Contents

SECTION 1: Business and the environment in which it operates

Chapter 1: What is business activity? 1
Chapter 2: Business objectives 3
Chapter 3: Sole traders, partnerships and franchises 5
Chapter 4: Limited liability companies 7
Chapter 5: Multinational companies 9
Chapter 6: Factors influencing the choice of organisation 10
Chapter 7: Factors of production 12
Chapter 8: Primary, secondary and tertiary activity 14
Chapter 9: Business location 15
Chapter 10: Government influence on businesses – economic policy and regional policy 17
Chapter 11: Government influence on businesses – legislation and other controls 19
Chapter 12: International trade and exchange rates 21
Chapter 13: External influences 23
Chapter 14: Judging success 25

SECTION 2: Human resources

Chapter 15: Internal organisation 27
Chapter 16: Departmental functions 29
Chapter 17: Communication in business 31
Chapter 18: Communication methods 33
Chapter 19: Recruitment and selection 35
Chapter 20: Legislation and human resources 37
Chapter 21: Training 39
Chapter 22: Motivation at work 41
Chapter 23: Financial rewards 44
Chapter 24: Non-financial rewards 46

SECTION 3: Accounting and finance

Chapter 25: Sources of finance – short-term 48
Chapter 26: Sources of finance – long-term 49
Chapter 27: Working capital 52
Chapter 28: Budgets 54
Chapter 29: Cash flow forecasts 55
Chapter 30: Costs 58
Chapter 31: Break-even analysis 61
Chapter 32: The profit and loss account 63
Chapter 33: Balance sheets 66
Chapter 34: The purpose of accounts 68
Chapter 35: Ratio analysis 70

SECTION 4: Marketing

Chapter 36: Markets and the role of marketing 72
Chapter 37: Market segmentation 74
Chapter 38: The marketing mix 76
Chapter 39: Price 77
Chapter 40: Promotion 79
Chapter 41: Place 81
Chapter 42: Product 83
Chapter 43: Market research 85

SECTION 5: Production

Chapter 44: Economies and diseconomies of scale 88
Chapter 45: Methods of production 90
Chapter 46: Productivity 92
Chapter 47: Lean production 94
Chapter 48: Technology and business 95
Chapter 49: Quality 98

Chapter 1

Getting started...

(a) Why do you think Marios and Alexia opened a restaurant?

Marios and Alexia wanted to run their own business. They did not want to work for another employer any more. They probably chose to open a restaurant because they both had experience of working in a restaurant. Alexia as a waitress and Marios as a chef.

(b) State three resources used by Marios and Alexia when setting up their business.

Marios and Alexia used lots of different resources when setting up their business. For example, they needed premises, kitchen equipment such as cookers, refrigerators and cooking utensils, restaurant furniture, people to help out and stationery. They also needed to organise gas, electricity, water, food supplies and a telephone line.

NB Any three of these are acceptable – there may also be others.

(c) Why do you think businesses exist?

Businesses exist to provide goods or services like the restaurant service supplied by Marios and Alexia. These goods and services are sold to customers in the hope that a profit is made for the business owners.

Question 1

(a) What is meant by a non-profit making organisation? (Use this case study.)

Many businesses in the private sector aim to make a profit for the owners. However, non-profit making organisations such as charities, pressure groups, clubs and societies exist for different reasons. For example, charities exist to raise money for ‘good’ causes and draw attention to the needs of disadvantaged groups in society. In this case the Li Ka Shing Foundation is a charity. The Li Ka Shing Foundation does not aim to make a profit. It raises money for education and healthcare projects. However, the foundation also needs to raise money, minimise costs, market itself, and employ staff.

(b) What is the purpose of the Li Ka Shing Foundation?

Non-profit making organisations aim to meet the needs and wants of their members or those which they aim to support. The purpose of the Li Ka Shing Foundation is to develop ‘a culture of giving’ in Chinese society. The money raised by the Li Ka Shing Foundation is channelled mainly into education and healthcare projects. The pie chart shows that 47 per cent and 43 per cent of the foundation’s funds are donated towards education and healthcare projects respectively.

Question 2

Boart plans to scrap the dividend.

(a) Which stakeholder will be affected by this decision?

Dividends are the part of profit paid to shareholders. Therefore the shareholders will be affected by the decision to scrap the final dividend. They will lose money.

(b) How will employees and managers be affected by Boart’s recent actions as a result of the downturn in the mining sector?

Some employees have been adversely affected by Boart’s action. The company cut 2,000 jobs worldwide due to a downturn in the mining sector. The number of people employed in the Asia-Pacific region is currently about 2,600, down from 3,200 in September 2008. Further job cuts in the global workforce are also expected in the first half of 2009.

Boart also imposed a wages freeze which will affect employees. Managers will also be adversely affected because managerial salaries are to be reduced. However, it could be argued that as a result of this action the job security of the remaining employees and managers will be protected.

Chapter review – SurgiCo

SurgiCo make producer goods.

(a) What does this mean?

Businesses provide a wide range of goods and services. Some businesses concentrate on producing products for consumers – ordinary people. These are called consumer goods. Products sold by one business to another are called producer goods. SurgiCo designs and manufactures surgical instruments. These are producer goods because they are sold to other business organisations (hospitals) – not consumers.

SurgiCo is a private sector business.

(b) What does this mean?

Businesses are either private sector or public sector organisations. SurgiCo is a private sector business. This means that it is owned by an individual or group of individuals. The people who own SurgiCo are free to run the business according to their own methods.

(c) Suggest how SurgiCo meets customer needs.

Businesses are more likely to be successful if they satisfy people's needs and wants. Needs are the basic requirements for human survival. Some of these needs are physical and include water, food, warmth, shelter and clothing. If these needs cannot be satisfied humans would cease to exist. Arguably, SurgiCo produce products which satisfy needs rather. They make surgical instruments which are used by surgeons when carrying out minimal invasive surgery. Their products will help surgeons reduce suffering and save lives.

(d) Identify two stakeholders in SurgiCo.

Any two from:

- Shareholders
- Suppliers
- Employees
- Customers
- Local community
- Government

SurgiCo operates in a changing business environment.

(e) Outline what this means.

Most businesses operate in a changing business environment. This means that they may be affected by external factors which are likely to change over time. Such factors include the strength of competition, the economic climate, government legislation, population trends, demand patterns, world affairs and social factors. In this case, SurgiCo might be affected by cuts in government expenditure for example. These are often planned by governments in all parts of the world to help reduce government debt. Such cuts might reduce the demand from government-funded hospitals for SurgiCo's products.

To survive, businesses such as SurgiCo must produce goods and services that satisfy customer needs. They must have clear objectives and recognise that the changing environment can bring both new opportunities and impose new constraints.

(f) Suggest how the objectives of SurgiCo might differ from those of the hospitals which it supplies.

