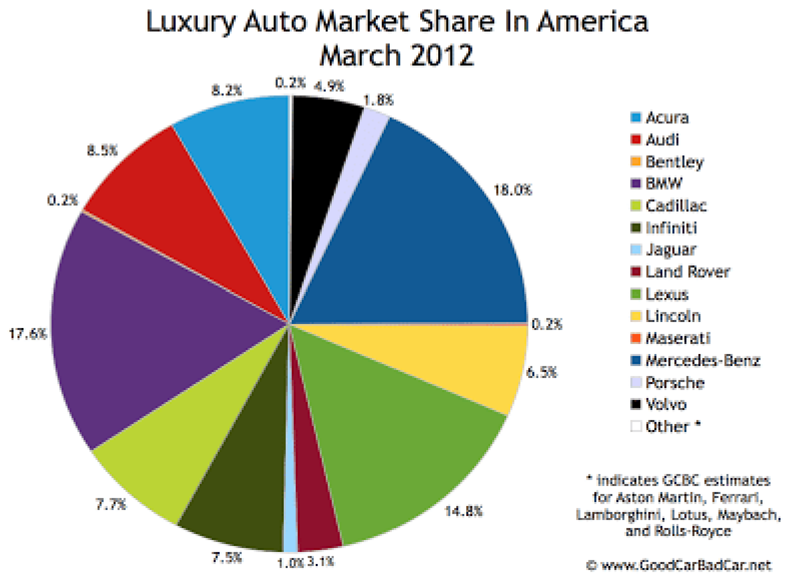
The formula to calculate market share is:

$$\boxed{\frac{\text{Sales done by the company}}{\text{Sales in the sector total}}}$$

However, market share is best judged when:

1. It is compared to its competitors rather than the total market,
2. Seasons can cause fluctuations in market share,
3. A decline in market share might be deliberate as a company ceases to support those customers
4. It may also mean that the company has entered a new market

As such, by definition, market share is the percentage that a company has its sales when compared to a group of competitors or the total sector.



Marketing strategies (This needs to be re-done)

Marketing strategies can be different through culture within the area. For example, Mcdonalds is selling porn commonly within the united states because culturally and religiously it is accepted to eat. However, McDonalds in Turkey does not sell pork because of the cultural acceptance of eating pork. Similar in India, where cows are regarded holy, cow meat and burgers might not be as common.

Innovation and ethics affect marketing through changes in strategy. For example, Nike has reduced the advertisement within paper and billboards and has increased the advertisement found within the web. This is because of the innovation between the times.

For example, Microsoft Vista is a company which in Latvian means a ‘chicken’ or a ‘frumpy woman’, so it makes some companies especially expand their products in different areas and sectors of the audience tricky. Another example is Nike, which became Nai Ke which also means ‘Endurance conqueror’.

Marketing segmentation and targeting

If a business is using only mass marketing then it is not important to differentiate between market segments as the 'whole market' is being targeted. In more cases, businesses attempt to aim their products at particular groups of consumers, believing that these groups demand slightly different products or 'offerings'. The first stage in this process is to research the whole market and identify specific consumer groups within it. These are called market segments.

Once the market segments have been identified then businesses must decide which of these segments are going to become target markets. This is the key difference between the two terms - target markets are the segments of the market that the business is going to aim its products at. A clothing business does not have to target all segments in the clothing industry. Each target market will require its own marketing strategy and promotion mix.

Examples of market segmentation: Coca-Cola not only makes the standard cola drink but also Diet coke for slimmer and flavoured drinks for consumers with particular tastes.

Renault the carmaker, produces several versions of its Megane model, such as coupe, saloon, convertible and people carrier - all appealing to different groups of consumers.

These businesses make a virtue out of concentrating on one segment and developing an image and brand that suits that segment.

Marketing Mix

- **Marketing mix** - the key decisions that must be taken in effective marketing of a product

There are 4 marketing mixes that are found in SL:

- **Price** - If set too low, then consumers may lose confidence in the product's quality; if too high then many will be unable to afford it

- **Product** - consumers require the right good or service. This might be an existing product, an adaptation of an existing product or a newly developed one.

- **Place** - Refers to how the product is distributed to the customer. If it is not available at the right time in the right place, then even the best products in the world will not be bought in the quantities expected.

- **Promotion** - must be effective and targeted at the appropriate market, telling consumers about the product's availability and convincing them that your brand is the one to choose. Packaging is often used to reinforce the image.

Furthemore, these marketing mixes must be coordinated together in order to make sure that the message is spread out well and equally, without conflict.

  - **Coordinated marketing mix** - key marketing decisions complement each other and must work together to give customers a consistent message about the product.

HL:

- **People** - selling services successfully requires people who can interact positively with customers and create the correct impression to encourage them to return. This is particularly relevant in the hotel and restaurant industry.

- **Process** - the processes that a business has in place to satisfy customers' wants reliably and consistently form an important part of marketing services. For example, banks replacing an out-of-date debit card without the customer having to ask for one.

- **Physics evidence** - Physical evidence means allowing customers to see for themselves the quality of the service being provided. This will reduce the element of risk in buying a service as opposed to a tangible product. For example, a clean and well-presented reception area in a hotel would raise appropriate expectations in the mind of the customer.

The business can also set a SMART target to ease the definition and finding what is exactly needed as a part of the marketing mix:

Specific	The objective should state exactly what is to be achieved.
Measurable	An objective should be capable of measurement – so that it is possible to determine whether (or how far) it has been achieved
Achievable	The objective should be realistic given the circumstances in which it is set and the resources available to the business.
Relevant	Objectives should be relevant to the people responsible for achieving them
Time Bound	Objectives should be set with a time-frame in mind. These deadlines also need to be realistic

Marketing Mix - Product (Life Cycle & Boston Consulting Group Matrix)

The business management theory states that for a product to be successful it needs to have successful qualities such as:

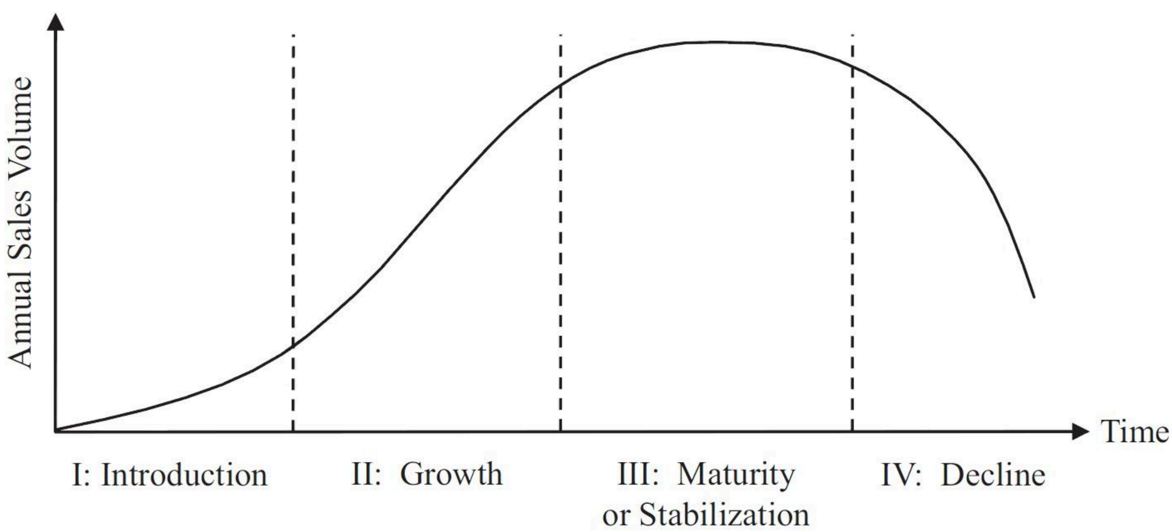
- Quality
- Durability
- Performance
- Appearance

No matter how extensively a company will advertise the product, if it doesn't meet the expected qualities it won't be bought.

It is important to note that the term 'product' does not only include physical components such as chocolate bar. It is important to differentiate these products to their categories respectively. For example, consumer durables are products which can have a long lifetime such as cars. Single use are products such as chocolate bars. Lastly, services - which do not have a physical existence but satisfy customers in different ways such as hair dressing. (Tangible & Intangible goods).

Product Life Cycle

Product life cycle is the pattern of sales recorded by the introduction to withdrawal of the product.



Introduction - when the product is initially introduced to the market. Sales start slowly and then they start exponentially increasing. There are, however, some exceptions such as a DVD released by a rockstar.

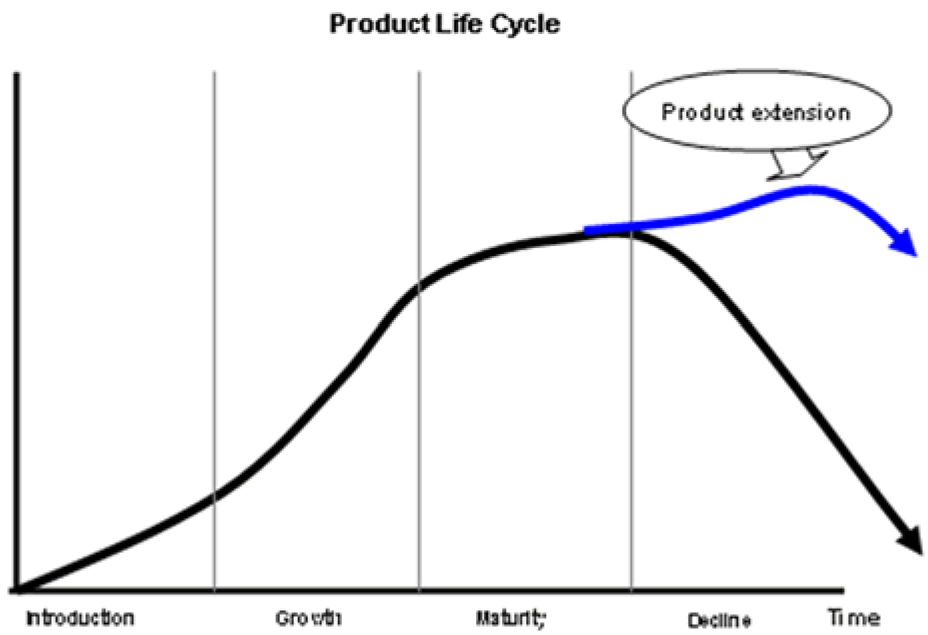
Growth - If the product is successfully advertised and promoted, the sales grow significantly. This stage of the product can not last forever. It may, however, take days, months or even years. The reason for decline is because of newly innovated products, increased competition and changes in consumer tastes and saturation of the market.

Maturity/Stabilisation - In here the sales of a product start declining. This, however, can take years. An example of a product is Coca-Cola. The best recent examples are mobile phones. Phone companies make previous phones obsolete through competition and innovation

Extension Strategies

Strategies are used to extend the product life cycle of a product to keep the sales going. Examples include export markets, new uses for existing features, relaunching with new packaging and advertising.

During the 'decline' phase of a product the business has 2 options: to extend the product or to let it decline further until the end. Usually the product is withdrawn if a replacement is ready.



Evaluation of Extension Strategies

Strategy	Example	Benefits	Limitations
Adding features to the original product	Adding a camera and bigger screen to an old tablet computer design	Can usually be developed and marketed more quickly – and at lower cost – than a completely new product	The basic original product is still ageing and at maturity/decline so consumers may not 'buy into' a slightly revised product
Repackage a product	Breakfast cereal box changes its design	Relatively cheap and quick method	Consumers may quickly realise the product is the same and feel that they are being misled
Discount the price	Reduce price of an older model of smartphone before new model is released	Lower-income consumers can now afford the product – product promotion might actually target different market segments	Impact on long-term image of the brand and the company – better to replace the product earlier to avoid discounting
Rebrand	Changing the name, packaging and promotion of a confectionery bar so it can be sold to different market segments	Opens up new market segments; can be presented as a substantially 'new product'	Expensive – is this rebranding strategy really worthwhile if a product has the perception of being old-fashioned and is shortly to be replaced?
Sell into new markets, e.g. export markets	Sell ageing model of car in a low-income country that has few manufacturers and limited choice of products	Market development can increase sales especially if the product is not perceived as being too old or 'mature' in these markets	Product and promotion may need to be redesigned to meet local laws and cultural requirements

The product life cycle and the marketing mix

Product Cycle Phase	Price	Promotion	Place	Product
Introduction	May be high compared to competitors (skimming) or low (penetration)	High levels of informative advertising to make consumers aware of the product's arrival on the market	Restricted outlets - possibly high-class outlets skimming strategy is adopted	New model launched
Growth	If successful, initial penetration pricing strategy could lead to rising prices	Consumers need to be convinced to make repeat purchases - brand identification will help to establish consumer loyalty	Highest geographical range of outlets possible - developing new types of outlets where possible	New models, colours, accessories, etc. As part of extension strategies

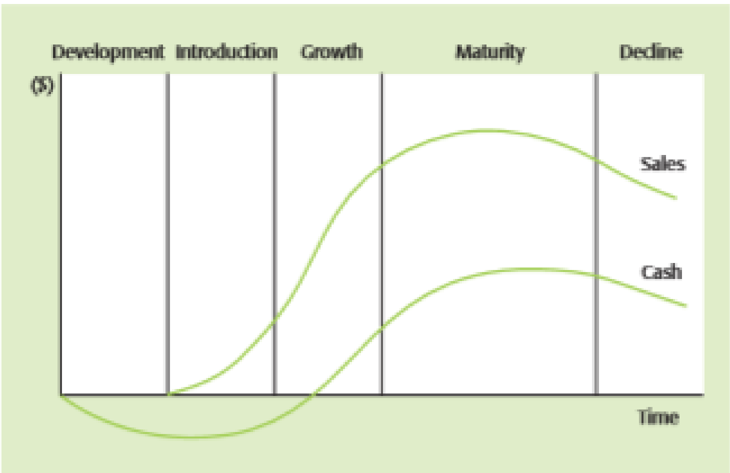
Maturity	Competitors likely to be entering marketing - there will be a need to keep prices at competitive levels	Brand imaging continues - growing need to stress the positive differences with competitors' products	Highest geographical range of outlets as possible - developing new types of outlets where possible	New models, colours, accessories, etc. as part of extension strategies
Decline	Lower prices to sell off stock - or if the product has a small 'cult' following, prices could even rise	Advertising likely to be very limited - may just be used to inform lower prices	Eliminate unprofitable outlets for the product	Prepare to replace with other products - slowly withdraw from certain markets

The relationship between the product life cycle, investment, profit and cash flow.

Product life cycle and investment - capital spending which aims to return profit - is likely to be heaviest towards the end of a product's life cycle. The time period required to research (R&D) of new products will determine timing.

Product life cycle and profit - High profit margins are likely to be during the growth and maturity phase. However, at a later stage the prices have to be set more competitively and this will start leading to lower margins. If the fixed costs of developing the product and the machinery required to produce it have been fully covered, sales of the product might yield some profit.

Product life cycle and cash flow



The relationship between cash flow and sales.

It is negative during the development and introduction. As it grows in sales and sells, gaining revenue, it gets the money back and goes to break even. After that, positive cash flow can be seen with profit. Highest cash flow is seen during growth and maturity. As product declines, cash flow does too.

Boston consulting group matrix

		Relative Market Share	
		High	Low
Market Growth	High	Star	Problem Child
	Low	Cash Cow	Dog

Star - An extremely successful product which has high market growth and high market share. This firm keeps their high market share in the whole market, and as a result they have to spend a lot of capital to differentiate and advertise. With enough time, these companies will turn into cash cows if they're successful.

Cash Cow - A well-established product in the market share. It creates a high positive cash flow and as a result is profitable. Having low market growth and high market share, it is the product that is dominating the market. Promotional costs are low because everyone already knows the product. The money generated in a cash cow is often 'milked' and then injected to other products. A business wants to maintain this position as long as possible.

Problem Child - The problem child has high market growth but low market share. It generates very little return - short term. Being in this position often shows that the product needs to be re-planned in order to be put back into another status through techniques such as re-design, re-launch etc. Companies can also withdraw at this stage. Businesses have to watch out for problem childs to see which ones are worth investing back into and have potential.

Dog - these are products which have little to offer to a business, and as a result most often the products in this sector are withdrawn. They do not generate profit, and they do not have market growth potential and as a result withdrawal is the best option.

The strategic analysis of the Boston Matrix

By identifying the position of a product a business can expand and improve on a product by identifying its strong and weak positions where present. For example:

- Building - supporting a problem child to get it back into the market. This is usually done by injecting them and milking a cash cow firm. Advertisement and furtherly distributing the product are some of the most common methods of doing this.

- Holding - the continuous support to star products so that they can continue growing and maintaining their position. Usually the product needs to be refreshed in order contain the high market growth and keep the consumers engaging with the product

- Milking - when the positive cash flow of a cash cow is taken and re-invested into another product

- Divesting - identifying the worst products and stopping the support for these products. This decision is not light and may require things such as resource reallocation and the new free capacity needs to be utilised correctly.

Evaluation of the Boston Matrix

The Boston Consulting Group Matrix can be useful to identify the following:

- Analysing the performance of a product
- Identifying its market position
- Planning the next action for a product
- Introducing new products

However, it is important that no specific technique can guarantee the success of a business. The success of a business also depends on the skills of the managers appropriate marketing strategies. The boston matrix can, however, help identify the position of a product. The manager must be aware of the following when using the boston matrix for their firm:

- It oversimplifies what is rather more complex - there are multiple reasons on why a product is successful or not. The boston matrix oversimplifies this.
- There is an assumption that higher profits are associated with high market share. This is not necessarily true with products which have low profit margins.
- And on its own will not determine the future or the success of a product. Managers need to use continuous research in order to maximise the chances of success.

Marketing Mix - Product (Branding)

Brand can help create a unique image for a firm. This image can be both positive and negative. Brand is a distinguishable name or a symbol that differentiates one firm's products from others. Establishing a brand is expensive. When a product is launched, brand awareness and brand loyalty are some of the key points that a firm tries to achieve. If a country gets a negative brand image - such as Nestle's baby powder in developing countries, then the company's view and reputation will be damaged. If both awareness and and the development of a brand is high then it will be substantial. Brand equity is the extra amount of money that the customers are willing to spend to own a specific brand over others.

The importance of branding

- Gives an instant recognition of the company in the market
- Helps differentiate a company from its competitors. Especially useful in businesses where it is hard to differentiate such as oil (BP, Petrol Offisi)
- Can make employees motivated, as they work for a brand they like
- Creates an expectation from a company about its products
- An emotional attachment can be built between a customer and a brand which can help develop brand loyalty
- Increase the value of a business above its regular value (brand value/equity)

Types of branding

Product Cycle Phase	Price	Promotion	Place
Family branding	Mars bar was original product - now joined by Mars ice cream, Mars energy drink and Mars muffins	Marketing economies of scale when promoting the brand Makes new product launches easier	Poor quality of one product may damage them all
Product branding	Toyota created Lexus brand of luxury cars Procter & Gamble sells Heads & Shoulders, Pampers, Duracell and Braun with separate identities	Each product is perceived as its own unique and separate brand - unconnected in consumers' minds with the parent company	Loses the positive image of a strong company brand
Company or corporate branding	Virgin - airlines, rail services, mobile phone provider - all marketed under a single brand name Disney products	Similar points to family branding - but now applies to all products produced under the company's name	Poor quality of one product may damage image of the company
Own-label branding	Walmart has numerous brands e.g Sam's Choice (premium foods), Faded Glory (Americana clothing), Metro 7 (women's clothing)	Cheaper than other brands Each own-brand appears to different consumer tastes and groups Little capital is spent on advertising. Store promotions are used instead	Consumers often perceive these as having a lower quality
Manufacturers' Brands	Levi's Coca-cola Mercedes-Benz	Successful branding by manufacturers establishing a unique 'personality' for the product which many customers want to be associated with - and will often pay premium prices for.	The brand has to be constantly promoted and defended

The importance of packaging

Protection/function - the main purpose of a package is to protect the product. The packaging should be able to protect the product during transportation and also as it stays during the supermarket shelves i.e vacuuming food products. Most products have some sort of packaging such as milk - it could be delivered in a carton box but could be sold ‘loose’ without any packages too.

Attracting customers - the packaging could be the key factor that helps a customer decide which product they want to buy. As a result, companies use extensive colours and designs in order to attract customers and make the product appealing.

Promotion and Information - packing can also provide information about the product. Product packaging can display things such as special offers and promotional material such as making references to popular media i.e TV shows, games, movies etc. It can also list stuff as nutritional values and ingredients of a product can which further assist on a customer’s decision making

Differentiation and brand support - packaging can help display a product’s use brand and as a result differentiate itself from other products using images, logos and text. Being able to recognise a brand from a far may encourage the customers to buy that product.

Evaluation - packaging is only a single element of the marketing mix that can help a product grow. It is important to integrate many different elements successfully so that customers gain a consistent message. The glossiest, most expensive packaging can for example, raise environmental concerns. For example, companies that are trying to cut waste and be environmental are trying to cut waste out of a package as much as possible, or cut down packaging materials/volume. This results in an ‘emotional message’ and can encourage customers to buy a certain product.

Marketing Mix - Price

Price is the amount that a customer pays for buying a product. The price crucially affects the demand. As such, it is important and is a part of the marketing mix.

It will also determine the following:

- Determine the degree of value added by the business to bought-in components

- Influence the revenue and profit made by a business due to the impacted demand

- Reflect the marketing objectives of the business and help establish the psychological image and identify a product.

Get the pricing decision wrong and much hard work in market research, product development and branding will be at risk.

Factors that determine the pricing

1. Cost of production
2. Competitive conditions in the market
3. Competitors' prices
4. Marketing objectives
5. Price elasticity of demand
6. Whether it is a new or existing product

Pricing Strategies

Cost-based pricing - The cost production of a product is calculated, and then a fixed percentage is added onto the final sale price tag. The mark up can also be based on a combination of demand, competitors etc.
E.g Cost price: 20$, 50% markup, Final price: 30$

Market-based Pricing Strategies

Penetration pricing - The initial cost of the product is low in order to gain quick market share. After this market share is gained, the product's price then could slowly be increased.

Market skimming - When a product's initial cost is relatively high compared to competitors in order to project exclusivity. Examples would be pharmaceutical companies and drugs. Over time usually the cost is lowered.

Psychological pricing - When the price is lowered for psychological image. I.e not \$2.00 but \$1.99. This creates a lower price image. However, psychological pricing also includes setting up norm prices for different products, i.e if a perfume product's price is low then it will be seen as a low quality product, hence image portrayal is important.

Loss leaders - when a low price of a product encourages the customers to buy other products. For example, the price of a printer is $30, however, ink replacement is $40.

Price discrimination - when the same product is sold with different prices to different people, selectively chosen. An example would be airline companies, who discriminate against age. I.e children may have cheaper tickets than elderly

Promotional pricing - only used during specific times. For example, a promotion for a product lowers the price temporarily in order to increase the low demand of a product. The purchases then continue thanks to customer loyalty and more profit is made.

Price Leadership

This exists when a company has leadership/monopoly in a market. This usually means that the company benefits from economies of scale, and as a result has cheaper production. However, cheap production does not necessarily mean low cost. Businesses then can do a pricing strategy called **predatory/destroyer pricing**. This is when two or more businesses have a war with the price of their products. Prices of a product gradually lower during a price war. The companies try to lower their prices as much as they can until some run out of business. This beneficial short term for the customers, however, once a company gets a monopoly they can set a price that they want and hence can be more damaging. Predatory/destroyer pricing is actually illegal, but it is hard to detect because they can claim that they're doing loss leaders.

Methods	Advantages	Disadvantages
Cost-plus pricing	• Price set will cover all set of production • Easy to calculate for single-product firm where there is no doubt about fixed cost allocation • Suitable for firms that are 'price makers' due to market dominance	• Not necessarily accurate for firms with several products where there is a doubt over the allocation of fixed costs • Does not take market/competitive conditions into account • Tends to be inflexible e.g there might be opportunities to increase prices even higher • If sales fall, average fixed and average total costs rise - this could lead to the price being raised using

		this method
Penetration	• Low prices should lead to high demand - important to establish high market share for new products	• Profit margins might be very low - prices might have to rise in the future and there could be consumer resistance to this.
Skimming	• High profit margins that will help pay for development costs of new products	• High prices might discourage consumers - unless they are convinced the integrated marketing mix justifies the high prices • High prices might encourage more competitors to enter the market
Psychological	• Prices reflect what consumers expect and this means that the price is likely to be consistent with other aspects of the marketing mix.	• Prices level and demand needs to be constantly reviewed as 'consumer expectations' can change over time - especially with new product developments from competitors
Loss leader	• Makes a loss on one product but more than compensated on other products - perhaps complementary on the loss leader. • Increases market share	• Cheaper generic alternatives might be sold by rival firms so the 'profit-making' complementary products are not purchased from loss-leaders business.
Price Discrimination	• Uses price elasticity knowledge to charge different prices in order to increase total revenue	• Administrative costs of having different pricing levels • Customers may switch to lower-priced market • Consumers paying higher prices may object and look for alternatives

Price leadership	• Small businesses know what price they have 'aim to set' • Price leader may have lower unit costs so it remains profitable than competitors even with lower prices	• Can be perceived as being 'predatory' • Only really operatives effectively for products that are undifferentiated - may begin to break down if some competitors are successful in establishing 'differentiation'
Predatory	• Drives down prices to benefit customers and likely to increase demand for the business • May reduce the number of competitors in the long term and increase monopoly power of the 'predator'	• If proven, it is illegal in many countries and heavy fines can be imposed • Consumers may try to find alternative products if the newly created monopolist increases prices in the long term
Promotional	• Attracts new customers who may continue to buy when prices is restored to original level • Allows selling off of out-of stock season stock • Encourages multibuys	• If this method is used frequently, consumers might suspect that the higher non-discounted price can never be justified • Lower prices might become established in consumers' mind as being for a lower-quality product

Marketing Mix - Promotion

Introduction

Promotion is communication established between the company and the customers. Effective promotion does not only increase the awareness of a product, but also helps set up images and product personalities that consumers can differentiate. Advertising is only one form of promotion - there are others such as promotional offers i.e decrease prices. If a company uses a combination of these it is called the 'promotional mix'.

Objectives

Above-the-line promotion

When a company tries to advertise its product through traditional methods such as the TV, radio, newspapers etc. In this type of promotion, the type of media that is advertised through is specifically cherry picked media in order to make sure that it hits the target audience that the product aims to target. The target in above-the-line promotion is large. It can help increase consumer awareness and sales and this may last longer if brand loyalty is established. There are 2 main types of above-the-line promotion:

- Informative advertising - the advertisement shares information regarding a product rather than creating a brand image. This includes things such as price, technical information, main features, where to purchase etc. It is particularly effective in advertising products that are unheard of or, for example, to show a change in a product's price as an update.

- Persuasive advertising - Not having many details regarding a product, it creates a distinct image or a brand identity. It is trying to create a 'perceived' difference in products from competitors (in reality they're pretty much the same) which may be similar to others, and is the most common type of advertising.

However, the distinction between these two advertisements are really blurry and there is a very little difference between the two.

A company must also choose the correct media in order to make sure that the advertisement is successful. Other factors such as budget will also affect the media chosen.

1. Cost - TV and radio advertising is expensive. The time is also dependent on the time of the day, size of the potential audience. National newspapers are more expensive than local newspapers. Other media include posters, cinema advertising. Advertisement is not only the cost, but so is the production i.e celebrities hired.

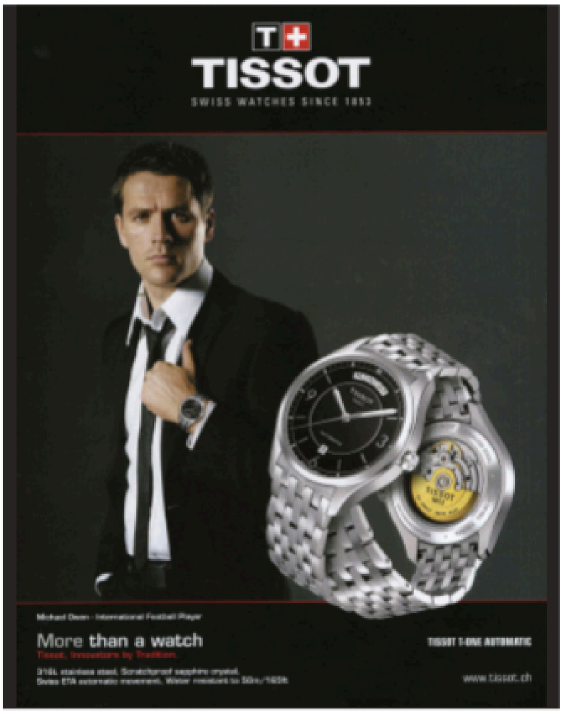
2. The media has to be chosen correctly for the correct audience. Age, income levels, interests etc. matter depending on the media. For example, if you target selling toys for children advertising after 10 p.m. would be pointless because they're asleep.

3. Written forms of communication are more likely to be able to inform more i.e newspapers for a company that wants to do informative advertising. If an

image creating advertisement/persuasive advertisement is likely to be more effective for a company, then a colourful TV media is more likely to be effective as a media.

4. Media chosen and media's link with other marketing mixes are also important when considering. For example, budget fast ready-cooked meals may not be effective in a glossy women's magazine.

5. Law and constraints - some countries, or places, for example may put restrictions to types of advertisements possible. I.e cigarette advertisements in a children's channel is illegal, or for example, One Grand Prix event where many companies were forced to use other types of media to advertise cigarettes.



An example of persausive advertising

An example of informative advertising

Below-the-line promotion

Short-term increase in sales through advertisement is below-the-line promotion. Here, the target audience is usually niche, unlike above the line, which has a general big target audience.

For example, sales promotion aims to increase the sales short-term, the types of of sales promotion types include:

- Price deals - a temporary reduction in price, such as 10% reduction for one week only

- Loyalty-reward programmes - consumers collect points, such as air miles which can be redeemed for rewards

- Money-off coupons - redeemed when consumers buy a product

- Point-of-sale displays in shops, i.e making a display stand out compared to others

- ‘Buy one get one free’

- Games and competitions e.g cereal packets

- Public relations

- Sponsorships

These sales promotions can be directed at:

The final consumer to encourage purchase (also called the pull strategy)
Or
The distribution channel, e.g the retailer, to encourage stocking and display of the product (also called the push strategy)

Method	Limitations
Price deals - these are temporary reductions in price, also known as price discounting. They are aimed at encouraging existing customers to buy more and attracting new customers to buy the product.	• Negative brand image may be created because of the lower price • Increased sales gained from reduced price will affect gross profit on each item sold
Money-off coupons - these are a more versatile and better-focused way of offering a price discount. Coupons can appear on the back of receipts, in newspaper advertisements or on an existing product pack.	• May produce discount to a consumer that was going to buy that product anyway • If the reduction is too small the rate of usage will be low

	• The sudden increase in demand and not enough stock will lead to consumer disappointment
Customer loyalty schemes - focuses on repeated purchases of products by customers. For example air miles. Furthermore, the information stored in loyalty cards can explain a lot about the consumers' preferences.	• Cuts the gross profit in each purchase • Administration costs to inform customers about earned points etc • High presence of loyalty cards may not make them so 'loyal'.
Money refunds - offered when the customer returns the receipt to the manufacturer.	• These involve the consumer filling in and posting off a form and this might be a disincentive • Delay before a refund is received may act as a disincentive
Buy one get one free - encourages multiple purchases, reduces the demand for competitors' products too.	• A substantial reduction in gross profit margin • If this scheme can be operated, the consumers can think 'is the normal price too high that this can work?' • Or is it being sold what can't be sold at regular prices - impacting the reputation • Future sales might decrease as people have stocked up on the product
Point of sale displays - making a shelf stand out	• Best displays are usually offered to products to market leaders with high market share • New products may struggle for best positions in stores unless big discounts are offered
Public relations - the use of free publicity provided by newspapers, TV and other media to communicate with and achieve understanding of the public	• This is not easily controllable as some 'free publicity' might not be positive towards the company or its products, e.g. newspaper reviews.

Sponsorship - payment by a company to team owners or event organisers so that the company's name becomes associated with team or event	• The success of the sponsorship is largely out of the company's control. If the team loses every match or the event is a failure, this might reflect badly on the sponsor.

Promotion mix

A successful promotion is a mix of and a balance of advertising, public relations, sales promotion, direct marketing and personal selling in a planned and structured way. A single tool rarely works well. There are 8 stages in a promotional mix:

1. Decide on the image of the product
2. Develop a profile of the target market
3. Decide on the message to communicate
4. Set an appropriate budget
5. Decide how the messages should be communicated
6. Establish how the success of the promotional mix is to be assessed
7. Undertake the promotional plan and mix elements of it
8. Measure its success

Different stages of product life cycle integrated with the promotional mix:

Stage of the cycle	Promotional options
Introduction	• Informative advertising to make sure customers are aware of the product • Sales promotion offering free samples or test trials to encourage consumers to buy
Growth	• Focus shifts to 'brand' building and persuasive

	advertising • Sales promotion to encourage repeat purchases • Attempt to develop brand loyalty
Maturity	• Advertising to emphasise the difference between its products and competitors • Sales promotion incentives to encourage brand development and loyalty
Decline - assuming no extension strategy	• Minimal advertising • Sales promotion - there may be little promotion if the intention is to withdraw it

The impact of changing technology or promotional strategies

The internet has changed the promotion and marketing of products a lot since the introduction.

Benefits	Limitations
Improved audience reach - Internet promotion has a global audience and this reduces the unit cost of reaching potential consumers compared to traditional forms	**Lack of skill** - Large businesses will have dedicated teams in monitoring the social media. Small businesses or newly set up enterprises may be led by people who do not have skills to choose the appropriate social media or engage customers in the most effective ways.
Targeted marketing - It allows for companies to target users who are particularly interested in a type part of product depending on their search history. For example, if a person was interested in rock music from spotify, they would get ads regarding rock music in google.	**Time investment** - Setting up a social account takes less than 30 minutes, however, upkeeping an account means constant social interaction between the company and the customers. As such, it has always to be up and not responding may damage the reputation of a company
Interactivity - Having deep conversations and discussions regarding the product with the customer is more likely for them to be interested in the product.	**Negative feedback** - Social media makes every feedback public, meaning if a customer is not satisfied, they can respond in social media immediately. This can damage a brand's image.
Performance metrics - Businesses can	**Performance metrics** - When a business

track which type of advertisements have been proven to the most effective, and as such repeat these kinds of advertisements and gain more consumers.	uses email as a method of advertisements they can measure how many mails have been opened, how much revenue was generated etc. However, social media does allow the same. They won't be able to get these metrics at least a few months later, possibly never.
Speed of transmission - The speed at which social media transmits news is almost instant. Critical feedback, new product details, event details etc. can be shared really quickly to a large audience instantly with a click.	**Security issues** - Not everyone is a fan of social media - thus a business' promotion cannot be done just through social media platforms. People can be suspicious about the social media's security and may not want to waste time on it.