SurgiCo is a private enterprise. The company aims is to be the world's leading supplier of high quality, cost-effective instruments. However, in the private sector businesses try to make a profit for their owners. In 2008, SurgiCo made a profit of $780,000. In contrast, the hospitals supplied by SurgiCo are likely to be public sector enterprises. Public sector organisations do not normally aim to make a profit. They have other objectives such as improving the speed and quality of services or improving the duty of care. In the UK, hospitals often have targets to achieve. For example, they may aim to bring down the amount of time patients have to wait when attending the accident and emergency unit.

Chapter 2

Getting started...

(a) What is **(i)** The Bahrain Central and **(ii)** BA trying to achieve?

(i) The Bahrain Central hotel is trying to increase its profit. The owners want to raise profit from 120,000 to 200,000 Bahraini Dinars.

(ii) BA is currently trying to survive. It has been hit by the recession and made a huge loss of £401 million in 2009. There has been a decline in the number of passengers travelling by air.

(b) Describe briefly the measures being taken by **(i)** The Bahrain Central and **(ii)** BA to achieve their objectives.

(i) To raise profits the hotel manager hopes to cut costs and increase room occupancy by advertising more to businesses.

(ii) BA is taking a number of measures to ensure that it survives. It will ground aircraft, slash seat numbers and postpone buying 12 A380 superjumbos. BA also said it was cutting its summer capacity by 3.5 per cent instead of the original 2.5 per cent.

Question 1

(a) Describe two possible objectives of Thomas Cook.

Thomas Cook is aiming to grow. In its strategy for the future it states that the company hopes to grow overall revenue and profit. The company might also be aiming to be the market leader. It says in the case that Thomas Cook is number one or number two in its core markets.

(b) Do you think Thomas Cook will be concerned about its image and reputation as an objective?

There is nothing in the case to suggest that Thomas Cook is trying to improve its image or reputation. However, Thomas Cook has over 22 million customers and it will not want to lose any of them due to a decline in the company's image or reputation. It is reasonable to assume that such a company will take measures to protect is image and reputation by ensuring that public relations is positive.

Question 2

(a) What objectives are set by public sector organisations? (Use examples from this case.)

Objectives in the public sector tend to focus on improving the quality of customer service. Evidence in this case supports this view. The NHS in England has officially hit its target to treat patients within a maximum of 18 weeks from referral by their GP. The Department of Health said the average wait for treatment for admitted patients is now 8.6 weeks. For example, waiting times for cataract removal operations have halved – from 20 weeks in March 2007 to 10 weeks in January 2009. Waiting times for heart bypass operations have halved from 14 to seven weeks over the same period. Reducing waiting times in the NHS is a way of improving the quality of service.

The National Health Service does not aim to make a profit like private sector health services.

(b) Why is this the case?

In the private sector most businesses aim to make a profit. However, in the public sector profit is not an objective. One reason why the NHS does not aim to make a profit is because the majority of its services are provided free to patients at the point of delivery. The provision of health services is funded from taxpayer's money.

Chapter review – Boston Pizza International

(a) What is meant by a business objective? (Use this case as an example.)

Businesses have objectives. The objectives of a business are the goals or targets which the business wants to achieve. In this case one of Boston Pizza's objectives is to grow the business. This is suggested by the fact that the company has grown sales revenue by an average of 5.7 per cent for ten consecutive years.

(b) Describe the purpose of a mission statement.

A mission statement is a description of the purpose of a business. In this case, the purpose of Boston Pizza is to become a world-class franchisor through selecting and training people to manage an outstanding foodservice business profitably. Mission statements are often directed at stakeholders such as customers, employees and shareholders. The purpose of mission statements is to help a business to focus. The mission statement outlines the general aim of the business and reminds employees about what they are expected to achieve. A mission statement may also provide a plan for the future of the business and make clear to all stakeholders what the business is trying to achieve.

It is suggested that BPI is concerned about is image and reputation.

(c) What evidence is there in the case study to support this view?

In recent years a growing number of businesses have been keen to improve their image and develop a good reputation. For example, Boston Pizza have taken into account the needs of the environment, customers, the local community and employees when making business decisions. In this case, Boston Pizza has donated money to charities and won awards such as Franchisor of the Year 2007. This suggests that the company is proud of its achievements and wants to foster a good public image. If a business has a bad image or poor reputation it may lose customers.

(d) Assess why it is important to a company like BPI to have objectives.

Generally, businesses are more likely to be successful if they set goals or objectives. One specific reason is that people in businesses such as Boston Pizza need something to work towards. Goals help to motivate people. For example, franchisees might get bonus payments if they reach certain sales targets. Another reason is that without aims and objectives franchisees might not have the spark needed to keep the business going. They might lose grip and allow their franchise to 'drift'. This might result in the failure of the business. Setting goals also helps to decide where to take a business and what steps are necessary to get there. For example, if Boston Pizza aims to grow the franchise operation, it might decide that launching it abroad might be an appropriate course of action.

Finally, it is easier to assess the performance of a business if objectives are set. If a business achieves its objectives it could be argued that the business has performed well. For example, if Boston Pizza aimed to grow by 5 per cent each year it will have exceeded its objective and can be considered to have performed well. This is because the company has grown by an average of 5.7 per cent in the last 10 years.

Chapter 3

Getting started...

(a) Who owns the businesses in the above case studies?

Luke Burger is the sole owner of Luke's Kaffeestrube. R & H Photography Services is owner jointly by Andrea Rolton and Gillian Hammond. They are business partners.

(b) State **one** advantage and **one** disadvantage of owning a business with a partner.

One advantage of owning a business with someone else is that more money can be raised when setting up. Andrea and Gillian both put in $AUS20,000 when they set up R & H Photography Services. The burden and responsibility of running the business can also be shared. One major disadvantage is that the profits have to be shared by the partners.

Business owners have to take risks.

(c) What risks are taken in the above case studies?

In both these cases the owners had to risk their own money when setting up and running the business. Luke had to pay 20,000 Namibian dollars when he bought the disused bakery and spent a further 50,000 dollars later to redecorate the cafe. Similarly, Andrea and Gillian both put $AUS20,000 into their photography business when setting up.

Question 1

(a) Use this case study as an example to explain what is meant by a partnership.

A partnership exists when between 2 and 20 people share the ownership of a business. In this case, Mirza and Associates is a small firm of solicitors and there are four partners in the business. All the partners share the cost and responsibilities of running the business. The profits will also be shared by the partners.

(b) How does this case illustrate **one** of the main advantages of partnerships?

One of the main advantages of a partnership is that partners are likely to have different skills and by specialising they can offer clients a wider range of services. The partners in this business each specialise in a specific area of law. Salim Hussain is an expert in property law and deals with property ownership disputes. Tariq Zaman deals with tax and corporate matters for business clients. Nasir Ahmed deals with wills. Finally, Mirza is responsible for the administration of the partnership and deals with criminal cases.

Question 2

(a) How do franchisors make money? (Use this case study as an example.)

Franchisors allow other business operators (franchisees) to trade under their name. They make money by making a charge. There is likely to be an initial start-up fee and then a regular payment from sales each year. In this case Mr & Mrs Idly collect between Rs2,00,000 and Rs5,00,000 from each franchisee when the business is first set up.