Viral marketing

Is a phenomenon which encourages people to pass on a marketing message to others. This can happen in the form of video clips, flash games, e-books, text messages etc. Marketing managers try to identify an individual with high social networking potential - called 'influencers' - and create viral messages that appeal to them and as a result may create an image impression of the impressiveness of a product by the influencer.

Guerrilla marketing

This marketing technique is about getting the audience by surprise, making a memorable impression and a social buzz via the new media platforms. It is usually much cheaper than mass advertisements and said to be particularly good, but not limited to for small businesses or new businesses with limited budgets. Not all guerrilla marketing can be received well by all customers. For this reason, it is usually almost always reserved for 'edgy youth culture' audiences who are likely to use social media frequently. It is especially important that the brand image created by guerilla marketing is right because it can especially backfire, developing a positive image/brand image of a product is important.

Marketing Mix - Place

'Place' decisions are concerned about the method the product travels from the manufacturer to the final customer. Several different channels of distributions are available for customers to use.

The reasons using the correct channel of distribution matters:

- Easy access is required to a firm's products to allow them to see and try them before buying, making purchasing easy and if necessary allow return of the goods.

- Manufacturers need outlets for their products to give as wide a market coverage possible, but with the desired image of the product appropriately promoted.

- Retailers - firms that sell the final product to the consumer - will add a markup price to cover the cost and make up profit, as such if price is very important using few or no intermediaries would be an advantage.

Channel Strategy

A business must answer the following questions when choosing a channel strategy:

- Should the product be sold directly to the consumers?
- Should the product be sold using retailers?
- How long should the channel be (amount of intermediaries)?
- Where should it be available?
- How much would it cost to keep them in channel warehouses?
- How will the chosen distributed channels support other parts of the marketing mix?

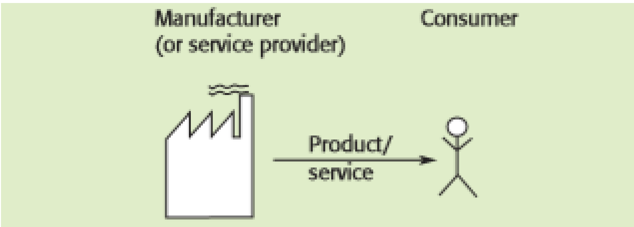
Factors influencing the choice of distribution channel include the following:

- Industrial products tend to be sold with fewer intermediaries than consumer goods
- Dispersion of the market, i.e if the target market is large and is scattered then using intermediaries is is more likely
- Level of service expected after purchasing the product, i.e a car that requires technical care after purchase means that it will be less likely to be sold from internet
- Technical complexity of the product, i.e a business computer is sold directly as great technical knowledge required of the staff team
- Unit value of the product, i.e if the unit cost is high it might be better to sell to the consumer directly. E.g a luxurious $5m yacht, it would be worthwhile to hire as a sales staff.
- Number of potential customers - i.e the number of customers for airlines, for example, is few, however, for something like a shoe from Nike is millions. As

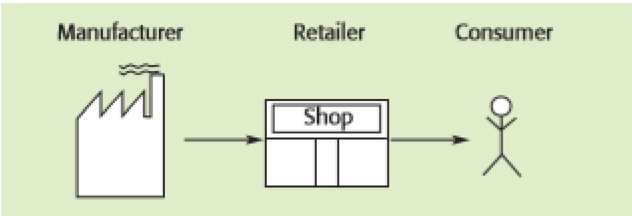
such, it may be better to have more intermediaries for the higher amount of customers.

Distribution Channels

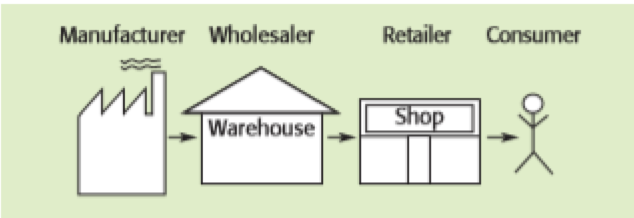
Direct selling to customer



Single-intermediary channel



Two-intermediates channel



Trends in channel distribution:

- Increased use of direct selling because of the internet, can be for example seen in internet banking and sales of insurance policies online
- Large supermarkets perform the role of retailer and wholesaler at the same time. They're wholesalers because they have their own warehouses and buy the goods in large quantities. Wholesalers because they also sell them. With this, the business is also engaging with vertical marketing.
- Businesses are increasingly using a variety of distribution channels - i.e an ice cream company may use a van to directly sell to customers as well as

supplying market retailers. Or for e.g an hotel may sell rooms through travel agents and holiday companies.

- Increased integration of services where a complete package is sold to consumers i.e airplane ticket, a car hired and a room accommodated.

Advantages, Disadvantages and examples of each channel of distribution

Type and main features	Real life examples	Advantages	Disadvantages
Direct selling: no intermediaries - sometimes referred as the ‘zero intermediary’ channel	• Mail order from manufacturer • Airline tickets and hotel accommodation sold by the companies themselves in the internet • Farmers’ markets	• No price mark-ups or profit margin taken by other businesses • Producer has complete control over the marketing mix • Quicker than other channels • May lead to fresher food products • Direct contact with audience and target market / consumers may offer good market research	• All storage and stocks have to be paid by the producer • May not be convenient for the consumer • No advertising or promotion paid for by the intermediaries and no after-sales service offered by shops • Can be expensive to deliver
Single-intermediary channel - usually used for consumer goods but could also be an agent for selling industrial products to businesses	• Holiday companies selling holidays via travel agents • Large supermarkets that hold their own stocks rather than using wholesalers	• Retailer holds stocks and pays for the cost • Retailer has product displays and offers after-sale service • Retailers are	• They takes a profit mark-up - may make final goods more expensive to final consumers • Producers lose control over some marketing mix

	• Where the whole country can be reached using the one-level route e.g a single agent in a small country	often found in locations that are convenient for the consumers • Producers can focus on production - not on selling the product to consumers	• Retailers may sell products from competitors too, so there is no exclusive outlet • Producer has delivery costs to retailer
Two-intermediaries channel	• In a large country with great distances to each retailer, many consumer goods are distributed this way, e.g soft drinks, electrical goods and books	• Wholesaler holds goods and buys in bulk from producer • Reduces stock-holding costs of producer • Wholesaler pays the transport costs to retailer • Wholesaler 'breaks bulk' by buying in large quantities and selling to retailers in small quantities. • May be the best way to enter foreign markets where producer has no direct contact with the retailers	• Another intermediary that takes a profit mark-up - may make final goods more expensive for the consumer • Produces loses further control over marketing mix • Slows down distribution chain

Marketing Mix - People

This element of the marketing mix focuses on the relation and communication between customers, employees and managers. Service businesses, especially those who do not have physical attributes, employment matters a lot. Poor customer experience can result in a negative image of the company. Customers make judgement of a business/organisation based off of the people that represent it.

Well-trained, motivated and confident employees who deal with customers in an efficient, speedy manner can result in customer loyalty of a business. It is also always cheaper to keep current employees rather than finding new ones. Employees require appropriate interpersonal skills and training, an aptitude for dealing with people and service knowledge in order to deliver a high quality customer service. Furthermore, managers need to plan and distribute the workforce to the right people equally and what is required. It is important to have the right people to work on the customer service i.e fast response times, hours of operation, good knowledge etc to maintain a high level satisfaction

Marketing Mix - Process

Process - procedures and policies that are put in place to provide the service or the product to the customer.

For example, the process in which the customers go through when buying orders in McDonalds. What are the stages that this customer has to go through in order to order? The speed and the efficiency of the order are determined by the process put in place. Another example would be banks. Banks automatically replace debit cards that are past their expiry. An efficient service that replaces out-of-date debit cards is likely to create customer loyalty and confidence. Efficient services with efficient processes will avoid delays and as a result create a consistent customer experience. I.e short waiting times and quality information given to the customers during the process

The importance of changing process

Processes must change for businesses to remain competitive in the market. For example, online shopping offers customers a much quicker and more convenient ordering/payment/delivery process than traditional retail shopping. If a business did not adapt to this new technology and online shopping then it may seem outdated. Online banking has also allowed their customers to have access to their accounts

24/7. Use of mobile phones to make cashless payments is helping to transform commerce in less developed economies that have relatively poor infrastructure. Banks or financial services that have failed to adapt to this will not attract customers - especially in the younger who are demanding changing processes to fit their lifestyles and expectations.

Marketing Mix - Physical Evidence

Physics evidence - the ways in which the business and its products are presented to customers

This marketing mix refers in which the product appears on the outside. It helps distinguish a company from its competitors. For example, all hotels provide a bed to sleep in but one of the things affecting the price charged is the condition of the room containing the bed. Customers will make judgements about the organisation based on the physical evidence.

With tangible goods, the packaging is a key part of physical evidence. Decisions need to be made about the size, shape, colour, material, printed information, barcode and label of the packaging. Visual packaging of a tangible product can make or break a purchase. Small improvements in the packaging or external appearance of a product can lead to completely different reactions from customers.

Within intangible goods, for example, restaurants also have important physical evidence marketing mix. It is important for the staff, for example, to look professional otherwise it will create bad impressions for the customers. It is also expected to have a clean environment, if it is smelly or dirty the customers are likely to walk out.

Consistency with other parts of the marketing mix is also essential. For example customers will have expectations when buying an airplane ticket. If the airplane ticket is budget and is low, then it is expected for the airplane for example in need of some kind of refurbishment or to be old. This would be less understanding if the ticket price was high yet the airplane that was provided in need of care and refurbishment. In supermarkets for example, it is only expected to be met with the smell of freshly baked bread in order to give the idea that what is provided is fresh within the supermarket. Similarly, they would also expect to smell food and not sanitary products in a restaurant. Or, for example, delivery vehicles of companies. UPS vans are cleaned daily, does this help inspire customers in the professionalism of the service that is offered?

International Marketing

International marketing used to be a big risk for companies, and only companies that were growing too large for the national side used this. However, over time, things have changed and improved. Now it is seen as an opportunity to expand a company's sale, and not an option but rather a necessity.

Methods of entry

Exporting - can be done through by selling the product directly to foreign customers, either through a website or indirectly through an intermediary, such as an agent or trading company based in their country

International franchising - a foreign franchise is used to operate a firm's activities abroad. This can take in 2 different forms: one foreign company being used as a franchisee for all the branches in their own country or individual franchises being appointed to each outlet. McDonalds uses one franchise business to operate its branches in Argentina, for example.

Joint ventures - an agreement, when 2 businesses at least own and operate a new business venture. An example of this method to enter the international market is the 50-50 joint venture between McDonald's and two Indian restaurant chains - Hardcastle restaurants and Connaught Plaza restaurant.

Licensing - this allows another firm in another country to produce its branded goods or patented goods under licence, which involve strictly controlled terms over quality. This allows to save on time and transportation costs, and makes some products fresher. The parent firm saves up costs of setting up the company abroad.

Direct investment in subsidiaries - Studies have shown that setting up company-owned subsidiaries in foreign countries can achieve higher success rates than taking over or merging with locally based companies.

The business culture, organisational structure, and technology differences between the company and locally acquired businesses can offer obstacles too great to overcome. Subsidiaries can set up factories in foreign countries, such as Toyota in EU and SA, or Tesco in Thailand and China. They may also be decentralised where local managers take decisions or the opposite - be organised with the head office of the central company.

Method	Advantages	Disadvantages
Direct Export	• Selling directly via e-commerce has the same benefits as online selling • Profit is not shared unless an importing agent is used to promote/distribute products • Complete control of marketing strategy rests with the exporting business	• No knowledge gains from business/partners based in international markets • Exporting business bears all risks • May be import tariffs imposed by governments to protect markets for products produced nationally
International Franchising	• Using franchisees based 'in country' gives each franchised unit local knowledge • Franchisees contribute to the capital cost by purchasing a franchise licence • Some responsibilities are held by the franchisee	• Some loss of centralised control • Careful selection of franchisees is essential as damage in one country could damage the brand image globally
Joint ventures	• Capital injection is shared • Management responsibilities and risk will be shared • May be the only means of entering some markets if governments insist on 'local partners' • New knowledge regarding law, customs, culture etc of the local area will be gained from the joint venture	• Management problems due to clash of business cultures or personalities • Profits will be shared • Local partner needs to be chosen carefully to avoid risk of fraudulent operations • Loss of complete control of operations and marketing strategy
Licensing	• Reduces capital cost of setting up operations • Licensee will benefit from local knowledge	• Loss of control over quality and marketing strategy • Profit margin may be reduced compared to maintaining complete control and eliminating a third part in production/marketing of products

Direct investment in subsidiaries	• Gives complete control over the operations of the subsidiary • Local subsidiary will have managers with local knowledge • Existing operations will allow quicker entry to the market than setting up new facilities	• Culture clash is possible between the parent company and the management of the subsidiary • May be strict laws regarding takeovers and retrenchment of local employees • Valuation of local subsidiaries may be difficult - parent company must avoid overpaying for local knowledge and existing facilities

Opportunities and threats of International Marketing

Opportunities	Threats
• Develop marketing operations in expanding markets when the domestic market is saturated/mature - in 2014 sales of cars in France increased by just 1%, but in China by 8.8%.	• Differences in consumer needs and wants, and in usage patterns for products in international markets will mean increased costs of adapting products and their marketing to meet differences. Failure to respond to these differences - on the ground of cost - can lead to expensive market failures.
• Potential to increase profits through rapid sales growth and low cost in emerging markets. The average GDP growth rate of BRICS countries has over two times greater than the growth of developed economies in the last decade	• Differences exist in the legal environment, some of which may conflict with the home environments. Businesses will have to meet all legal requirements in the markets they operate in and they will need to obtain specialised knowledge of these legal constraints for each market traded in.
• Spreading risks between different markets at different stages of the economic cycle - selling luxury products in Cyprus in 2013, where GDP fell by 8%, was more challenging in Kazakhstan and Kenya, both of which recorded a growth of 5%.	• Growth of the ‘counterfeit’ and ‘grey market’ in international markets - either copies of branded products or branded products sold through unauthorised channels - can undermine the reputation and profit margins of well-known global trends.

• Poor trading conditions in the home market - perhaps due to the entry of new rivals - means that international marketing can allow sales to continue to grow despite increased competition in the domestic market.	• High level of competition from national producers, some of which may receive subsidies or 'special treatment' from national governments.
• Economics of scale in production and marketing - increased sales should result in lower unit costs of production. Marketing products in similar ways to global markets should also reduce the average cost of promotion.	

Strategic and operational implications of international marketing

One key feature of international markets is that customers will have different tastes depending on the region. According to studies the world is becoming more standardised in goods and services that are done all over the world, which suggests that standard products can be sold and marketed across the globe successfully. As a result, companies can gain a huge advantage by making use of economies of scale.

Some writers such as Douglas and Wind believe that substantial differences still exist in different regions and markets, and that standardisation is only just an option/method of entering these markets - and this sometimes will fail to enter and adapt the regional differences in consumer tastes. The alternative is for businesses to adapt a global marketing mix to local needs and conditions - this is called localisation.

The two broad approaches are known as '**pan-global marketing**' and '**global localisation**'.

Pan-global marketing is important for two groups of businesses in particular. For example, Rolex watches and Versace dresses - consumers do not want these markets to adapt to their local tastes and differences, as these products are used by celebrities around the world, and it is the key promise of these brands. Secondly, mass-appeal brands like Apple and Nike have substantial opportunities for global campaigns and standardised products - the economies of scale that results from these.

Advantages	Disadvantages
• A common identity for the product can be established. This aids consumer recognition, especially in a world of increasing international travel by consumers and widespread use of satellite TV channels with 'international' advertising.	• Despite growing similarity between consumer tastes in different countries, it might still be necessary to develop different products to suit cultural or religious variations - see the revision activity on McDonald's at the end of this chapter. Market opportunities could be lost by trying to sell essentially the same product everywhere
• Cost reduction can be substantial. The same product can be produced for all markets allowing substantial economies of scale. This is particularly important for companies with products that have a short life cycle. Same marketing mix can be utilised. It allows one marketing agency and advertising strategy to be used for the whole world or region rather than different ones for each country	• Legal restrictions can vary substantially between countries. This does not apply just to product restrictions e.g it is illegal to use promotions involving games or gambling in certain countries. There may also be restrictions on what can be shown in advertisements.
• It recognises that differences between consumers in different countries are reducing - it is often said that teenagers in different countries have more in common with each other than they have with their parents! Therefore, a pan-global strategy for a product aimed at teengares could be developed.	• Brand names do not always translate effectively into other languages. They might even cause offence or unplanned embarrassment for the company if the selection of the brand name to be used in all markets is not made with care.
	• Setting the same price in all countries will fail to take into account that different average incomes exist.