(b) Outline **three** advantages to a franchisee of taking out a franchise in Mr & Mrs Idly.

One of the main advantages of taking out a franchise is that risk is reduced. The franchisee is taking on a tried and tested business idea. In this case Mr & Mrs Idly is a recognised vendor of healthy and wholesome snacks. Another advantage is that the franchisor gives a range of support. In this case, the support given by Mr & Mrs Idly includes a market and feasibility study, an established brand name and logo, technical support and exclusive knowhow, operating manuals, access to cheap materials, negotiations and site selection help. Another advantage of operating a franchise is that start-up costs are predictable. This makes budgeting easier.

Chapter review – Marek Jonata

Marek is entrepreneur.

(a) What does this mean?

People who set up businesses are often called entrepreneurs. They are the business owners and without these people businesses would not exist in the private sector. They come up with a business idea, invest their own money and get a business started.

(b) State four roles of an entrepreneur.

- Innovation
- Decision making
- Organising
- Risk taking

Sole traders are unincorporated businesses.

(c) What does this mean?

Some businesses are unincorporated. This means there is no legal difference between the owner and the business. Everything is carried out in the name of the owner or owners. These businesses tend to be small and owned by one or a small group of people. Marek Jonata is a sole trader and runs an unincorporated business.

Operating as a sole trader Marek has unlimited liability.

(d) Explain what this means.

All sole traders have unlimited liability. This is very important because it says something about the risk taken by sole traders. It means that if the business collapses a sole trader is liable for all the business debts. The owner can be forced to meet these debts from personal wealth. It means that a person can actually lose more than was originally invested in the business. In this case, Marek could lose more than the $1,000 he used to buy the boat when he first started trading.

(e) Discuss the advantages and disadvantages of operating as a partnership and suggest whether Marek should take on a partner.

This case highlights one of the main problems with sole traders. It is often difficult to expand because finance is short. Marek wants to buy a new boat to increase capacity and make more money. However, he cannot afford it alone and banks are not prepared to lend him the money. One option is to join forces with a business partner. There are some advantages when operating as a partnership. First, it is possible to raise more finance. In this case Marek needs more finance and has found a colleague willing to invest. Partnerships are also easy to set up because there are no legal formalities. The burden of running the business is shared and partners may be able to specialise. However, there are some disadvantages. All the profit made by the business has to be split between the partners. There is also the possibility that partners may disagree about the way the business is run. This might result in the partners falling out. Also, any decision made by one partner in the business is legally binding on all other partners – even if they did not know about it. It is also worth noting that partners have unlimited liability and tend to be quite small businesses because there is still a limit to how much finance can be raised.

Marek might be well advised to take on the business partner. Although he has reservations, presumably due to the disadvantages of operating as a partnership, he is not likely to be able to afford the new fishing boat on his own. If Marek is worried about the partnership arrangement it might be wise to draw up a Deed of Partnership to help clarify the rights of the partners. This might help to reduce the chances of disagreement.

Chapter 4

Getting started...

(a) **(i)** Who owns limited companies? **(ii)** Who runs limited companies? (Use examples from the case studies.)

(i) Shareholders own limited companies. For example, in the case of Airport to Hotel half of the shares are owned by Hong Kong-based Unifol International, a group of investors. The other half are owned by Paul Stanyer. Also, according to information in the case the Bank of East Asia is owned by shareholders.

(ii) Limited companies are run by directors. For example, the Bank of East Asia is run by the Chairman, Sir David Li, and 17 directors. There is no information about the directors of Airport to Hotel.

(b) Comment on the size of limited companies such as those above compared to sole traders and partnerships.

Evidence in the cases suggests that limited companies are significantly bigger than sole traders and partnerships. For example, Airport to Hotel turned over £8.6million in 2007. Not may sole traders would enjoy this revenue. The Bank of East Asia is very large. It employs over 10,000 people worldwide and in 2008 turnover was HK$6,793 million.

Question 1

(a) Who controls the Bestway Group?

Bestway is a private limited company which means it is owned and controlled by the shareholders. The majority of the company, 66 per cent, is owned by Sir Anwar Pervez and his family. The rest of the company, 34 per cent, is in the hands of managers. Therefore, Sir Anwar Pervez and his family are able to control the company because they have the majority of the shares.

(b) Analyse two advantages to Bestway of operating as private limited company.

Private limited companies such as Bestway enjoy a number of advantages. One significant advantage is that Bestway cannot be taken over by outsiders. This is because the shares are not on open sale. Shares in private limited companies cannot be transferred without the consent of the other shareholders. They cannot be bought on the stock market. Only shares in plcs can be traded on the stock market. Therefore, Bestway is safe from predators.

Another advantage is that all of Bestway's shareholders have limited liability. This means that they can only lose the amount of money they originally invested in the company if it were to collapse. Bestway shareholders cannot be made to use personal wealth to pay off business debts. Limited liability means they enjoy legal protection from business creditors.

Question 2

(a) Using this case as an example, explain what is meant by a joint venture.

A joint venture is where two or more companies share the cost, responsibility and profits of a business venture. In this case, Fiat, the Italian car maker has formed a joint venture with Guangzhou Automobile Group (GAC). They plan to manufacture cars and engines in China from 2011. They will both invest €400m in the venture and build a large production plant in Hunan province.

(b) Outline two advantages of joint ventures.

There are a number of advantages of joint ventures. They allow companies to enjoy some of the advantages of mergers, such as growth of turnover, without having to lose their identity. For example, in this case, Fiat and GAC will still continue trading as companies in their own right. Businesses can specialise in a particular aspect of the venture in which they have experience. For example, Fiat might provide the expertise in car manufacturing while GAC may provide a good distribution network for the vehicles.

Chapter review – homeofficeplus.com

Nathan's Home Offices Ltd is a private limited company.

(a) What evidence is there to support this view?

The names of private limited companies end with 'Limited' or 'Ltd'. Therefore Nathan's Home Offices Ltd is clearly a private limited company. Also, the business has a number of shareholders. These include Nathan and other family members.

When Nathan's Home Offices Ltd was formed, Nathan had to produce a Memorandum of Association.

(b) What information would this document contain?

A Memorandum of Association gives important details about the company. Examples include the name of the company, the name and address of the company's registered office, the objectives of the company and the scope of its activities and the amount of capital to be raised and the number of shares to be issued.

(c) What is the purpose of a prospectus?

When 'going public' a company is likely to publish a Prospectus. This advertises the company to potential investors and invites them to buy shares before a flotation. It is a promotional document but the information it contains must be legally accurate.

Share issues have to be underwritten.

(d) What does this mean?

There is a chance that when going public some of the shares put up for sale will remain unsold. To overcome this problem an underwriter is paid a fee to buy up any unsold shares. It is like an insurance policy.

(e) Outline why going public is expensive.