Countries have raised concern about growing imperialism, such as the EU and US. An expanding anti-globalisation movement, there will be increasing scope for other businesses to benefit from adapting and selling products that are directly geared towards the particular culture, religious and consumer requirements of each country using localisation strategies.

Global localisation

Global localisation is the opposite of standardisation and is the business strategy that responds to the drawbacks of a pan-global or pan-regional strategy.

"Thinking global - acting local" is sometimes how this approach to international marketing is summed up. Yum! Companies such as KFC and Pizza Hut have differentiated most of its marketing mix between different countries and markets. For example:

- In China, it sells products that are not available in other countries to suit local consumers' tastes. So, although it was the first company to introduce the Chinese to pizzas, its best-selling lines today include 'KFC Dragon Twister'.
- Price levels are varied between different countries to reflect different average incomes
- Advertisements always 'contain' ethnic people
- Its distribution and place decisions are tested for local markets too. In China, it tried out 14 news Chinese quick-service restaurants offering authentic Chinese food in surroundings designed in a local style.

Advantages	Disadvantages
• Local needs, tastes and cultures are reflected in the marketing mix of the business and this could lead to higher sales and profits	• The scope for economies of scale is reduced
• There is no attempt to impose foreign brands/products/advertisements on regional markets	• The international brand could lose its power and identity if locally adapted products become more popular than the 'international' product
• The products are more likely to meet local, national and legal requirements than if they are standardised products	• There will be additional costs of adapting products, advertisements, store layouts, etc. to meet local needs - these costs might lead to higher prices than a global marketing strategy would result in

• There will be less local opposition to multinational business activity	

Role of cultural differences

Cultural differences are a key factor in international marketing, yet they are very difficult to define and measure as they are not written like laws.

People from different cultures have:

- Different perspectives
- Different values and ideologies
- Different tastes, atitudes, lifestyles, religious beliefs, customs and rituals.

A weak global marketing strategy is one that fails to acknowledge and reflect these cultural differences, which may ultimately threaten the entire global business. For example Nestle's subsidiary, Gerber, launched in Africa with the same packaging as the USA with pictures of cute babies in the label. They have discovered that in some African countries with low literacy that it is a custom to have the packet or the container with images of its contents. Furthermore, when Pepsi launched in China, they had a slogan 'Pepsi brings you back to life', however, the Chinese culture interpreted this as 'Pepsi brings your ancestors back from the grave!'. Undertaking market research should help establish local customers, language usage and culture to help prevent these marketing blunders.

Cultural differences can have all types of impact in the marketing mix.

Promotion

A global marketing strategy also has to plan its advertisement strategy. For example, it may be okay to promote using cigarettes or alcohol in some countries, whilst in others it may be poorly perceived. Advertisement with less fully clothed actors may be poorly perceived in Arabic and Muslim countries.

Product

The products should be modified to meet the taste and cultural differences of that particularly targeted country. For example, Nissin Food Products Company Ltd provides evidence that a company must modify their product to meet the different cultural tastes. They are now present in over 100 countries, with manufacturing units in over 10 countries such as Hong Kong, Thailand, Japan, USA, Germany, Philippines, Singapore and Netherlands. The company has grown profitably because it manufactured its products according to tastes and demand of the customers in different areas of the world.

Packaging should also follow change when being sold in another country, or even possibly the name. For example, Burger King's china's poo poo smoothies may not be suitable to be sold in Western cultures. Colours may have to be changed, in Far east white rather than black is associated with mourning symbolically.

Price

Average income levels vary across the globe, e.g Luxembourg GDP $79,000 whilst Liberia $703) It is obvious that people in developed countries can afford buying products at higher prices than consumers in developing countries. The product design can be modified, for example, in order to reduce the overall cost of production and thus the product in order to meet the average income in less developed countries. The risk of charging lower prices is that there might be a negative brand image stigma as consumers will think the quality was reduced. This can also lead to grey markets being developed, where traders buy in 'low-end' markets and re-sell in 'high-price' markets.

In some individualistic or masculine cultures (defined by Hofstede), it has been claimed that customers are more price-conscious than in 'collectivist or feminist cultures'. So, consumers in the US or Japan may be less prepared to pay very high prices than consumers in Brazil, for example. This demonstrates that there must be a lot of market research before an entry within an area is done.

Place

The distribution of goods is also dependent on the cultural differences of the area. Logistical systems, wholesaling systems, transport systems etc. can all be different. Supermarkets have been established in the US and Europe since the 1950s, however, in countries such as India consumers still support small local stores. In some countries, the internet is unreliable, thus e-commerce might not be successful. National distribution systems are very difficult for international companies and these differences directly affect the global marketing strategies.

Global marketing has become important because it allows companies to reach, potentially, millions of customers around the world. The most successful global marketers are trying to understand the distinct and hidden cultural differences to modify the products according to the needs and demand of the local population. IBM, Nike, Google and others have achieved global success because they conduct in-depth research to comprehend the obvious and elusive cultural differences in countries that they plan to sell products.

Implications of globalisation

Globalisation is not a new process but it has accelerated in recent years with rapid growth of multinational companies and the expansion of free international trade with fewer tariffs and quotas on imports. The key features of globalisation that have an impact on business strategy are:

- Increased international trade as barriers to trade reduced
- Growth of multinational businesses in all countries as there is greater freedom for capital to be invested from one country to another
- Freer movement of workers between countries

Advantages	Disadvantages
• There is a greater opportunity for selling goods in other countries. Opening up new markets, which may not have reached saturation as the domestic market may have done, gives the chance of higher sales, economies of scale and improved profitability.	• Businesses from other countries now have freer access to the domestic market, so there will be increased competition. Wider consumer choices will drive firms that are not internationally competitive out of business.
• Increased competition gives firms the incentive to become more internationally competitive. Hiding behind trade barriers breeds inefficiency and this will no longer be possible.	• The drive for international competitiveness will also be forcing other firms to become more efficient to maintain price competitiveness

• • Pan-European or pan-global marketing strategies can be used to create a global brand identity. This saves on the costs of ‘different markets – different products’	• Pan-European/global strategies can fail to consider the cultural and taste differences between consumers of different nations. Firms may need to ‘think global, but act local’ – often called global localisation
• There is a wider choice of locations – the opportunity to set up operations in other countries and become a multinational. These locations offer, usually, lower costs and direct access to local markets. Working within each country should lead to better market information.	• International marketing can lead to significant transport and communication problems. The risk of unethical practices by managers with delegated authority thousands of kilometres from head office can lead to problems.
• Greater freedom to arrange mergers and takeovers and joint ventures with firms from other nations as restrictions on foreign acquisitions are reduced.	• Businesses are now increasingly at risk of foreign takeovers, e.g. Land Rover and Jaguar by Tata (India); BAA by Ferrovial (Spain).
	• Increasing activity from anti-globalisation pressure groups may result in bad publicity for multinationals in particular and for those firms found guilty of environmental damage in foreign countries. There is growing concern about the environmental impact of globalisation – especially in emerging economies. Coca-Cola is under pressure to limit production in some Indian states due to shortage of water supplies.

e-Commerce

e-Commerce is the act of selling goods and services on the internet. The growth of e-commerce can be deduced from the following:

- Global reach - internet technology reaches across national boundaries and opens up global markets with potential billions of consumers. Consumers now have access to product details sold by businesses beyond local/national boundaries

- Ubiquity - the access to markets and consumer access to business is available at all times and virtually at all locations. Shopping can take place anywhere and customer convenience is increased. The increasing use of smartphones has lead to 'm-commerce' where mobile-phone shopping is now gaining greater popularity than PC or tablet shopping

- Interactivity - the internet allows for two-way communication between the business and the customer. The growth in the use of social media is further enhancing this

- Personalisation - marketing messages can now be targeted at individual consumers based on their previous spending habits, tastes and interests

- Information richness - complex and detailed promotional messages can be delivered by the internet via video, audio and text messages. This variety of media and detail of the content can be equalled by other forms of promotion

- Universal standards - there is ease of access to the internet for both businesses and customers owing to the existence of a cheap universal internet system

The effects of e-Commerce on marketing mix

Promotion

Banners, pop-ups, text messages, web pages, blogs, viral marketing were all terms that were non existent 15 years ago. Promotional opportunities have been greatly expanded by e-commerce and IT developments, especially the growing adoption of smartphones. Promotional materials and packaging may have to be adjusted to meet the legal and different cultural demands in different areas. Using the internet and IT based systems for promotion saves up a lot of cost, but it also allows personalised and directed promotions at groups of consumers or even individuals.

Product

Individual requirements can be integrated into the product to suit individual needs. For example, airline tickets (class, baggage, time, car hire) etc. Product designs may have to be adjusted in order to fit the legal and cultural requirements of different countries. Lastly, businesses which sell over the internet can cover a wider range of products than nearly all shops could justify.

Price

Markets are much more competitive as price can be compared so rapidly - in both B2B and B2C in particular. Price comparison websites can do this in an instant for consumers. Competitive pricing is much more likely to be used than cost plus pricing which means that consumers are now more in control. Price discrimination through geographical seperation in markets is now much more difficult, given the global reach of e-commerce. However, at the same time, the use of websites to sell holidays, tickets for events and air travel allows 'last-minute' consumers to be offered special deals, an extension of price discrimination.

Place

The growth of e-commerce means that a smaller proportion of all traded goods is now being sold through traditional channels such as shops. However, Apple is expanding its number of shops worldwide as it considers that consumers are more confident buying some of its products from experienced 'savvy' retail assistants. A key issue is the successful and effective rapid logistics system to transport goods internationally. Is the day of the high-street store passed? Eventually, will all products be bought online?

People

With the growth of e-commerce and international global marketing means that the people that are to be hired also must be understanding and be well equipped for different cultures as well as different languages. People have to be adaptable to different cultures all world wide, as such businesses have to be more cautious to the people they hire, they have to be adaptable, understanding of different cultures and possibly being multilingual.

Process

The process is similar to change of place. The chains of distribution are significantly reduced and it can increase the profit margin of the company. Similar to place - the company has to make sure that the process of delivery is as quick and as reliant as possible. This might be hard to achieve because of international shipping and cargo, as such a good method must be found to deliver.

Physics evidence

When selling something online good physical evidence must be shown. Because people cannot look at it physically, customers usually buy it depending on the reviews that the product has, which is a part of physical evidence of customer satisfaction. Furthermore, photos of the product in different angles, with size, scale etc all must be shown.

Types of e-commerce

Business to business (B2B)

The website that is being used to sell the products can have the same system as it uses to sell its product to a B2C system, in which payment is being made at the time it is being ordered. However, B2B transactions typically require a more complex system in which different formats of purchasing are accepted, such as e-mail, paper documents or electronic orders.

At a more advanced level, a business can offer products customised to different customers - if the production system is sufficiently flexible. The website is able to display appropriate products to appropriate customers automatically. This streamlines the process, as they do not have to browse through the whole catalogue. Businesses are increasingly integrating their IT system with the systems of suppliers, customers and logistics/transport suppliers so that the whole supply chain of purchasing, stock-holding and distribution is more effectively managed. The internet gives the ability to obtain quotation bids from many potential customers and distributors helping drive down business quotes.

Business to consumer (B2C)

Consumers browse product information pages on business websites, select products and pay for them at an online checkout, using a credit or a debit card, or another electronic payment mechanism. Consumers enter their address details and select one of the delivery options. The basic B2C system is relatively simple. The business requires a method of displaying their products and prices on their website, a mechanism for recording customer details, and a checkout at payment. Many initial online enquiries are now channeled through price comparison websites and ‘late booking’ sites. B2C is seen as very important because customers can share their opinions about it, which often drives increased traffic.

Consumer to consumer (C2C)

The main forms of consumer-to-consumer markets are auctions and classified advertisements on websites such as Autotrader. C2C marketing has increased greatly in popularity with the introduction of the internet, as companies such as eBay, Craigslist and other sites have fostered greater interaction between customers. C2C websites make their money from introducing fees to transactions in their websites. Most products in C2C are second hand. C2C is projected to grow further because of its cost-effectiveness, that it minimizes the cost of using third parties.

However, C2C has its own problems. Quality control can hardly be maintained and no payment guarantees.

Advantages and Disadvantages

Business

Advantages	Disadvantages
• Relatively inexpensive when compared with the ratio of cost and number of potential customers reached	• Some countries have low-speed internet connections; and in poorer countries, computer ownership is not widespread
• Can reach worldwide audience for a small proportion of traditional promotion budgets	• Consumers cannot touch, smell or feel or try on tangible goods before buying which may limit their desire to purchase
• Consumers interact with the website, make purchases and leave important data about themselves which can be used for more focused marketing in the future	• Product returns may increase as customers may be dissatisfied with their purchase once it has been received
• Accurate records can be kept on the number of ‘clicks’ or visitors, and the success rate of different web promotions can be quickly measured	• The cost and reliability of postal services in some countries may reduce the cost advantage of internet selling
• Computer ownership and usage is increasing globally	• The website must be kept up to date and user friendly - good websites can be expensive to develop
• Selling products in the internet has lower fixed costs than traditional retailing stores - no need for expensive locations - and the cost savings can be passed on in lower prices	• Worries about internet security - e.g consumers may wonder who will use information about them or their credit card details - may reduce future growth potential.
• There is scope to make cost savings and manage supply chains by using B2B	• Businesses have to remain competitive as price comparisons by consumers are easy

e-commerce	
• Low-cost growth is much easier than with physical locations - logistical issues are the main barrier	• Expensive IT infrastructure is needed with suitable qualified employees

Consumer

Advantages	Disadvantages
• The internet is convenient for consumers to use. They can quickly compare prices from many suppliers worldwide and there is huge product choice online	• Must have a reliable internet connection. May need to update computer or mobile device to ensure speed and capacity can cope with the websites' requirements
• They're open 24/7 - more convenient that most shops' opening hours	• Not able to see, touch, try on products before they are delivered - time and expense of sending back items that fail to come up with the expectations
• Prices are often lower than for same goods/services from traditional retailers	• Concern over credit card fraud and loss of personal information e.g eBay's loss of passwords in 2014
• No time or money is spent travelling to physical stores and no time spent queuing.	• Concern over the sale of fraudulent counterfeit products and goods online
• Ability to sell to other consumers, e.g through auction sites (C2C)	• Delays in receiving goods - speed of delivery will depend on international / national transport infrastructure
• Music and film downloads allow immediate access to music/film.	
• Ability to have businesses bid for custom through reverse auction websites - website gathers all customers' requirements and prices they are prepared to pay and businesses bid for the custom	

Consumer Groups

Identifying different consumer groups for market segmentation is crucial.

1. **Geographical Differences**

Consumers will vary between different geographic areas, for example the need or warmer clothing in Northern Europe compared to South-East Asia, and so it may be appropriate to offer different products and market them in ‘location-specific’ ways.

2. **Demographic differences**

These are most commonly used basis for segmentation as age, sex, family size and ethnic background can all be used to seperate markets. A house construction firm will use demographic data to help determine which segment of the market new block of apartments should be aimed at.

3. **Psychographic factors**

These are to do with differences between people’s lifestyles, personalities, values and attitudes. Lifestyle is a very broad term which often relates to activities undertaken, interests and opinions rather than personality.

Advantages	Disadvantages
Businesses can define their target market precisely and design and produce goods that are specifically aimed at these groups leading to increase sales	Research and development and production costs might be high as a result of marketing several different product variations
It helps identify gaps in the market - groups of consumers that are not currently being targeted - and these might then be successfully exploited	Promotional costs might be high as different advertisements and promotions might be needed for different segments - marketing economies of scale may not be fully exploited.
Differentiated marketing strategies can be focused on target market groups. This avoids wasting money on trying to sell products to the whole market - some consumer groups will have no intention of buying the product.	Production and stock-holding stocks might be higher than for the option of just producing and stocking one undifferentiated product
Small firms unable to compete in the whole market are able to specialise in one or two market segments	By focusing on one or two limited market segments there is a danger that excessive specialisation could lead to problems if consumers in those segments change their purchasing habits significantly.
Price discrimination can be used to increase revenue and profits	

Mass Marketing & Niche Marketing

Mass marketing is when the target audience of a product is not necessarily fixed. Niche marketing on the other hand requires a product to have a specific targeting audience. As such, mass marketing also includes mass production of a product. For example, usually food products are mass marketed. Generally speaking, there is no targeted specific audience, for example, Nutella or even bread. On the other side, foods can be niche marketed. For example, a niche food market would be macaroons, as it is generally targeted at a more wealthy and french cultural audience.

Advantages & disadvantages of Mass marketing

Advantages	Disadvantages
Due to large production, economies of scale can be achieved, meaning that the average production of each product cost will be reduced. This can help maximise profit.	Competition within mass marketing is more intense compared to niche. As such, marketing budget needs to be large and a good unique selling point is necessary for a successful business
Different marketing strategies do not need to be planned and implemented for different market segments. One marketing campaign can successfully target a whole market, facilitating marketing economies of scale.	Higher barrier of entry. Large scale of factories, production, marketing, cargo etc. are all taken into account with a start up of a new company that wants to aim everywhere.
Providing products for a mass market could enable a successful firm to establish a larger base of customers. This will generally increase profitability.	Mass marketing is less focused, as such resources will be used less efficiently.

Advantages & disadvantages of Niche marketing

Advantages	Disadvantages
When a specific market segment is targeted in a firm's marketing, the marketing tends to be more focused and likely to have greater appeal within	Niche markets, by their definition, are small. The number of total potential customers in the market is limited. Mass markets have a relatively larger

the targeted segment. Mass marketing is not as focussed and as such tends to focus on the ‘average’ consumer.	customer base. Niche marketing strategies may miss potential customers and depress sales revenues.
Businesses can become highly specialised at finding out the needs and wants of a niche market they are targeting. With needs and wants being better met, customer loyalty can ensue.	Economies of scale may not be obtained in niche markets due to their limited size. Thus, the average cost of bringing the product to market will be higher, leading to higher prices and or lower profit margins.
Competitive rivalry within a niche market is less than that for broader markets. Less competition can translate into increased pricing power for a firm’s differentiated products which, in turn, can lead to increased profitability.	Profitable niche markets with low barriers to entry are likely to attract new competitors into the industry. Niche markets are small and cannot sustain a relatively high number of competitors.

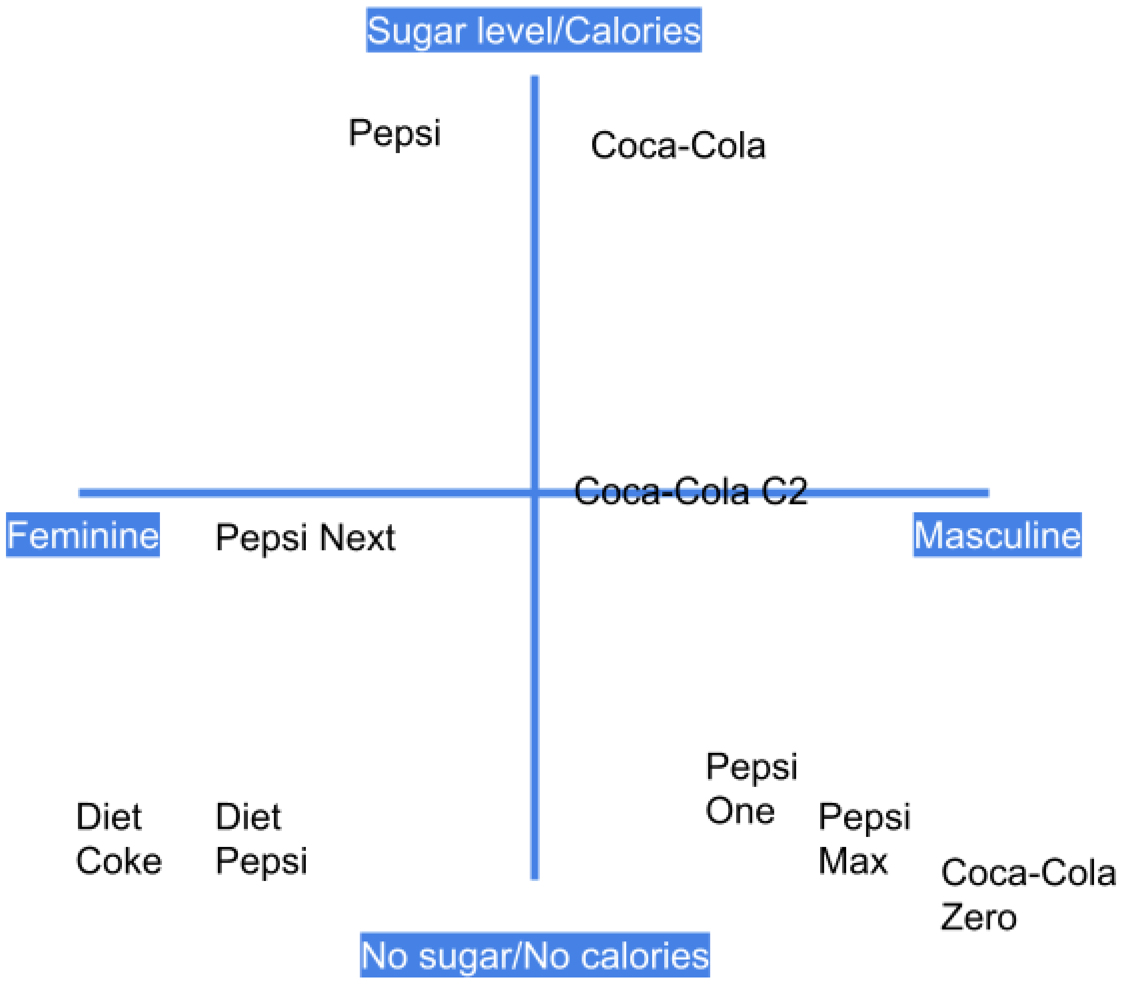
Product Positioning

Once a market has been segmented and targets are identified, a business has to ‘position’ its product. Analysing how the new brand will relate to the other brands in the market, in the minds of consumers. This is called positioning the product.

The first stage is to prepare the product position map / product perception map.

For example:

Coca-Cola Products	Pepsi Products
Coca-Cola	Pepsi
Coca-Cola C2	Pepsi Max
Diet Coke	Diet Pepsi
Coca-Cola Zero	Pepsi One



The perception map can help identify gaps in the market, upon finding the best niche market possible, it is possible to fill it in and make revenue.

Unique Selling Point

The most successful new products are those that are differentiated from its competitors' products and offer something 'special'. Production differentiation is one that creates a unique selling point.

For example:

Domino's Pizza - 'it arrives in 30 minutes or its free'
Dyson vacuum cleaner - 100% suction 100% of the time from bagless technology.

Benefits of a USP -
- Opportunities to charge higher prices due to exclusivity
- HIgher sales than undifferentiated products

- Its customers more willing to be identified with the brand because 'it's different'

This UPS can be based off any part of the 7 Ps (the marketing mix) (page 74)

For example,

Place - Dell was the first company to sell its computer hardware on the internet exclusively. Keeping its costs down allowed it to offer competitive prices.

Price - 'Never knowingly undersold' is a slogan by John Lewis Partnership which increased the sales growth of the company by 10%, even though all competitors have decreased.

Promotion - 'When it absolutely, positively has to be there overnight' is one of the most famous promotional slogans of recent years, creating a unique quality mindset for FedEx.

Product - TESLA cars are now recognised as the best electrically driven cars. Incorporating innovation, with key patented technologies, makes it faster and gives it a longer driving range compared to competitors.

Product Differentiation

The following table will explain everything:

Form of Differentiation	Benefits	Limitations
Low/lowest prices	Consumers have limited spending power thus it will attract a high proportion of them towards the product.	Will total profit fall if the profit margin is reduced to very low levels? Could consumers perceive the product to be low quality?
Trust	Make sure they're making a safe decision. They want to buy from companies they trust and believe in.	Trust is difficult for newly formed businesses, so other forms of differentiation might be necessary
Ethical Stance	This ethical approach might lead to higher costs and prices but some customers	In some markets low prices are more important than ethical positions.

	will 'pay the difference' because they share the company's values	
Convenience	Consumers; lack of time or dislike of the shopping experience means that more convenient ways to browse and purchase could create effective differentiation. Online shopping is an example.	'Convenient shopping' are now so widespread that it is difficult to gain true, long-lasting differentiation.
Product Features	If these are the result of research and development (R&D) that leads to patented products or processes, leading to innovative, cutting-edge products that can command premium prices.	R&D is an expensive and time-consuming process and does not always lead to successful innovative products.

Market Research - Primary & Secondary

There are 2 types of main market research: primary and secondary. Primary market research is when the research is done by that particular person, and is not taken from any other sources. Secondary research is using already existing data of research done by another company or an organisation.

Qualitative research is when it is done with personal engagement. The answers are not fixed, and the respondent can answer with their own opinion. Quantitative research on the other hand, is usually through things such as questionnaires, where answers can be fixed. I.e selection of choices. Not much space for personal opinion is given.

Some of the issues that can be considered when conducting a survey is the audience: who are you surveying? For example, if it is children, consent can be a problem. Furthermore, it is important to give flexibility to the respondents to keep the anonymous and give them the rights to revoke their result at any given time.

Because usually the customers can be in very high numbers and amounts, businesses and organisations study a sample (a small group of people which are representative of the population given that the study is valid and reliable), in order to save costs and time.

Methods of primary research include:

- **Surveys** - it is usually conducted through questionnaires, which have a set of questions written in a piece of paper that a person has to fill in. There are also 2 types of main questionnaires:
    - Open questionnaires - those that invite a wide ranging- or imaginative response, making it qualitative.
    - Closed questionnaires - questions to which a limited number of preset answers is offered. This is quantitative.

  In order to make a questionnaire effective, the questionnaire has to precisely answer the target question. It is important to also keep the questionnaires short in order to make people not reluctant to answer, otherwise it will get boring. Make sure to have relevant questions which will help gather data to analyse the market, using effective language with clarity and ambiguity.

  The main problem with questionnaires is that they can be rather vague - and require lots of money to distribute around. Questions can be misunderstood, and be biased towards those with the most free time

- **Interviews** - is when the respondent and the audience talk one to one. Skilled interviewers will avoid bias. This requires for the physical location to be close. Furthemore, it can be costly to meet people one to one. If a questionnaire requires further study or follow questions it can be extremely hard to arrange the capital and the time. It is extremely time costly. Detailed answers, however, can be obtained. This is usually qualitative.

- **Focus Groups** - focus groups are like a group interview. Many people are present in the same room, who are asked questions. They can have open end discussions and can result in higher ecological validity, because such results may not be obtained in a room where only the respondent and the interviewer is present. However, having many respondents can result in a biased result

- **Observations** - is when the observer observes people and their response to stimuli. This, however, can be extremely biased. This is based on the pure opinion of the observer. On the other hand, when covert observation is done, it can help reduce the Hawthorne effect - in which a person's behaviour changes because they know they are being observed - as such creating invalid results which can not be generalised. This method is also time consuming and does not explain the consumers' behaviour through their own opinion.

- **Test marketing** - when a product is geographically shown or teased in a small area. A limited amount of it is made. It reduces the risk of a new product launch failing, however, the evidence is not always completely accurate if the total population does not share the same characteristics and preferences as the world.

Methods of secondary research include:

- **Market intelligence analysis reports** - when an agency specialises in market research that dedicates its time in market research. They might not be as up-to-date and are very expensive. They are usually high quality and detailed. For example: Mintel reports, Key Note reports, Euromonitor International

- **Academic journals** - are published which focus on science and techniques involved in market research. These would be of a particular interest to the market research department of business - not so much for the 'market research data' that they contain but for the discussion of market research methodology. Examples:
  www.marketingpower.com
  www.mrs.org.uk

- **Government publications** - most countries such as the UK have governmental statistics which can be very useful for a business. Examples of statistics:
  - Population census
  - Social trends
  - Living costs
  - Food survey

- **Local libraries and local government offices** - if a small business such as a cafe is opening then local market research is required rather than national. For example, local population census for that specific area, Number of households in the local area, etc.

- **Trade organisations** - trade organisations provide regular reports on the state of their markets their members operate in. For example, if a garage owner wanted to stock for cars selling, then the most popular one should be obtained.

E.g: Society of Motor Manufacturers and Traders, British Furniture manufacturers, Engineering employers federation

- **Media reports and specialist publications** - these are widely available but they need subscription. However, sources, methodology etc. all should be taken into account to know whether it would be valid or not. Examples:
  - The grocer
  - Motor trader
  - The financial times
  - Marketing - this journal provides weekly advertising spending data and ‘recall of adverts’ results

- **Internal company records** - If a business has been trading for a long period of time, then they will have an amount of data. For example: customers sales records, guarantee claims for customers, daily, weekly and monthly sales trends etc.

- **The Internet** - the relevance, validity and reliability of data from the internet and source should always be questioned and checked.

Market Research - Ethical Research

When doing market research the surveyor needs to consider the ethics for the research, such as:

- A research should have the permission of the people that will be studied. Is this possible with all observational methods?

- Data collection should not have any emotional or physical harm. The researcher should be careful about the questions asked to make sure that they are not sensitive.

- Objectivity vs subjectivity. Researchers should avoid putting in their own feelings, emotions and personal bias when doing research, questioning etc.

- Research, such as surveys and observations, should consider having their respondents kept anonymous. Respondents should be told whether the answers will be anonymous or not, but for example, how can you inform this in online surveys?

- Researchers should not take advantage of easy to access groups (such as children at school gates), simply because they are easy to access. Furthemore, how do you ask for consent for people under 18, should it be their parents?

- When presenting the analysis or result they should accurately represent what was observed or researchers were told. I.e small parts of interviews or interview responses should be included in the results

Market Research - Sampling Methodology

Sampling is a group of people that represent the whole population. Because it is too expensive or time consuming to ask the whole population, a small group is decided or chosen. Furthemore, the term 'population' may not refer to the whole population of a region, country or a world, but rather to a more specific category such as 'People aged 21-25 still in full time education'.

Some types of sampling include:

- **Quota Sampling** - The population is divided into sub-groups i.e male or female. And then a second filter is applied, i.e males from the age group of 45-60. The selection of quota sampling is non-scientific - interviewers might choose people who look like the most helpful or specific and hence biased. The population is picked based on set instructions

- **Random Sampling** - When the population is chosen completely random. Everyone has an equal chance of taking part in the research. This is usually done by generating a number for each person and then drawing a number. However, it is important to note that the people that are chosen may not be particularly useful for research because there is no filter applied, and as such might create invalid results.

- **Stratified Sampling** - This method recognises that a population is subdivided into many different groups. These groups are called strata/ layers. For example, if a group of 1000 people who are chosen in a school, of which 50 people are year 8 girls, then if the ratio was to decreased to 100 people, the ratio is to be kept the same, and we would have 5 people for year 8 girls. This is when the sampling frame is divided into age, ethnicity, gender etc. i.e if a computer game is aimed at 18-24 year olds, only 18-24 year olds who play computer games might be questioned.

- **Cluster sampling** - when a potential sample is too scattered geographically, researchers use cluster sampling. For example, if a researcher wants to see the academical achievements of students in spain, because they are too geographically apart, he will divide them into cities. From these cities, he will pick cities that he wishes to research.

- **Snowball sampling** - when the first respondent gets to pick the next respondent and so on. However, the respondents are likely to have the same lifestyle and opinions and as a result be biased.

- **Convenience sampling** - when a sample/population is easily accessible and quick, and as a result, this sample is chosen over others. The disadvantage is that when you do convenience sampling, you may not have a representative population. For example, if a study is regarding the average age and gender of people visiting supermarkets, it might be convenient to check during afternoon hours. Since people are working, the people might be elderly who have retired and as a result be not representative of the general population.

Market Research - Results

Key Terms

- **Above-the-line promotion** - a form of promotion that is undertaken by a business by paying for communication with consumers e.g advertising

- **Agent** - a business with the authority to act on behalf of another firm, e.g. to market its products

- **Below-the-line promotion** - promotion that is not a directly paid-for means of communication but based on short-term incentives to purchase, e.g sales promotional techniques

- **Brand** - an identifying symbol, name, image or trade mark that distinguishes a product from its competitors

- **Brand awareness** - extent to which a brand is recognised by potential customers and is correctly associated with a particular product - can be expressed as a percentage of a target market

- **Brand development** - measures the infiltration of a product's sales, usually per thousand population; If 100 people in 1000 buy a product, it has a brand development of 10

- **Brand loyalty** - the faithfulness of consumers to a particular brand as shown by their repeating purchases irrespective of the marketing pressure from competing brands

- **Brand value/equity** - the premium that a brand has because customers are willing to pay more for it than they would for a non-branded generic product

- **Channel of distribution** - the chain of intermediaries a product passes through from producer to the final retailer

- **Closed questionnaires** - question to which a limited number of preset answers is offered

- **Cluster sampling** - using one or a number of specific groups to draw samples from and not selecting from the whole population

- **Consumer durables** - manufactured products that can be reused and are expected to have a reasonably long life i.e cars

- **Consumer goods** - tangible physical product marketed to end users

- **Consumer profile** - a quantified picture of consumers of a firm's products, showing proportion of age groups, income levels, location, gender and social class.

- **Consumer service** - intangible provision of an activity to end users

- **Convenience sampling** - drawing representative selection of people because of the ease of their volunteering or selecting people because of their availability or access

- **Cost-plus pricing** - adding a fixed mark-up for profit to unit price of a product

- **Coordinated marketing mix** - key marketing decisions complement each other and must work together to give customers a consistent message about the product.

- **e-Commerce** - the buying and selling of goods and services in the internet

- **Focus groups** - a group of people who are asked about their attitude towards a product, services, advertisement, packaging etc.

- **Globalisation** - the growing trend towards worldwide products in markets in products, capital and labour, unrestricted by national barriers

- **Global localisation** - adapting the marketing mix, including differentiated products, to meet regional and national tastes and cultures

- **Guerilla marketing** - an unconventional way of performing marketing activities on a very low budget.

- **Inappropriate marketing mix decisions** - having marketing mix that is overall not suitable and/or unfit for a product.

- **International marketing** - selling products in markets other than the original domestic market

- **Internet (online) marketing** - refers to advertising and marketing activities that use the internet, email and mobile communications to encourage direct sales via electronic commerce

- **Loss leader** - product sold at a very low price to encourage consumers to buy other products

- **Marketing** - a business philosophy of how best to think about satisfying customer needs or demands. It is about getting the right product to the right customers at the right price at the right time.