'Going public' can be expensive because of the number of costs involved. These include legal costs to ensure that the prospectus is 'legally' correct. Lawyers have to read and analyse all the information in the prospectus to ensure that potential investors will not be misled. There are the costs of printing and circulating the prospectus and also an administration fee which must be paid to a bank for processing all the share applications. There are also underwriting, advertising and administrative expenses.

(f) Discuss whether Nathan should convert his business to a public limited company.

Nathan Edwards wants to convert his private limited company into a public limited company. It is unlikely that Nathan will be able to raise $10 million in any other way to meet the high cost of developing an online business and expanding into Eastern Australia. Therefore, he would need to 'go public. Going public is a way of raising large amounts of money. Another advantage is that Nathan's business may be able to exploit economies of scale if it is much larger. There might be significant purchasing economies when buying office furniture from suppliers, for example. The new company, homeofficeplus.com, might also benefit from the publicity usually associated with 'going public'. Public limited companies have a higher profile than any other form of business organisation and as a result they may have more recognition which might boost sales. This would be important when expanding into the whole of Eastern Australia and launching a new service.

However, Nathan should consider the disadvantages before making his final decision. Public limited companies are more tightly regulated to protect investors. They also have to publish more detailed financial information which competitors might see. Nathan's business could also be taken over by another company because shares can be bought by anyone. Finally, the costs of going public are significant and some of the $10 million will be used up in the flotation process. Despite these disadvantages, if Nathan wants to raise $10m and become a large supplier in Eastern Australia, he would need to operate as a plc.

Chapter 5

Getting started…

(a) What do you think is meant by a global market?

This is the largest possible market because a firm hopes to sell its products to consumers in all countries in the world.

It is suggested that the US is becoming less important in the global car industry.

(b) What evidence is there to support this view?

Fifty years ago the global car industry was dominated by three US car makers, GM, Ford and Chrysler. But from the 1980s, their market share fell as Japan entered the global market. Now their share of their home market in the US has declined dramatically as new, leaner producers like Toyota have entered the market. GM and Ford are cutting thousands of jobs and closing plants, while Toyota is building one new plant each year. Toyota is worth 10 times as much as GM and is now the world's largest carmaker. Figure 5.1 shows that the US now produces fewer cars than it sells. On the other hand, in Asia, more cars are produced than are sold. The US has lost its dominance in the global car industry.

(c) State one possible reason why car production is rising in Asia.

One reason why car production might be rising in Asia is because labour costs are so low in this region. International car manufacturers might be locating an increasing number of car plants in Asia to help reduce their production costs.

Question 1

HSBC is a multinational.

(a) What evidence is there to support this view?

Multinationals are large and powerful corporations. They sell goods and services into global markets and have production plants and other operating facilities all over the world. In this case, HSBC is one of the largest banking and financial services organisations in the world. There are 9,500 offices in 86 countries in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. In 2008, the turnover of HSBC was nearly £50 billion and over 300,000 people were employed across the world. HSBC is clearly a multinational.

In common with many other banks, HSBC offers an online banking service.

(b) How would this help the company to reach the global market?

Most banks now offer online banking services. This means that people can carry out banking transactions using their own computers. Online banking will help companies like HSBC reach global markets. This is because customers can access their accounts anywhere in the world. Customers do not necessarily have to live in the country where they opened an account. Banks like HSBC can also advertise their services cheaply on the internet to a global market.

Question 2

(a) How might the following benefit from Coca-Cola locating a bottling plant in their country? **(i)** residents; **(ii)** the government.

(i) Multinationals create new jobs in developing countries. Residents often benefit when a multinational such as Coca-Cola locates a production facility on its doorstep. For example, in this case locals will benefit from jobs created in the large bottling plant. Local suppliers are also likely to get work when a multinational invests in a project. The extra output and employment resulting from new business developments will increase economic growth and may raise living standards for people in these countries.

(ii) The government benefits from multinationals locating in their country because they collect tax revenue. Multinationals such as Coca-Cola have to pay taxes and other fees when building plants and running operations abroad. Also, the output generated by a multinational in a foreign country is recorded as output for that country. Therefore, if this output is sold out of the host country it is counted as an export. This helps less developed countries to increase their foreign currency reserves.

Chapter review – Newmont Mining Corp

(a) What is meant by a multinational? (Use this case study as an example.)

A multinational is a large business organisation which has production and other operating facilities in several different countries in the world. In this case, Newmont Mining Corporation has operations in the United States, Australia, Peru, Indonesia, Ghana, Canada, New Zealand and Mexico. The company also employs approximately 34,000 employees worldwide.

(b) How do you think Newmont's shareholders have benefited from its involvement in other countries in the world?

By selling in different markets all over the world, multinationals can boost their sales.

Figure 5.4 shows that Newmont's revenue in the last five years has increased from $4,222m to $6,199m. This is an increase of nearly 50 per cent. The shareholders may have benefited from this because profits and dividends may have been higher.

(c) State two reasons why multinationals such as Newmont are created.

- Economies of scale
- Marketing

(d) How has Indonesia benefited from Newmont's business ventures in the country?

Countries may benefit from multinationals setting up plants in many ways. Increased income, employment, tax revenue and exports are the common benefits, In this case, Newmont claims that over a seven-year period one mine (now closed) paid the Indonesian government $500 million. Another Newmont mine currently pays around $35.90 million a year in taxes and other fees to the government. In addition, Newmont says it buys $183 million of goods and services from Indonesian businesses, pays $55 million to Indonesian employees and spends $2.3 million in community development.

(e) Analyse the disadvantages to Indonesia of Newmont's business developments in the country.

Sometimes, multinationals can have a negative impact on countries. In this case, some workers lost their lives in the mines which suggest that health and safety standards may have been low. There was also contamination of lakes in Sulawesi, a loss of water for farming and damage to forests in Sumbawa. Also, in March 2006, a number of protestors were shot by police near the site of one of Newmont's mines. The protests centred on Newmont's exploration activities in forests by the main mine site on Sumbawa. Local people want the company to leave and say that exploration has brought environmental damage and loss of livelihood. They have been prevented from going into the forests to collect honey, candlenut and palm sugar. The water supply has decreased, and crops such as rice, squash and cucumber have failed because of a drought. Clearly, in this case, Newmont Mining Corporation has had both a positive and a negative impact on Indonesia.

Chapter 6

Getting started...

Marco Valdez is happy operating as a sole trader.

(a) Give two reasons why he might be happy.

- He likes the independence of operating as a sole trader.
- He has no real desire to expand and therefore does not need to raise any more capital.

(b) Why could Cemex not really operate as a sole trader?

Cemex is a large multinational. It is a global building materials company serving customers and communities throughout the Americas, Europe, Africa, the Middle East, Asia, and Australia. Cemex could not operate as a sole trader. The company has grown steadily over the last 100 years and no doubt has needed injections of capital to fund this growth. There is no way a sole trader could provide funding on such a scale. Mutlinationals need to be plcs to attract funding and enjoy a high international profile.

(c) Why might businesses in general be forced to change their legal status as they grow?

The main reason why businesses need to change their legal status as they grow is to attract funding. Businesses will find it very difficult to grow as a sole trader or partnership. They are considered too risky for many investors and often struggle to raise finance. Businesses usually have to raise money by selling shares to become large operators.

Chapter review – ADgirlsports.com

(a) Why was a sole trader organisation suitable for Amanda's business when she first started?

Most small businesses when they start are sole traders. Provided large amounts of money are not needed, this type of organisation is suitable because it is easy to set up and the owner is in complete control. Amanda said 'When I started, I started small, operating from home, and never needed outside funding, so being a sole trader seemed the simplest option.'

(b) **(i)** Why did Amanda form a partnership?

After trading successfully from her home as a sole trader for three years, Amanda decided to open a shop. However, she needed money for premises, stock and marketing. Also, after a few months there was a strain on cash flow. Therefore she decided to take on her best friend as a partner. This helped to share the burden of running the business and injected $20,000 much needed cash.

(ii) Outline the importance of drawing up a Deed of Partnership when forming a partnership.

A Deed of Partnership is often drawn up when a partnership is formed. It is a legal document and states clearly the rights of the partners. In this case, Amanda did not draw up a Deed of Partnership and she suffered as a result when her partnership was dissolved. In her own words Amanda said 'I was a fool really. I should have drawn up a Deed of Partnership to clarify everything in case we disagreed.'

Amanda formed a private limited company after the break-up of the partnership.

(c) Do you think it was appropriate?

After the break-up of the partnership Amanda was right to form a private limited company. This type of organisation helped Amanda to achieve her objectives. Amanda now has control of the business. This is because she has 51 per cent of the shares. Her mother bought 29 per cent and she allowed two of her best staff to buy the remaining 20 per cent. However, with 51 per cent no-one can overrule her. Amanda sold shares to her employees to raise more money for the business. However, another reason was because she wanted to reward them for their loyalty and keep them motivated. Finally, Amanda needed more capital to expand the business. Some of the money raised from selling shares was used to set up an online business.

(d) Discuss whether Amanda should form a public limited company to buy the shops.

Going public is a big step for a business. It is an expensive move because of the costs involved such as producing a prospectus, administration, legal costs and underwriting fees. There is also the danger that trading as a plc means anyone can buy shares in the company. This means that an outsider could take over the company. The business would also have to disclose more financial information to the public and meet the cost of stock market regulation. However, Amanda has a firm objective. She wants to take the business to the next stage of development. Her online business is expanding fast and Amanda also thinks she could develop a small chain of shops. A major sports retailer has recently put a number of stores up for sale. To buy, convert and stock them would cost $5m. By going public Amanda could raise this sort of money and achieve her objective.

However, Amanda might need to consider other approaches. She could grow more slowly and fund growth from profits. She may be able to borrow money from banks. Alternatively she may be able to persuade some other entrepreneurs to invest in her business. All these options would need to be considered before she finally decided to go public. However, if a flotation was successful, it would allow Amanda to achieve her objective.

Chapter 7

Getting started...

(a) Identify four resources used by JCB.

In this case study JCB use resources such as metal, glass, paint and a wide range of components such as engines, braking systems, control systems and hydraulic units. The company will also employ workers such as assembly workers, engineers and office staff. Machinery such as a laser cutters, presses, drills, paint sprayers will be used in the factory. JCB will also use energy such as gas and electricity.

NB Any four are acceptable – there may also be many others.

(b) To what extent do you think JCB relies on the use of machinery in its production of construction equipment?

JCB probably uses a lot of machinery in its production processes. JCB has a reputation for innovation and high quality products. It has some of the finest engineering facilities across the globe. This suggests that the company relies heavily on production methods that use hi-tech machinery.

Question 1

(a) State two examples of capital that Alonso will use.

Examples of capital used by Alonso which are mentioned in the case include the 50-seater coach, mobile phones, office furniture and a computer.

NB Any two of these are acceptable – there may be others.

Alonso Cortez is an entrepreneur.

(b) What evidence is there in this case study to support this view?

Entrepreneurs are responsible for setting up and running small businesses. Alonso has set up a bus company to provide a passenger transport service from Madrid city centre to the airport. This was his idea and he owns the business. This is a feature of entrepreneurship. Alonso has also taken some risk. He has invested €40,000 of his own money. If the business is not successful he stands to lose some, or all, of this money. Alonso also organises other production factors. He has purchased some capital and hired two drivers to help him out.

Question 2

(a) What is meant by the division of labour? (Use an example from this case study.)

Workers are likely to specialise in certain tasks and skills. This is called the division of labour and allows people to concentrate on a limited range of tasks. The three workers for Dublin Construction Company are all specialists. They all focus on one particular job for the company. Brendan is a bricklayer, Mary is an electrician and Ahab is a plumber. Each of them possesses specialist skills which are needed to do their jobs. These have taken time to develop.

(b) How might such specialisation benefit Dublin Construction Company?

Dublin Construction Company will benefit from employing specialists. When people specialise their productivity is higher. This is because the quality of work is likely to be better. They focus on the same limited range of tasks or skills and become very proficient. Specialist workers are usually better trained and more experienced in the specific tasks they undertake. This means the company can operate more efficiently and offer customers a higher level of workmanship.

Chapter review – Dragon Toys

(a) What is meant by production? (Use this case study as an example.)

Production involves converting resources into goods or services. These goods and services are provided to satisfy the needs and wants of people. In this case, production involves using a factory, plastic, a moulding machine, other components and workers to produce plastic toys for children.

Yang Chen is an entrepreneur.

(b) Outline his role at Dragon Toys.

Without entrepreneurs businesses like Dragon Toys would not exist. Entrepreneurs are the business owners. In this case study, Yang Chen came up with the business idea to produce small plastic toy tractors using a simple moulding machine. Yang Chen is the sole owner of Dragon Toys. He is in complete control of the business and is responsible for its direction. Entrepreneurs are also risk-takers. They risk their own money in a venture. In this case study, Yang Chen risked $10,000 of his own money. When he first set up the business there was a chance that Dragon Toys would not succeed in which case Yang Chen could have lost some, or all, of his money. Finally, entrepreneurs are responsible for organising. Yang Chen will have to buy and hire resources such as raw materials, tools, equipment and labour. He will also need to use skills such as decision-making, people management, time management and financial judgment to organise resources effectively.

(c) Suggest two examples of land used in production at Dragon Toys.

Dragon Toys has a factory which is located on a plot of land. However, the main material used is plastic, which is an oil-based material. Other components used when producing pedal tractors might be made of metal.

NB Any two of these are acceptable – there may also be many others.

(d) What might be the drawbacks of labour specialisation at Dragon Toys?

At Dragon Toys workers are likely to specialise in certain tasks and skills. This is called the division of labour. It allows people to concentrate on a limited range of tasks and helps to improve efficiency in the business. However, specialisation does have drawbacks. For example, work can become tedious and boring because of repetition. This may be the case at Dragon Toys. This is because operating moulding machines may not be very interesting. Once trained, the workers may find the job boring. Also, when one stage of production depends on another, there may be delays if one stage breaks down. For example, if the moulding machine breaks-down, this might hold up production completely. This would be expensive for Dragon Toys.