- **Market segment** - a subgroup of a market made up of consumers with similar characteristics, tastes and preferences

- **Market skimming** - setting a product for a high price because a product is unique or highly differentiated with low price elasticity of demand

- **Marketing objectives** - the goals set for the marketing department to help the business achieve its overall objectives

- **Marketing of goods** - the use of the 4 Ps of product, price, place and promotion in the marketing mix.

- **Marketing of services** - the use of 7 Ps of product, price, place, promotion, process, people and physical evidence in the marketing mix.

- **Marketing mix** - the key decisions that must be taken in effective marketing of a product

- **Market share** - the percentage of sales in the total market

- **Market leadership** - when a business has the highest market share of all firms

- **Mass marketing** - selling to the whole market using a standardised product and the same marketing activities

- **Market orientation** - an outward-looking approach basing product decisions on consumer demand, as established by market research

- **Multinational companies** - businesses that have operations in more than one country

- **Observational technique** - a qualitative method of collecting and analysing information obtained through directly or indirectly watching and observing others in business environments' e.g watching consumers walk around a supermarket

- **Open questionnaires** - those that invite a wide-ranging or imaginative response

- **Pan-global marketing** - adopting a standardised product across the globe as if the whole world were a single market - selling them same goods in the same way everywhere

- **Penetration pricing** - setting a relatively low price often supported by strong promotion in order to achieve a high volume of sales

- **Physical evidence** - the ways in which the business and its products are presented to customers

- **Predatory pricing** - deliberately undercutting competitors' prices in order to try to force them out of the market

- **Price leadership** - exists when one business sets a price for its products and other firms in the market set the same or similar prices (they 'follow suit')

- **Primary research** - the collection of first-hand data that are directly related to the firm's needs

- **Process** - procedures and policies that are put in place to provide the service or the product to the customer.

- **Product** - the end result of the production process sold on the market to satisfy a customer need

- **Product life cycles** - the pattern of sales recorded by a product from launch to withdraw from the market

- **Product orientation** - an inward-looking approach that focuses on making products that can be made - or have been made for a long time, and then try to sell them.

- **Production position map / Perception map** - a graph that analyses consumer perceptions of each of a group competing products in respect of two product characteristics

- **Promotion** - the use of advertising, sales promotion, personal selling, direct mail, trade fairs, sponsorship and public relations to inform consumers and persuade them to buy

- **Promotion mix** - the combination of promotional techniques that a firm uses to communicate the benefits of its products to customers.

- **Promotional pricing** - when the price of a product is set for an exclusive price for a limited time, for example, a company might do it to get rid of stucks, as such buy one get one free.

- **Psychological pricing** - setting prices that take account of customers' perception of value and the product

- **Qualitative research** - research into the in-depth motivations behind consumer buying behaviour or opinion

- **Quantitative research** - research that leads to numerical results that can be presented or analysed

- **Quota sampling** - gathering data from a group chosen out of a specific sub-group, e.g a researcher might ask 100 individuals between 20 to 30 years

- **Random sampling** - every member of the target population has an equal chance of being chosen

- **Sales promotion** - incentives such as special offers or special deals directed at consumers or retailers to achieve short-term sales increases and repeat purchase by consumers

- **Sample** - group of people taking part in a market research survey selected to be representative of the target market overall

- **Sampling error** - errors in research caused by using a sample for data collection rather than whole target population

- **Secondary research** - collection of data from second-hand sources

- **Segmentation** - dividing a market into distinct groups of consumers who share common tastes and requirements

- **Snowball sampling** - using existing members of a sample study group to recruit further participants through their acquaintances

- **Stratified sampling** - this draws a sample from a specific sub-group segment of the population and uses random sampling to select an appropriate number of each stratum

- **Survey** - detailed study of a market or geographical area to gather data on attitudes, impressions, opinions and satisfactions levels of products or businesses, by asking a section of the population

- **Target marketing** - focusing marketing activity on particular segments of the market

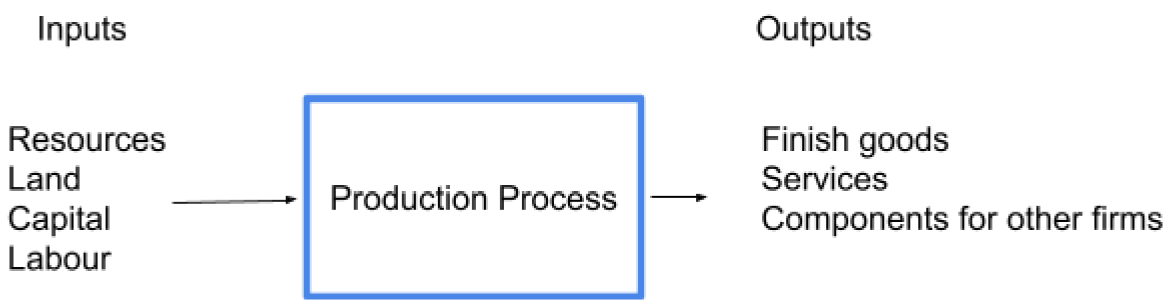
- **Test marketing** - marketing a new product in a geographical region before a full-scale launch

- **Viral marketing** - the use of social media sites or text messages to increase brand awareness or sell products

- **Unique Selling Point** - a factor that differentiates a product from its competitors, such as the lowest cost, highest quality, first ever kind of its product etc.

Topic 5: Operations Management

Operations management - The production process



This process applies to both manufacturing and service industries. Production refers to creation of tangible and intangible goods e.g. computers, banking systems etc. The aim is to add extra value to the good, so one can sell for profit.

Defining resources:

Land - All businesses need somewhere to operate from, even if it is the basement of a sole trader which requires internet connection to operate in a web business.

Capital - All businesses require money to be invested in order to actually go through the production process. E.g. buying machinery, employing employees, computers etc.

Labour - All businesses also require some kind of labour to do production. Whether it is physical labour of a gardener or the mental skills of a scientist. Training can improve the effectiveness of labour, however trained employees may be sought after by other businesses.

There are several things that impact the the added value, some of which are the following:

- Costs, that is the efficiency of production. If the efficiency is increased, that means the cost is decreased, hence the gap between production and selling point is now larger, thus added value is also larger.

- Design, that is the quality of the product. If there are quality features of the product, then customers may be willing to spend extra money for the higher quality.

- Convincing, that is strong marketing campaigns. One example of such industry are icecreams, where marketing campaigns have a large impact on the added value.

Role of Operations Management

Role of operations management always tries to improve ecological, social and economical sustainabilities.

For ecological sustainability, a business can do the following:

- Reducing waste at all levels of organisation
- Using less energy and sourcing energy from renewable sources where possible
- Reducing usage of water and recycling it
- Reducing the use of non-reusable/recycable components in production
- Designing products that use recycling materials or products that can be recycled
- Designing products that are less harmful with energy usage e.g. electric cars

For social sustainability, a business can do the following:

- Designing products that are safe for and healthy for employees
- Designing work and workplaces to allow for social interaction
- Creating jobs for low-income and deprived areas
- Reducing negative impact of production on communities

For economic sustainability, a business can do the following:

- Extended lifespans, no unnecessary wear and tear, or replacements of equipment and machines
- Increasing efficiency of production (high productivity) also means low unit costs and thus better profits, and these have better economical sustainability than those with low productivity.

- Researching and developing products and processes that create customer interest and create value - e.g. Apple's future is secure because it can keep producing products which are innovative and have a clear USP.

Production Methods

Job Production - This production is mainly used for exclusive products which are to be produced by hand, creating a unique product. Some examples could be wedding rings, Aston martin engine, etc. In order for something to be called job production, each individual product has to be finished before the next one starts. This is a very labour intensive process. It requires advanced equipment. It enables specialised products to be produced, and can be motivating for the employees due to the pride given from creating the whole product. However, at the same time this results in high unit cost, which takes a long time to complete too. The labour force also requires to be very highly skilled, and this is not always easy to achieve.

Batch Production - makes products in separate groups and all of the products go through processes together. Every unit in the batch must go through an individual production stage before the batch as a whole moves onto the next stage. A good example would be bakeries creating bread. All of the dough is prepared, then all of the dough is placed in the oven. Batch production allows the division of labour in their production process and it enables economies of scale if the batch is large enough. It is usually used in places where demand is for identical products e.g. school uniforms for students at a specific school - 500 students.

The problem with batch production is that it has high levels of work-in-progress stocks at each stage of the production process. The work may also be boring and demotivating for the workers. If batches are small, then the cost per unit is most likely high. Not to be confused with something flow, for example, drink production of 20,000 is not a batch produced product. Each product can move ahead without having to wait for the other.

Flow/mass Production - As these methods are very similar they will be discussed together. These production methods move from stage to stage as soon as they're ready, without wasting time. Flow production allows to produce a large quantity of a good in a very short period of time, as the demand for the product is high and consistent. Parts for production may be bought from other companies. Moreover, CAM (Computer Aided Manufacturing) may be required. All of these allow for a higher production whilst keeping the amount of workers low.

Some examples are things such as Coca-Cola production in Vietnam, Ho Chi Minh City. They have such a system that without disruptions they change the production of Coca-Cola to Schweppes, Sprite etc. in the same production line. It is essential that this is very carefully planned so no disruptions occur.

The advantages of flow and mass production are vast. Labour costs tend to be low, because a lot of the process is mechanised and there is little handling required. The constant output rate makes the planning of inputs easy and can lead to minimisation of input stocks through the use of Just In Time stock control. Quality tends to be consistent and high and easy to check the quality of products at various stages, so quality control is made easy. The main disadvantage is that it has a high initial set up cost. In addition, the work tends to be boring, repetitive as well as demotivating.

Process Production - This type of production usually requires continuous input in order to convert it to finished products. This input, such as heat, pressure and time, can undergo thermal or chemical conversion in producing the finished product. A good example is crude oil being processed into gasoline through an oil refinery. The product cannot be disassembled into its previous state. Some examples include beverage, food, petrol and paint. Process production is designed to be used continuously and effectively over a long period of time. Disruptions or accidents can be destructive, expensive and time consuming to restart production.

Mass Customisation -

Cell or Cellular Production - focuses on the idea that there are ‘cells’ of producers for each individual part of a product. For example, when making a washing machine, there is a cell that creates the motor. Each cell has a hierarchy. There are leaders as well. Each cell has its own output level, and is measured against preset targets such as quality, lead times etc. Each cell is responsible for its own quality of work - linking with job enrichment, quality management and teamwork.

- Significant improvement in worker commitment and and motivation
- Job rotation and job enrichment
- Increased productivity

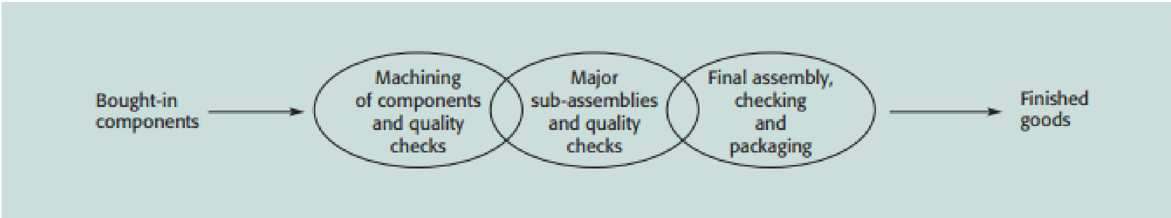


Figure 5.2.1 How cell manufacturing might be organised in an assembly plant

Quality management and Lean production

Lean production is closely associated with japanese production and is now a widely used production method. The concept is linked with other operations and human resource practices - e.g. quality circles, empowerment of workers, efficient use of capacity and just in time. The objective is to get rid of waste by getting it right the first time. It means to cut out anything that adds complexity, cost and time, and does not add value to the customer.

Less waste

The main sources of waste in a business are given by:

1. Excessive transportation of components and products
2. Excessive stock holding
3. Too much movement by working people e.g. to get supplies of components
4. Waiting time - delays in the production process
5. Overproduction - producing ahead of demand
6. Over-processing - making goods that are too complex as they could have been designed more simply
7. Defects - products that do not come up to quality standards and have to be rejected or corrected.

Greater Efficiency

Productivity and level of production and the two should not be confused. Production is an absolute measure of the quantity of output that a firm produces in a given period of time. Productivity is a relative measure - and is concerned with how efficiently inputs are converted into outputs.

Efficiency and productivity can be increased by:

- Improving employees' skill levels

- Improving workers' motivation
- Purchasing more technologically advanced equipment
- More effective management of labour and other resources

Continuous Improvement (Kaizen)

The philosophy behind kaizen is that all workers have something to contribute to improve the way their business operates and the way the product is made. Traditional methods include allowing workers to give suggestions. The continuous improvement in many cases suggests that the workers actually know more than managers about how a job should be done or how productivity might be improved. The idea is that a series of small improvements will result in better efficiency and productivity, not a one time investment.

The following conditions are necessary for kaizen:

1. Management culture must be directed towards involving staff and giving their views and ideas importance - managers must accept that, work experience will count as much as theoretical knowledge.

2. Team-working - suggesting and discussing new ideas to improve quality or productivity is best done when everyone is together. These groups are likely to be drawn from cells of production, for example. They should regularly meet to discuss what could be improved.

3. Empowerment - giving each kaizen group the power to take decisions allows speedier introduction of new ideas and can motivate workers to suggest more. This is also linked with Herzberg and the concept of job enrichment.

4. All employees should be involved

An evaluation of kaizen

1. Some changes cannot be introduced gradually and may need a radical and expensive, e.g. the need for Kodak to invest heavily in the manufacture of digital cameras rather than 'paper-film'- based cameras when they new technology was introduced

2. There may be very real resistance from senior managers to such a programme due to their existing culture. Kaizen will only work effectively if

there is genuine empowerment of all groups involved - authoritarian managers will find this hard to do

3. At least in the short term there may be tangible costs to the business of such a scheme, such as staff training to organise meetings and lost output as a result of meeting time.

Just-in-time stock control

This method requires no buffer stocks to be held, components arrive just as they are needed on the production line and finished goods are delivered to customers as soon as they are completed. The following must be met for JIT:

1. Relationships with the supplier must be excellent. Suppliers must be able to supply at very short notice

2. Production staff must be multi-skilled and be prepared to change jobs at short notice. There is no point for a worker to keep producing the same product if the demand for another product is higher at that point in time.

3. Equipment and machinery is flexible. Because JIT has to be flexible with the type of product produced, old fashioned machinery would only produce a range of similar products. Therefore, machines have to be modern which can switch their ranges to various types of product instead of being limited to a range.

4. Accurate demand forecasts will make JIT more successful. If it is difficult for a firm to predict, then JIT is risky. Demand predictions can be turned into production schedules.

5. Excellent employee-employer relationships are essential. Any industrial-relation problem could result in production halt. A lot of JIT companies have signed no-strike dealerships with unions.

6. Latest equipment. Accurate data based off of record of sales, sale trends, reorder levels and etc. will allow very low or zero stocks to be held.

7. Quality must be a priority. It is essential that each product is correct the first time, because there are no stocks to rely upon if they go wrong.

Advantages:

Capital invested in stock holding is reduced and the opportunity cost of stock holding is reduced.

Costs of storage and stock holding is reduced. Space released from stock holding can be used for more productive purposes.

Less chance of stock becoming outdated or obsolescent. Having fewer goods in storage also reduces the risk of damage or wastage

The greater flexibility that the system demands leads to quicker response times to changes in consumer demand or tastes.

The multi-skilled and adaptable staff required to work for JIT may gain improved motivation

Disadvantages:

Any failure to receive supplies of materials or components in time caused by for example a strike, transport problems etc. will cause expensive production delays

Delivery costs will increase as JIT depends on a lot of small deliveries.

Order-administration costs will rise because so many small orders need to be processed

There could be a reduction in bulk discounts offered by suppliers because each order is likely to be small

The reputation of business depends on a lot of outside factors such as the reliability of the supplier

Kanban

Kanban is a visual method for controlling production as part of Just in Time (JIT) and Lean Manufacturing. As part of a pull system it controls what is produced, in what quantity, and when. Its purpose is to ensure that you only produce what the customer is asking for and nothing more. It is a system of signals that is used through the value stream to pull product from customer demand back to raw materials.

Its literal meaning is that of a flag or sign, when you see that flag you know that it is time to manufacture the next part. Kanbans can take many forms but in most production facilities they will use Kanban cards or bins to control the process, although there are no limits to how you can control and design kanbans; only your imagination.

Advantages
1. Help simplify planning and match production to meet changing customer demand
2. The system requires planned monthly and weekly production schedules
3. Kanban cards simplify day-to-day flexibility, and changes to the production schedule need only to be given final assembly process and will then automatically work their way back up the line
4. Kanban can be made more ‘lean’ by removing cards or reducing the number of parts on a pallet. This effect will be to speed the flow through the process and hence reduce lead times.

Andon

Andon refers to the process arrangement, maintenance, and other workers of a quality or process problem. The first andon was a traffic light like thing: green for normal operation; yellow when assistance is needed; red when the line has stopped because there is a problem.

Advantages
1. Immediate attention to manufacturing problems is raised
2. The system provides a simple and a consistent mechanism for communicating information in the factory
3. Andons can lead to immediate reaction to quality, down time and safety problems
4. Andon systems increase employees’ accountability and empower them to take action when problems occur
5. Andons improve the ability of supervisors to quickly identify and resolve manufacturing issues

Cradle-to-cradle

Produced in the 1970s is a way of trying to keep everything sustainable. For example, technical resources such as scrap steel can be recycled or reused with no loss of quality. Biological products such as waste from food processing can be composted and reused in an environmentally friendly way. Cradle to grave expression is used for businesses letting their wastes to be disposed of safely but not for reuse

Managing Quality

What we actually mean by quality. Quality is what is expected of a product. It could be basically said that if a product is going beyond expectations, then it is very high quality, if it is going below expectations then it is low quality. However, quality does not necessarily mean expensive. That is, for example, they can still meet above expectations. This sets up a quality standard. That is, the reliability of a product e.g. clothes, cars etc. It is also important for services to also have high quality, whether it is for example waiting times in a phone call or number of errors made.

Quality can be defined as the expectation of consumers, its quality in comparison to its competitors and availability of resources to the product.

Quality products have their advantages, such as:
- Premium pricing
- Less need on advertisement due to established image of 'quality'
- Longer life cycle
- Easier to create customer loyalty
- Saves on costs for stuff such as replacement, customer complaints etc.

Quality control and Quality assurance

Both are ways of managing quality, however, they are different.

Quality control refers to inspection and checking when the product is finished , that is, checking quality from a sample

Quality assurance on the other hand are checks to make sure that the quality meets expectations at each stage of production through agreement of what is acceptable

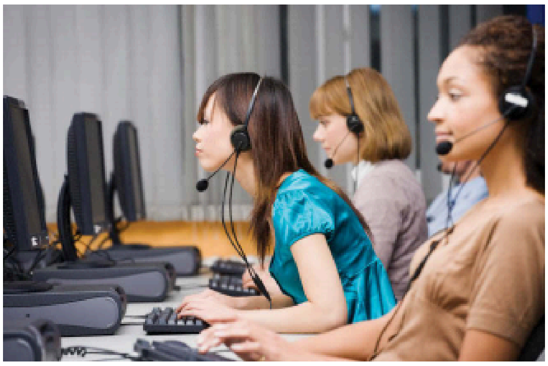
Quality control techniques include:
- Prevention - that is, quality should be 'designed' in the product. This allows for accurate production and can be used to meet the expectations of the customer.
- Inspection - that is, checking whether the product is produced the way it was supposed to be made. 'Zero-defect' manufacturing is an example of this, moreover, this is the aim of total quality management.
- Correction and improvement - This is not just correcting faulty products, but it is also with correcting processes that caused the fault in the first place.

Quality assurance is based on setting agreed quality standards amongst workers at all stages of the production. This approach often involves self checking by workers of their own output against these agreed quality standards. The standard difference is that:

- Puts more effort on the prevention of poor quality by designing products for easy fault-free manufacture, rather than inspecting for poor quality products.
- Stresses workers to get it right the first time, and reduced chances of faulty products occurring or expensive reworking of faulty goods
- Establishes quality standards and targets for each of the production stage - for both goods and services
- Cheek components, materials and services bought into the business at the point of arrival or delivery - not at the of the production process, by which stage much time and many resources have been wasted

The quality assurance department will need to consider all areas of the firm. Agreed standards must be established at all stages of the process from initial product idea to it finally reaching the consumer. These stages include:

- **Product design** – Will the product meet the expectations of consumers?
- **Quality of inputs** – Quality must not be let down by bought-in components. Suppliers will have to accept and keep to strict quality standards.
- **Production quality** – This can be assured by total quality management (TQM) and emphasising with workers that quality levels must not drop below preset standards.
- **Delivery systems** – Customers need goods and services delivered at times convenient to them. The punctuality and reliability of delivery systems must be monitored.
- **Customer service including after-sales service** – Continued customer satisfaction will depend on the quality of contact with consumers after purchase.



Some retail companies record staff telephone conversations with customers to help with after-sales training and customer-care quality assurance

Benchmarking is when the best firm is compared with another firm to see whether a specific firm lies. The following is the process:

1. **Identify which aspects need to be benchmarked** - this could be decided by interviewing customers, and finding out what they consider what is most important.
2. **Measure and performance in those areas** - e.g. reliability records, delivery records and number of customer complaints
3. **Identify firms that are considered the best in the industry** - this process might be assessed by management consultants or by benchmarking schemes operated by government or industry organisations
4. **Use comparative data to establish the main weaknesses in the business** - this data might be obtained from mutual agreement, published accounts, specialist industry publications and contact with customers/ suppliers

5. **Change process to achieve the standard set** - this may require nothing more than a different way of performing a task, but more substantial changes may be necessary.
6. **Re-measurement** - the changed processes need to be seen whether they are effective by benchmarking and comparing again. Therefore this is a continuous process to achieve long-term improvements in productivity and quality.

Quality circles

This is a japanese-originated approach to quality. It is based on employee involvement in improving quality, using small groups of employees to discuss quality issues. Using team working and participation can - as well as leading to quality improvements - result in greatly increased worker participation. The overall aim of the groups is to investigate quality problems and present solutions to management - or, if the group is fully empowered, to put the improvements into effect itself.

Main benefits	Main conditions determining success
• Improves quality through joint discussion of ideas and solutions • Improves motivation through participation • Makes full use of the knowledge and experience of the staff	• Circle members must be committed to improving quality • Training given in holding meetings and problem-solving • Full support from management • The team should be empowered to implement the recommendations

Total quality management

Involves a significant change in the culture of an organisation. Employees can no longer think that quality is someone else's responsibility- instead, the search for quality must affect the attitudes and actions of every employee. When adopting this concept, every worker should think about the quality of work they are performing because another employee is, in effect, their internal customers. Every department relationship is sometimes known as quality chains. All businesses can, therefore, be described as a series of supplier and customer relationships.

Location

When deciding on a location for business, a business should seek for it to be optimal for the company. An optimal location depends on many different factors, whether they're quantitative or qualitative.

For **quantitative factors**, a business may look into before choosing a location:

- **High fixed site costs** - resulting in high break even level and low profits, possibly losses
- **High variable costs** e.g. labour - low contribution per unit produced or sold, high unit variable costs reduce competitiveness
- **Low unemployment rate** - problems with finding suitable staff, pay levels may be raised to attract and retain staff
- **High unemployment rate** - Average consumer disposable incomes may be low - leading to relatively low demand for income-elastic products
- **Poor transport infrastructure** - Raises transport costs for both materials and finished products, Difficult to operate JIT.

Other things that can influence is also stuff such as

- **Government grants** e.g. the government giving money to the company in order set up a business at a specific location,
- **Profit estimates** i.e. what is the estimated money made in a specific site,
- **The investment appraisal** i.e. how long estimately it will take the site location to bring the profit back.
- **Break-even analysis** i.e. level of output needed to cover all the costs. This information might be particularly important for businesses that face high levels of fixed costs and which may benefit from a location with lower overheads.

Qualitative factors

- Safety
- Room for further expansion
- Labour Supply
- Ethical considerations
- Environmental concerns
- Infrastructure

Other possible issues

The pull of the market - i.e. with the developing world, a lot of the stores etc. had to move. With the introduction of cars, they had to move into the ring of roads e.g. cinemas.

Planning restrictions - i.e. local authorities have to serve the interests of their populations. As a result, they may want businesses etc. to provide employment, however, they also want to protect the environment, such as setting up parks. Other times stuff such as roads etc.

Reorganising production

If a business receives an excessive amount of orders then it is normal for that business to contract another business to undertake some or all of the work. However, the growth of outsourcing and subcontracting in recent years by many businesses is not necessarily driven by shortage capacity. These are the major reasons for outsourcing:

Reduction and control of operating costs - instead of employing expensive specialists that may not be used at all times, it may be more cost effective to 'buy in' these special services as and when needed. These specialist firms may be cheaper because they benefit from economies of scale, as they may provide similar services to other large businesses.

Increased flexibility - by removing departments from the staff payroll and buying in services when needed, fixed costs are converted into variable costs. Additional capacity can be obtained from outsourcing only when needed and if demand falls contracts can be cancelled much more quickly than closing down whole factories owned by the business.

Access to quality service or resources - these may not be available internally. Many outsourcing firms employ quality specialists that small to medium-sized businesses could not afford to employ directly.

However, there are drawbacks

Loss of jobs within the business - this can have a negative impact on staff motivation. Workers who remain directly employed by the organisation may experience a loss of job security. Bad publicity may result from redundancies too, especially if the business is accused of employing very low-wage employees in other countries in place of the jobs lost.

Quality issues - if there is a minimum expected quality, it may be hard to be met or monitored from the outsourced company. As a result, the company may have to send quality assurance specialists in order to check the produced products.

Security - using outside businesses to perform IT functions may be a security risk. If important data is leaked or lost by the business, who takes responsibility?

Customer resistance - Overseas telephone call centers have led to criticism about inability to understand foreign operators. Customers may object to dealing with overseas outsourced operations. Bought-in components and functions may raise doubts in the customer's minds over quality and reliability.

However, before a company does any outsourcing, it must undertake a cost-benefit analysis to make sure that it is indeed beneficial for the company. Moreover, any business-process outsourcing is also risky, making this analysis more desirable for a company as it is a large change which can fail.

Offshoring and Outsourcing

The arguments for offshoring are very similar to those for outsourcing within the same country. However, there are additional factors to consider:

1. Low-cost countries offer substantial benefits. This is undoubtedly the major reason explaining most business offshoring decisions.

2. The potential for higher profits will benefit the finance department despite the high setup costs of overseas operations or the transport and communication costs of using subcontractors in overseas location

3. With labour wage rates in India, Malaysia, China and Eastern Europe being a fraction of those in Western Europe and the US, it is not surprising that multinationals that wish to remain competitive have to seriously consider offshoring to low-wage economies.

4. In developing countries, because of the shortage of jobs, the subcontracting businesses will find it easy to recruit unskilled or semi-skilled workers. Many of these workers are well educated with good English-language skills.
5.

However, these come with limits

1. Language and communication barriers - e.g. distance with already being bad for communication, a communication barrier is sure to make it worse.

2. Cultural differences - e.g. Toyota found Mexican employees to be self-reliant and independent, yet the manufacturing system greatly depends on team work
3. Level of service concerns - e.g. offshoring call centres, technical support and functions such as accounting may have time delays, time difference problems etc.
4. Supply-chain concerns - the concern of quality and reliability in production is then evident. JIT manufacturing may become riskier if important supplies have to be shipped thousands of miles to an assembly plant.
5. Ethical considerations - there may be a loss of jobs when a company locates some or all of its operations abroad and this may, as in the case of Burberry clothing, led to customer boycott as there were claims that the company's decisions to close its Welsh factory was not 'the right thing to do'.

Insourcing and inshoring

With the increasing costs of labour in China, and the quality control issues, companies may begin insourcing and inshoring their products. This is especially evident with General Motors in the US.

Supply Chain Process

The supply chain encompasses all the steps it takes to get a good or service from the supplier to the customer. Supply chain management is an important process for most businesses, especially with the increasing trend towards outsourcing/offshoring. Businesses will strive to have the most optimised supply chain because it usually translates into lower costs for the company. Supply chains need to be managed to reduce costs, minimise transportation, eliminate bottlenecks and maximise customer value.

Businesses are likely to hold stocks of 3 kinds:

1. **Raw materials and components.** These will have been purchased from outside suppliers. They will be held in stock until they are used in the production process.

2. **Work in progress.** At any one time the production process will be converting raw materials and components into finished goods and these are 'work in progress'. For some firms, such as construction businesses, this will be the main form of stocks held. Batch production tends to have high

work-in-progress levels.

3. **Finished goods.** Having been through the complete production process goods may then be held in stock until sold and despatched to the customer.

Advantages and disadvantages of JIT

Advantages:

- Capital invested in stock is reduced and the opportunity cost of stock-holding is reduced.
- Costs of storage and stock-holding are reduced
- Space released from holding of stocks can be used for a more production purpose
- Much less chance of stock becoming outdated or obsolescent. Less stock held also reduces the risk of damage or wastage.
- The greater flexibility that the system demands leads to quicker response times to changes in consumer demand or tastes.
- The multi-skilled and adaptable staff required for JIT to work may gain improved motivation.

Disadvantages:

- Any failure to receive supplies of materials or components in time caused by, for example, a strike at the supplier's factory, transport problems or IT failure, will lead to expensive production delays.
- Delivery costs will increase as frequent small deliveries are an essential feature of JIT
- Order administration costs may rise because so many small orders need to be processed
- There could be a reduction in the bulk discounts offered by supplies because each order is likely to be very small
- The reputation of the business depends significantly on outside factors such as the reliability of supplying firms

Advantages and disadvantages of JIC

Advantages:

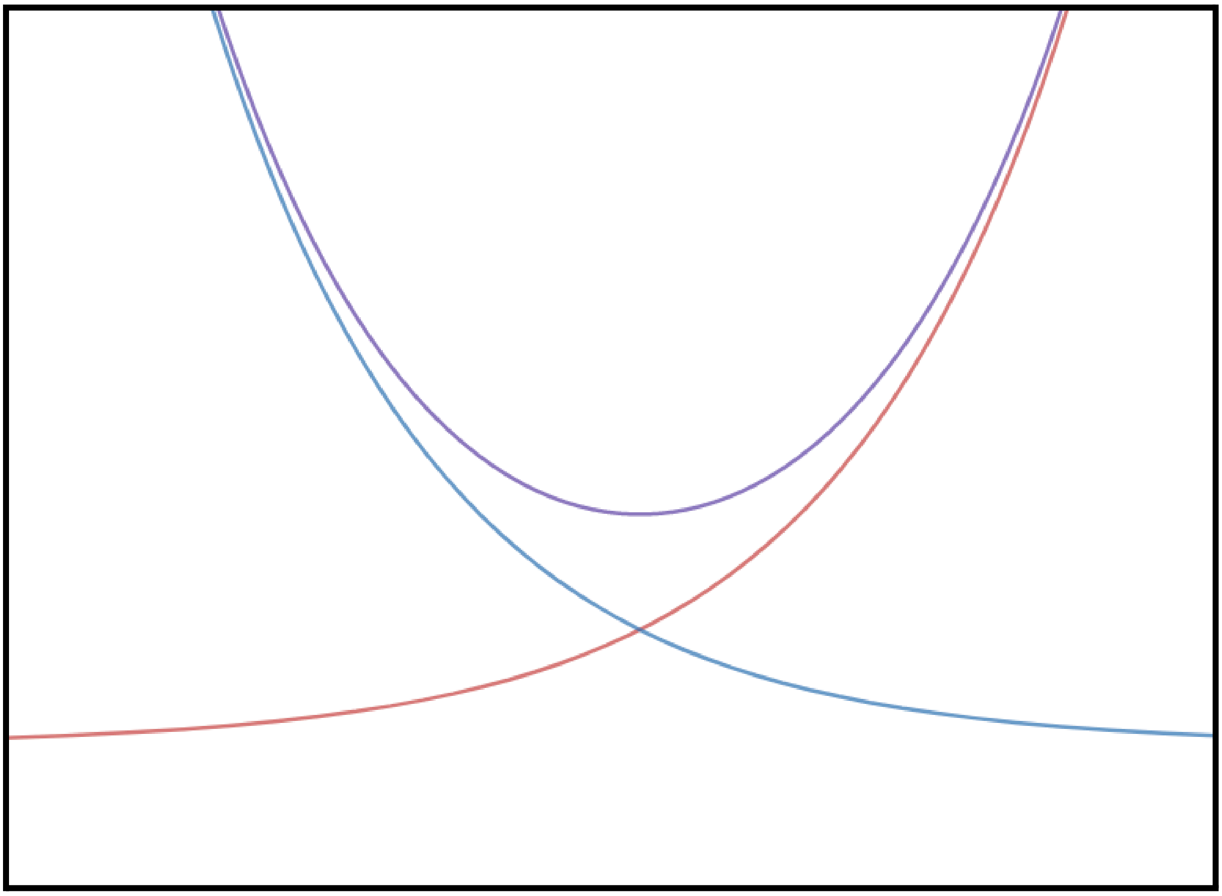
- Stocks of raw materials can be used to allow the firm to meet increases in demand by increasing the rate of production quickly.
- Raw-material supply hold-ups will not lead to production stopping

- Economies of scale from bulk discounts will reduce average costs
- Stocks of finished goods can be displayed to customers and increase the chances of sales
- Stocks of finished goods can be used to meet sudden, unpredicted increases in demand - customers can be satisfied without delay.
- Firms can stockpile completed goods to meet anticipated increases in demand as with seasonal goods or products such as toys at festival times.

Disadvantages:

- There are high opportunity costs of working capital tied up in stock
- There are high storage costs
- There is a risk of goods being damaged or becoming outdated
- Getting it right the first time - a key component of lean production - matters less than with JIT as other suppliers are kept in stock to replace defective items.
- Space used to store stock cannot be used for productive purposes.