Production at Dragon Toys is labour intensive.

(e) What does this mean?

Production may be labour intensive or capital intensive. At Dragon Toys production is said to be labour intensive. This means that the production methods used in the factory rely heavily on people. Although a moulding machine is used to produce plastic components at Dragon Toys, a lot of workers are employed in the assembly area. The business will employ another 200 people when production begins on a new product.

'Production at Dragon Toys is likely to become more capital intensive in the future.'

(f) To what extent is this statement true?

I agree with this statement. Over time the types of resources used by a business, and the way they are used, are likely to change. For example, rapid advances in technology have resulted in more capital intensive production worldwide. Workers in a wide range of different jobs are likely to use computers today. Fifty years ago computers were undeveloped and not widely used. There is also more large-scale production because it is more efficient. This often results in more capital intensive methods and a greater division of labour. In the future developments in technology are likely to continue or even accelerate. Therefore production is likely to become more capital intensive. However, if labour costs remain low in some countries, such changes are likely to be slower.

Chapter 8

Getting started...

(a) Which of these businesses are concerned with **(i)** agriculture **(ii)** manufacturing **(iii)** services?

(i) The farm shown in the photograph is an example of a business involved in agriculture. It is using the land to grow produce.

(ii) The business producing computers is a manufacturer. It is making products.

(iii) Both the shops in the shopping mall and the airline are businesses which supply services. The first is a retailer and the second provides an air transport service.

(b) Which of these businesses are **most likely** to be common in **(i)** Africa **(ii)** Western Europe?

(i) In less developed countries most businesses will concentrate on the production of agricultural products. Therefore the farm shown in the photograph is most likely to be the most common type of business in Africa.

(ii) In developed countries such as the US, the UK and France, the majority of businesses provide services. Therefore, retailers and businesses providing air transport services are most likely to be common in Western Europe.

Question 1

(a) What is the difference between the primary and the tertiary sectors? (Use examples from this case study.)

The primary sector is concerned with the extraction of raw materials from the earth. The main activities in this sector include mining, quarrying, fishing forestry and agriculture. In this case, Jill and Ronnie Sanchez are farmers producing agricultural products. They grow root vegetables which is an example of primary production. The tertiary sector is concerned with the provision of services. In this case, the shops and supermarkets supplied by Jill and Ronnie Sanchez, are retailers. Retailing is an important activity in the tertiary sector.

Look at Figure 8.3.

(b) What has happened to the number of people employed in agriculture in the UK since 1960?

There has been a sharp fall in the number of people employed in agriculture since 1960. In 1960, 1,118,000 people were employed in the agricultural sector. In 2007, this had fallen to 402,000.

(c) Outline **one** possible reason for the pattern described in **(b)**.

One of the main reasons why employment in agriculture has fallen in the UK so sharply is because of advances in technology. In the 1970s, Jill and Ronnie employed up to 12 workers, however, due mainly to mechanisation they now only employ three. Developments in technology have been enormous in agriculture. The harvesting machine shown in the photograph is an example. Once such machines have been purchased, the need for labour drops sharply.

Chapter review – Business sectors

(a) What is meant by **(i)** secondary and **(ii)** tertiary production? (Use examples from the case study.)

(i) In the secondary sector business activity involves converting raw materials into finished or semi-finished goods. All of manufacturing, processing, and construction lies within this sector. In this case, VT Garments is a manufacturer. It makes a range of jackets such as padded jackets, ski jackets and unlined jackets; pants; shorts; bermudas; jogging suits; training suits and T-shirts.

(ii) Production in the tertiary sector involves the provision of services. In this case, the Spanish bank Banco Santander provides financial services for its customers. It is the third largest bank in the world (by profit).

Look at Figure 8.6.

(b) Which nation relies most on the secondary sector for its output?

Thailand relies most on the secondary sector for its economic output. Nearly half of its entire output (46 per cent) comes from the secondary sector. This compares with 29 per cent in Spain and 25 per cent in Uganda. VT Garments, a clothing manufacturer, is an example of a business in Thailand that operates in the secondary sector.

(c) Explain the interdependence that exists between the different sectors of business activity.

Businesses in each of the three sectors rely on each other. For example, in the primary sector cereal farmers rely on bakers in the secondary sector for their sales of wheat. Bakers may depend on advertising agencies in the tertiary sector to produce television adverts for their products. The transport industry in the tertiary sector relies on the oil industry in the primary sector to provide fuel for its vehicles. Workers in both the secondary and tertiary sectors rely on the primary sector for their food. This reliance between sectors is called interdependence.

(d) **(i)** What is meant by de-industrialisation?

De-industrialisation occurs in well-developed countries such as the UK, US, Germany, Japan and France. It involves the decline of the manufacturing sector at the expense of the tertiary sector. In the last 20 or 30 years many western style economies have seen employment in manufacturing fall sharply. However, at the same time there has been a consistent increase in the quantity and value of services.

(ii) Which of the countries in Figure 8.6 have been subject most to de-industrialisation?

The country with the best developed tertiary sector will have been subject to the most de-industrialisation. According to Figure 8.6 Spain has experienced more de-industrialisation than the other two countries. The amount of output contributed by the tertiary sector is 68 per cent in Spain. This compares with 44 per cent in Thailand and 42 per cent in Uganda.

(e) Evaluate the main causes of de-industrialisation.

De-industrialisation occurs in well-developed countries. Several suggestions have been made to explain the process. There may have been a change in consumer demand. People may prefer to spend more of their income on services rather than manufactured goods. For example, people may be spending more on holidays, restaurants, travelling and personal services and less on consumer durables. Competition in manufacturing may be another important reason. Recently there has been fierce competition in the production of manufactured goods from developing countries such as India, China, Thailand and Brazil. These countries can often produce manufactured goods more cheaply than in western economies. Another reason is that as countries become more developed the public sector tends to grow. Since the public sector mainly provides services such as education and transport and healthcare, this adds to the growth of the tertiary sector. Finally, advances in technology means that employment in manufacturing falls because machines replace people. The reason for the decline in manufacturing in well developed countries may be different depending on the circumstances of the individual nation. For example, a country which has an inefficient manufacturing sector may be vulnerable to overseas competition.

Chapter 9

Getting started...

(a) Outline two factors that must be taken into account when locating a prawn farm.

Prawn farms need clean water and soil. They need water which can be introduced into the ponds throughout the rearing period. Also, farms should be located away from cities, harbours and industrial centres, or any other activities which may pollute the water supply. There must also be enough soil available for pond construction and it is preferable to site the farm where the soil is fertile.

(b) Describe how the changing business environment affected Matisse Textiles when locating their factory.