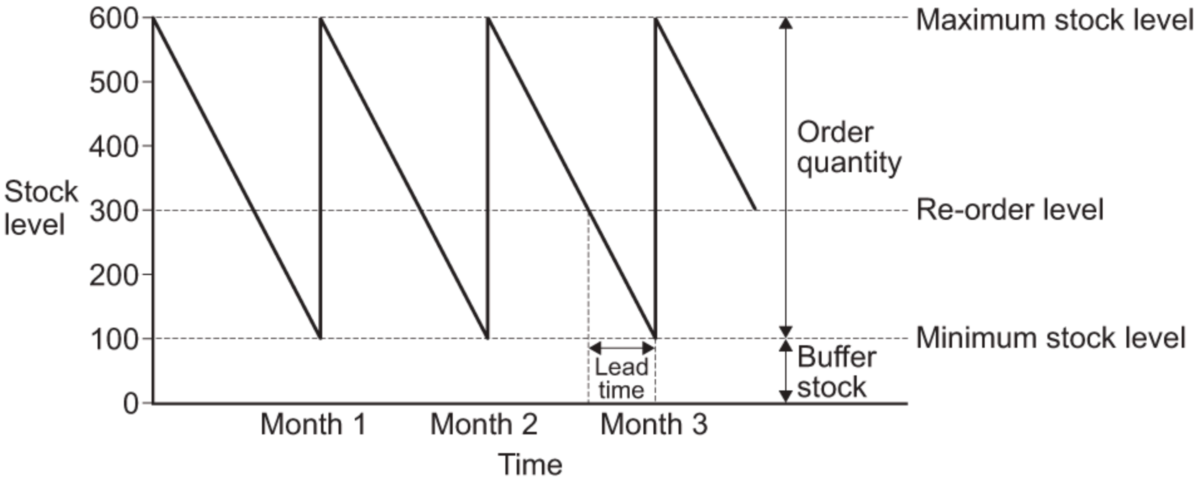
Order size and stocks



Costs of holding not enough stocks
Here, the red line represents the stock holding costs. The blue line represents the out-of-stock costs. The purple represents the sum of these two lines. The optimum cost, as seen, will be the lowest number in the middle.

Optimum order size
Similarly, this graph could also represent the stock holding costs by the red line, re order costs by the blue line, and the sum of these two as the purple line. The optimum of these costs is represented by the minima of the sum, which is also called the economic order quantity.

Stock control charts



Key features

- Buffer stocks. The more uncertainty there is about delivery times or production levels, the higher the buffer stock level will have to be. Also, the greater the cost involved in shutting production down and restarting, the greater the potential cost savings from holding high buffer stocks.

- Maximum stock level. This may be limited by space or by financial cost of holding even higher stock levels. One way to calculate this maximum level is to add the EOQ of each component to the buffer stock level for that item.

- Re order quantity - This will be influenced by the economic order quantity concept referred above.

- Lead time - the longer this period of time, then the higher will have to be the reorder stock level. The less reliable suppliers are, the greater the buffer stock level might have to be.

- Re-order stock level - it is now very common for computers to be used to keep a record of every sale and every delivery of stock. This allows the computer to automatically reorder stocks after it falls to a specific level.

- Capacity utilisation - the proportion of maximum output capacity currently being achieved

Capacity utilisation

$$\frac{current\ output\ level}{maximum\ output\ level} \cdot 100 \ = \ rate\ of\ capacity\ utilisation$$

Maximum capacity is the total level of output that a business can achieve in a certain time period. So, for a hotel, monthly total capacity will be the number of 'room nights' available during this period. For a factory, it will be the total level of outputs that all of the existing resources can produce. If a firm is working 'flat out' at full capacity, it is achieving 100% capacity utilisation with no spare capacity.

Working at full capacity does have the benefit of economies of scale with the idea that fixed costs are spread out over a larger amount of products. However, whilst this may sound ideal, it may not always be the best case. Staff may feel under pressure due to the workload, regular customers who wish to increase their orders will have to be turned away and machinery will be working flat out and there may be insufficient time for maintenance and preventative repairs.

When there is excess capacity, businesses can take important decisions. I.e. should the firm increase its scale of operation by acquiring more production resources?

Should it keep existing capacity but outsource or subcontract more work to other firms?

Could the quality of products obtained from subcontractors be assured?

Should it keep working at full capacity and not expand, perhaps because of the danger that demand might fall in the near future?

However, there can also be cases of capacity shortage.

Long-term capacity shortage		
	Advantages	**Disadvantages**
Option 1: Use subcontractors or outsourcing of supplies, components or even finished goods	• No major capital investment is required • Should be quite quick to arrange • Offers much greater flexibility than expansion of facilities – if demand falls back, then the contracts with other firms can be ended	• Less control over quality of output may add to administration and transport costs • May be uncertainty over delivery times and reliability of delivery • Unit cost may be higher than in-house production due to the supplier's profit margin
Option 2: Capital investment into expansion of production facilities	• Long-term increase in capacity • Firm is in control of quality and final delivery times • New facilities should be able to use latest equipment and methods • Other economies of scale should be possible too	• Capital cost may be high • Problems with raising capital • Increases total capacity, but problems could occur if demand should fall for a long period • Takes time to build and equip a new facility – customers may not wait

Productivity

Productivity is not the same as level of production. Level of production is an absolute measure of quantity of output that a firm produces in a given period of time. Productivity is a relative measure and is concerned with how efficiently inputs are converted into outputs. The most common measures of productivity are:

Labour productivity $\frac{total\ output\ in\ a\ given\ time\ period}{total\ workers\ employed}$

Capital productivity = $\frac{output}{capital\ employed}$

A lot of businesses try to increase their productivity even if total production is not increasing. This can be done by employing fewer more skilled workers, or bringing technological advances in production.

There are ways of increasing productivity levels:

1. Improve the training of an employee to raise skill levels - i.e. this means that fewer employees can be more flexible and be more productive by being more efficient

2. Improve worker motivation - A lot of different ways of motivation exist, but this mainly works by the idea that if a workers is motivated they are likely to have better productivity by increasing the amount of output.

3. Purchase more technologically advanced equipment - modern machinery investment can be worthwhile as it can make production more efficient due to its optimised design, but these can be costly.

4. More efficient management - poor maintenance schedules for machines, failure to purchase correct materials are all indicators of things that can decrease productivity levels.

Make-or-buy decisions

When dealing with a make-versus-buy decision, there are four figures that operation managers should consider:

1. Expected Volume (V)
2. The fixed or overhead costs directly associated with making thep product (FC)
3. The unit direct costs of making the product (UDC)
4. The unit cost from an external supplied - including transport costs (UCS)

This data can be inserted into the following relations

$Cost\ to\ buy\ (CTB)\ =\ V\ \times\ UCS$
$Cost\ to\ make\ (CTM)\ =\ FC\ +\ (UDC\times V)$

And relations such as $CTB\ \leq\ CTM$ or $CTM\ \leq\ CTB$ should be considered for a decision.

But of course, it is not just numbers. Would the business be losing key skills by outsourcing? Could the business risk losing a competitive advantage? What additional risks? How will it impact quality and delivery?

Research and Development

The importance of R&D

- High, premium prices
- Lower costs
- Publicity
- Customer loyalty
- Competitive advantage

Limitations of R&D

- Does not always lead to an invention or discovery
- Expensive and has an opportunity cost
- Ethical issues
- Competitors' R&D spending

Intellectual property rights

This does not mean that property rights - the rights to process, use, license, sell and financially benefit from property - are not worth anything. Far from it, it can

Set a business apart from its competitors and encourage sales as a result of distinctiveness.
Be sold or licensed to provide and important revenue stream
Be given a financial value on a business balance sheet, increasing net assets

Unmet needs

Unmet needs refer to needs that are to be filled as a product, these can be found by market research.

4Ps of Innovation / Types of Innovation

- **Product innovation** - new marketable products such as electric cars or developing and improving existing products such as the Apple iPad Air. These products are satisfying consumers' unmet needs - even if they are not aware of them!

- **Process innovation** - new methods of manufacturing a product or providing a service that offer benefits to the business/customer.

- **Positioning innovation** - this involves the 'relocation' of the customer's perception about a certain product. Today, in the global marketplace, positioning is everything. What makes the organisation profitable is not necessarily how good its products or services are, but what their customers perceive about them.

- **Paradigm innovation** - A distinctive change in what a business does or in the nature of goods/services available. The creation of social media sites has been described as paradigm innovation. Replacing existing publishing businesses with online self-publishing would be another paradigm innovation.

Factors affecting research and development practices and strategies

- The nature of the industry - businesses such as hotels will not spend as much on R&D because innovation is limited in comparison to a business with computers, pharmacy etc.

- Spending plans of competitors - in some markets it is important to innovate more than their competitors to gain market share and gain technical leadership. However, in a monopoly R&D may be limited as there are no true competitors to compete R&D for. However, if the risk of a competitor entering is high then a monopoly may spend maximum money on R&D.

- Business expectations - If business managers are optimistic about the state of the economy and increasing demand and consumer growth in the future then more money can be spent on R&D

- Risk profile and culture - The attitude of management to risk and whether shareholders are prepared to invest for the long term will have a significant effect on the sums that businesses will inject into R&D. Moreover, government policy towards grants to businesses and universities for R&D programmes and the range and scope of tax allowances for such expenditure will influence decisions by businesses.

- Finance - It is important to take into account the cash flow, profit and revenue before R&D. That is, cash flow is low then innovation might also be limited.

- Ethical considerations - Some businesses may focus on social responsibility rather than R&D, benefiting the society instead and hence yield return. Examples would be organic pesticides.

Crisis management and contingency planning

Contingency planning is the process of disaster recovery planning. Unprepared events such as IT failure or fire, floods etc. are all events which can halt a business. Preparing for these can help with crisis management - by being prepared with a series of procedures to be put into effect if an emergency occurs, the organisation will be better able to manage most negative situations when they occur.

But what is effective crisis management?

- Transparency - being honest and open about the crisis, its causes and consequences - and what the organisation intends to do about it. Keeping back any information or trying to twist it will most likely backfire and lead to even more negative reactions in comparison to the truth.

- Communication - this can determine whether a crisis is out of control is just simply a minor setback. If there is public interest in the crisis, the information needs to be given clearly, fully, and promptly. If not, then rumours may spread and further impact the crisis. The aim of communication is to make sure that employees, customers and the media continue to support the business.

- Speed - sometimes referred to as the 'golden hour'. This refers to how much time there is to respond to a crisis or an incident breaking in the media. Unfortunately today in the digital age information and rumors spread like a wildfire - which means that businesses have to act quickly. Websites such as Twitter have the potential to drop a company's share prices.

- Control - Keeping control of the crisis and not being swept along by events helps to present an image of calm and confidence. This will help to restore the image of the organisation once the crisis has passed. The chance of keeping control of a crisis situation will be helped greatly by having prepared a contingency plan and using this in 'rehearsals' of potential crisis situations.

Key steps in contingency planning:

- Identify potential disasters - for example, an oil industry will have to take into account oil tankers sinking, explosions at refineries and leakages.

- Assess the likelihood of these occurring - some events are more likely to occur than others. It seems obviously to prepare for common disasters, however, uncommon disasters may cause great damage to the business

- Minimise the potential impact - effective planning can sometimes remove a potential risk altogether. When this is not possible, the key is to minimise the damage done. This is often best achieved by the publicity department telling the truth, indicating the causes when known and giving full details of how to contact the business and the actions being taken to minimise the impact on the public. Staff training and practice drills with mock incidents are often the most effective ways of preparing to minimise negative impact

- Plan for continued operations of the business - the sooner the business can begin trading again, the less impact is likely on customer relationships.

Key Terms

- **Added value** - the difference between the cost of purchasing the raw materials, processing it and the selling value

- **Ecological Sustainability** - a capacity of ecosystems to maintain their essential functions and processes, and retain their biodiversity in full measure over the long term

- **Lean Production** - producing goods and services efficiently with the minimum of waste resources while maintaining high quality

- **Social Sustainability** - the ability of a community to develop processes and structures which not only meet needs of its current members but also support the ability of future generations to maintain a healthy community

- **Economical Sustainability** - using the assets of a company efficiently to allow it to continue functioning profitability over time

- **Cell production** - a lean method of producing similar products using cells, or groups of team members, to facilitate operations by eliminating setup time between operations

- **Process production** - producing standardised goods, typically in bulk quantities, by using a continuous input of materials and other resources

- **Flow production** - producing items continuously in a production line - also known as line production. This can be continuous 24-hours-a-day method

- **Mass production** - producing large quantities of a standardised product

- **Batch production** - producing a limited number amount of identical products - each item in the batch passes through one stage of of production before going to next stage

- **Productivity** - the ratio of outputs to inputs during production e.g. output per worker per time period

- **Kaizen** - Japanese term meaning ‘continuous improvement’

- **Just-in-time** - this stock-control method aims to avoid holding stocks by requiring supplies to arrive just as they are needed in the production and completed products are produced to order

- **Kanban** - Japanese manufacturing system in which the supply of components is regulated through the use of an instruction card sent along the production line

- **Andon** - a manufacturing term referring to a system to notify management, maintenance, and other workers of a quality or process problem

- **Cradle-to-cradle (C2C)** - a manufacturing that seeks to create production techniques that are not just efficient but are essentially waste-free and are truly sustainable.

- **Quality product** - a good or service that meets customers’ expectations and is therefore ‘fit for purpose

- **Quality standards** - the expectation of customers expressed in terms of the minimum acceptable production or service standards

- **Quality control** - this is based on inspection of the product or a sample of the products

- **Quality assurance** - a system of agreeing and meeting quality standards at each stage of production to ensure customer satisfaction

- **Benchmarking** - involves management identifying the best firms in the industry and then comparing performance standards - including quality - of these business with their own business

- **Quality circles** - groups of employees who meet regularly to discuss ways of resolving problems and improving production and quality in their department / organisation

- **Total quality management (TQM)** - an approach to quality that aims to involve all employees in the quality improvement process

- **Internal customers** - people within the organisation who depend upon the quality of work being done by others

- **Zero defects** - the aim of achieving perfect products every time

- **Optimal location** - a business location that gives the best combination of quantitative and qualitative factors

- **Quantitative factors** - these are measurable in financial terms and will have a direct impact on either costs of a site or the revenues from it and its profitability

- **Qualitative factors** - non-measurable factors that may influence business decisions

- **ISO 9000** - this is an internationally recognised certificate that acknowledges the existence of a quality procedure that meets certain conditions

- **Outsourcing** - using another business (a ‘third party’) to undertake a part of the production process rather than doing it within the business using the firm’s own employees.

- **Subcontracting** - the practice of assigning to another business (the subcontractor) part of a contract - for example, a specialist activity that makes up part of a construction contract.

- **Business-process outsourcing (BPO)** - a form of outsourcing that uses a third party to take responsibility for complete business functions, such as HR and finance.

- **Offshoring** - the relocation of a business process done in one country to the same or another company in another country

- **Multinational** - a business with operations or production bases in more than one country

- **Insourcing** - the reverse of outsourcing as it is undertaking a business function or princess within the business rather than contracting it to another business

- **Inshoring** - ending offshoring contracts with overseas suppliers and returning functions or processes to business operations in the home country.

- **Supply Chain** - every business that comes into contact with a particular product - for example, the supply chain for most products will be all the businesses manufacturing parts for the product, assembling it, delivering it and selling it.

- **Stock (inventory)** - materials and goods required to allow for the production and supply of products to the customer.

- **JIT - just-in-time stock control**: this stock-control method aims to avoid holding stocks by requiring supplies to arrive just as they are needed in production and completed products are produced to order

- **JIC - just-in-case stock control**: the stock management strategy that businesses use when they hold a high level of stocks because there is a risk of 'stock-out'

- **Economic order quantity (EOQ)**: the optimum or least-cost quantity of stock to re-order taking into account delivery costs and stock-holding costs.

- **Buffer stocks** - the minimum stocks that should be held to ensure that production could still take place should a day in delivery occur or production rates increase

- **Reorder quantity** - The number of units ordered each time

- **Lead time** - The normal time taken between ordering new stocks and their delivery

- **Reorder stock level** - the level of stocks that will trigger a new order to be sent to the supplier

- **Capacity utilisation** - the proportion of maximum output capacity currently being achieved

- **Full capacity** - when a business produces at maximum output
- **Excess capacity** - exists when the current levels of demand are less than the full capacity output of a business - also known as spare capacity.
- **Productivity** - the ratio of outputs in inputs during production e.g. output per worker per time period
- **Level of production** - the number of units produced during a time period
- **Innovation** - the practical application of new inventions into marketable products
- **Research and Development (R&D)** - the scientific research and technical development of new products and processes
- **Invention** - the formulation or discovery of new ideas for products or processes
- **Intellectual property** - refers to creations of the mind such as inventions, literary and artistic works and symbols, names, images and designs used in business
- **Intellectual property rights** - over the possession and use of intellectual property
- **Copyright** - legal right to protect and be the sole beneficiary from artistic and literary works
- **Trademark** - a distinctive name, symbol, motto or design that identifies a business or its products - can be legally registered and cannot be copied
- **Innovative creativity** - creativity which causes great change within a product. I.e. online banking and insurance, Jet airliners
- **Adaptive creativity** - creativity which is used on a product to change it but in a small manner, usually due to an unmet need, updating it i.e. ATM, iPad Mini

- **Patent** - legal right to be the sole producer and seller of an invention for a certain period of time

- **Contingency planning** - preparing the immediate steps to be taken by an organisation in an event of a crisis or emergency

- **Crisis management** - steps taken by an organisation to limit the damage from a significant, damaging event by handling, containing and solving it
-