The changing business environment may affect the location decisions made by some businesses. In this case, Matisse Textiles has decided to move production from Lyon to Bangladesh. This is because labour is now much cheaper in Bangladesh. Matisse Textiles are trying to cut costs by 40 per cent and by moving production to Bangladesh the business can take advantage of lower wages. In Bangladesh factory wage rates are only about 25 per cent of those in France.

Question 1

GYMCL located its new factory in the heart of the Xiamen Automobile Industry City in Guannan Industrial Park.

(a) Discuss possible reasons for this decision.

When locating factories manufacturers need to consider factors such as the costs of land, transport, labour and skills, proximity to the market and whether there is any government help. In this case, GYMCL located a factory in the heart of the Xiamen Automobile Industry City in Guannan Industrial Park, a short distance away from the Xiamen Port. GYMCL believed that the factory is well located in a major hub for auto-parts, bus and construction equipment. Its location will help to increase scale and location to shorten the supply chain and lower production costs. It is also believed that the location will help improve GYMCL's competitiveness and strengthen its customer relations. These are the reasons why GYMCL located its factory in Xiamen.

Question 2

The government can have an impact on business location.

(a) How does this case study illustrate this impact?

Governments can provide both opportunities and constraints for businesses when they locate their operations. In this case Vedanta Resources was constrained by the government. Plans to develop a bauxite mine on sacred tribal land in India were blocked. India's environment ministry prevented Vedanta Resources from mining aluminium ore in the eastern state of Orissa. A government enquiry said that mining would destroy the way of life of the area's 'endangered' and 'primitive' people, the Kutia and Dongria Kondh tribes.

(b) How was Vedanta Resources affected by the government's decision?

Immediately after the decision was announced shares in Vedanta Resources fell by about 6 per cent. This wiped almost £300m off the value of the company. The decision means that Vedanta will be prevented from generating quite a lot of revenue from mining at the site in India. The company will also have lost money during the exploration of the site.

Chapter review – CompComp

The German company CompComp wants to locate a factory in south-east Asia.

(a) What is the reason for this?

CompComp is growing fast and has plans to build a new factory in south-east Asia. It has an increasing number of customers in China, South Korea, Japan and India. Building a factory closer to important customers will reduce transport costs and improve supply links. Customers may also feel valued if suppliers locate operations closer to them.

Governments may try to influence business location.

(b) Suggest two reasons for this influence.

A government might try to influence business location decisions for three reasons.

- To avoid congestion where there is already enough or too much development.
- To encourage firms into regions where there is a lack of business development and where unemployment is high.

(c) What is meant by a brownfield site?

Brownfield sites are popular location sites for businesses. A brownfield site is land that has been earmarked for business development and has been cleared of unused or discarded commercial properties.

(d) Analyse two factors that must be taken into account when locating operations overseas.

When businesses locate operations overseas a number of additional factors have to be taken into account. Some businesses locate overseas to avoid trade barriers. If a business produces goods in an overseas country it will not be subject to their tariffs or quotas because the goods would not be exports. Some businesses may be attracted to a particular country or area if financial incentives are offered to locate there. For example, in this case, CompComp might get $500,000 from the South Korean government if they locate their new factory in Busan. A major overseas attraction for many is cheap labour. Labour is so cheap in certain Asian countries that production methods tend to be labour-intensive rather than capital-intensive. This can save companies a lot of money.

Other factors that might be taken into account when locating overseas include the exchange rate, the political situation, language barriers and proximity to existing and new markets.

(e) Which site do you think CompComp should choose for its new factory?

Much of the information in Figure 9.3 suggests that Busan would be the best location for CompComp's new factory. Busan can offer a number of financial advantages. The average hourly wage rate in Busan is only $3.60 compared to $4.20 in Shanghai. Monthly rent in Busan is also lower – $17,500 compared to $20,000 in Shanghai. Over a long period this would represent quite a difference in costs. The government in South Korea are also prepared to give CompComp a $500,000 lump sum if they locate in Busan. This would help meet some of the setup costs.

There are also other reasons for choosing Busan. Unemployment is higher in the Busan region. This means that the pool of labour available to CompComp is greater. Busan is also offering a purpose-built location on a brownfield site. This might be attractive to CompComp.

Both locations are in a good position to serve the south-east Asian market. Both locations have established ports, which means goods can be distributed easily. It could be argued that Shanghai is a more high profile location. Shanghai is the largest centre of commerce and finance in mainland China, and has been described as the 'showpiece' of the world's fastest-growing major economy. It is a high profile business centre and has excellent communication links. However, with a population of over 20 million the city is becoming congested and suffers from serious pollution problems. The only real problem with Busan is that CompComp might find it difficult to get reliable, high quality suppliers. This might affect production. However, all other factors suggest that Busan is the best location.

Chapter 10

Getting started...

(a) How might a restaurant benefit from the reduction in VAT?

A fall in VAT should allow the restaurant to charge lower prices. As a result demand might increase and the restaurant should enjoy more custom.

(b) How might a house builder be affected by the cut in interest rates?

Most people buy houses using a mortgage. So if interest rates are lower the cost of buying a house will be lower. Therefore, demand for houses should increase and house builders will benefit.

(c) What effect might the 'scrap and save' scheme have on a motor car manufacturer?

The 'scrap and save' scheme should help a car producer during the recession. Demand for new cars should increase so jobs at a factory should be more secure as demand rises.

Question 1

It is suggested that Singapore went into recession in 2008–2009.

(a) What evidence is there in Figure 10.4 to support this view?

The bar chart shows that unemployment has risen in Singapore from 1.9 per cent in April 2008 to 3.2 per cent in April 2009. This suggests that the economy in Singapore is beginning to struggle because a recession results in rising unemployment.

(b) How might a Singapore holiday company selling luxury cruises react to the pattern shown in Figure 10.4?

A Singapore company selling luxury cruises is likely to struggle when unemployment rises. Demand for non-essential goods and services are likely to fall. The company might react by scaling down its operations. They may lay off staff and find ways to cut costs.

Question 2

(a) How will the tax measures introduced in New Zealand support businesses?

In 2009, the New Zealand government announced some tax changes to help businesses. They were expected to save small and medium-sized businesses $480 million over four years. The changes were also designed to help businesses manage their cash flows. They allowed businesses to hold tax money for longer and reduced tax administration costs. They also reduced interest rates on underpaid and overpaid tax.

(b) Why do businesses prefer lower taxes?

Lower taxes are better for businesses than higher taxes. For example, if income taxes are lower consumers will have more disposable income and demand will be higher. Also, if taxes on business profits are lower businesses will have more profit to invest. Lower taxes improve the incentive to work and set up businesses.

Chapter review – Government influences on businesses

A manufacturer is considering the construction of a new warehouse.

(a) How might the decision be affected by the 2009 budget measures?

The budget measures announced in 2009 may affect the decision whether or not to build a new warehouse. This is because one of the measures was designed to help businesses that plan to invest. Tax allowances on investment were increased. These allow businesses to reduce the cost of investment. Consequently the manufacturer is more likely to go ahead with the construction.

Some businesses have foreign investors.

(b) How might these be affected by the budget?

One of the measures announced in the budget was designed to help businesses with foreign investors. Dividends paid by multinational businesses to foreign investors will be exempt from tax. This measure will help businesses to attract more investment from overseas because the dividends that foreign investors earn will be exempt from tax. This will increase their return from investment in multinationals, for example.

(c) Outline the role of the government when managing the economy.

When managing the economy the government has certain objectives. One of its main objectives is to increase economic growth. This is because average living standards will rise. The government will also try to keep inflation down. Inflation can harm the economy because business costs will rise and people will have to pay more for goods and services. Reducing unemployment is also an important aim. Unemployment is bad for the economy because it is a waste of resources. Also, the government has to pay benefits to the unemployed which is an expensive use of taxpayers' money. The government might also control the balance of payments. There may be concern if imports are much higher than exports. Finally, governments might try to close the gap between the rich and the poor. It is not desirable if some groups in society are very poor while others live in luxury. It can lead to social problems such as crime, poverty and homelessness.

(d) Analyse why businesses prefer lower interest rates.

Businesses will prefer interest rates to be lower than higher. This is because high interest rates can damage business activity. When interest rates rise business costs will also rise because interest charges on current loans and overdrafts increase. This will reduce profit.

The purchase of new machines and other capital goods funded by borrowed money is discouraged because it is more expensive. This will stifle the development of businesses and make them less efficient. Consumer demand will fall because people's mortgage payments rise and they have less income. Also, demand for goods bought with borrowed money will fall because consumers will find such purchases more expensive.

Changes in the interest rate will have a bigger impact on those businesses which have lots of debt and those which produce goods bought with borrowed money.

(e) Evaluate the need for government intervention in the economy.

Governments do need to intervene in the economy for a number of reasons. First, the pattern of economic growth is uneven. For example, if growth is too fast there is a danger of inflation. The government needs to take measures to reduce inflation because it is harmful. If prices rise too quickly business costs rise and people's spending power is reduced. On the other hand if economic growth becomes negative the government will need to step in and 'kick start' the economy. A recession will result in higher unemployment and difficult trading conditions for businesses.

Governments often have to intervene to protect people and the environment from businesses. For example, employees may need protection to ensure they are provided with a safe working environment and not exploited. Consumers may need protection from businesses if the businesses become too powerful. A monopoly may be developed which means there will be very little competition. As a result the businesses might raise prices and exploit consumers in other ways.

Some business activity may damage the environment. For example, a business might lower its costs by discharging untreated waste into a river. This could kill all plant and animal life in the river. There is a genuine need for government intervention in the economy.

Chapter 11

Getting started...

(a) How have customers been affected in this case?

The victims of cartels are usually customers. They end up paying higher prices or having their choice restricted. In this case, the European Competition Commission said these companies cheated the car industry and car buyers in a market worth €2 billion in the last year of the cartel. So it was car manufacturers and ultimately car buyers who were the victims of illegal practices.

(b) How have the authorities influenced businesses in this case?

In this case the European Commission has investigated reported cases of consumer exploitation. They found that four firms were guilty of running a cartel in the market for vehicle glass. The commission also imposed fines totalling €1.38 billion on the four companies involved. The cartel has been smashed and the named businesses will now have to compete fairly in the market.

Question 1

(a) Outline how consumers are being exploited in this case study.

In this case consumers are being exploited by restaurants and cafes. Customers are being charged an extra service charge on top of their bills. These service charges are often between 5 and 20 per cent extra. According to consumers most restaurants are said to be using this practice.

(b) How has the government influenced businesses in this case study?

In this case, restaurant businesses in UAE have been restricted in their activities. In January 2010, all restaurants and cafes in UAE were ordered to stop adding any service charges to their bills. The Director General of the Ministry of Economy confirmed that it was illegal for non-tourist restaurants to add service charges. Restaurants and cafes operating inside hotels and those paying taxes to the local governments are the only exception. It was also said that inspection teams will be employed to ensure that the law was not broken. This government action might reduce the turnover and profitability of some restaurants. However, on the other hand, consumers will benefit and this might increase demand.

Question 2

(a) Describe the impact that this accident has had.

In this case, Thames Water has had a negative impact on the environment. The business was responsible for polluting the River Wandle when sodium hydroxide was released into the river. Over 7,000 fish were killed on a stretch of the river which is a popular fishing spot. Thames Water said the destruction of the river had been caused by a 'juvenile' error.

(b) How has the government intervened in this case?

In this case, the government, or an agent on behalf of the government, took Thames Water to court. Thames Water had failed to comply with some environmental legislation which was introduced to discourage pollution and penalise those who break environmental laws. Thames Water was prosecuted for their act of pollution. Although they claimed it was an accident (a juvenile error) they admitted liability and were fined. Thames Water was fined £125,000 and ordered to pay £21,335 in costs after having pleaded guilty to polluting the River Wandle.

Chapter review – Seattle Logistics

(a) (i) Why do governments impose minimum wages?

Governments impose minimum wages to protect low paid workers. If a minimum wage is imposed it means that no employer is allowed to pay a wage rate which is below the minimum wage. This helps to raise the incomes and living standards of those in poorly paid jobs.

(ii) How has employment legislation influenced Seattle Logistics?

In this case the minimum wage legislation means that Seattle Logistics must pay all their workers at least $8.55 per hour. This is the current minimum wage in the US. However, the owner of Seattle Logistics reckons that he could get away with paying labourers just $6 per hour. This means that the wage bill for Seattle Logistics will be higher and therefore profits will be lower.

(b) (i) How does the graph in Figure 11.4 support President Obama's view that there should be a cap on carbon emissions?

The graph in Figure 11.4 shows that emissions from transportation have risen steadily between 1990 and 2007. The rise is about 30 per cent. There is a fall in 2008, however, which may have resulted from the recession. This increase in emissions from transportation does support the view that a cap should be placed on carbon emissions. If they continue to rise at the same rate the generation of greenhouse gases could contribute significantly to global warming.

(ii) How might the proposed environmental legislation influence Seattle Logistics?

Chuck Rivers, the owner of Seattle Logistics, is worried about the threat of legislation designed to cap carbon emissions. Such legislation might mean that some of the vehicles in his fleet would have to be taken off the road.

This is because they are old and produce too much carbon. This would create difficulties for the business. Chuck would either have to invest in some new vehicles or scale down his operations. Neither of these options is attractive. The business might not be able to raise enough money for new vehicles. Alternatively, scaling down operations might mean that he loses customers because he will be unable to fulfil contracts.

(c) How have the business objectives of Seattle Logistics been influenced by the government in this case?

The government legislation in this case has affected the objectives of Seattle Logistics. It seems that historically the business was profitable. However, the emphasis now is on survival. Chuck says that 'I used to make good profits but now my main aim is to stay in business'. Due to rising wage costs resulting from the minimum wage the profitability and survival of the business is being threatened.

(d) Do you think it is right for the government to influence businesses?

Most people would agree that the government should play a role in business. For example, it cannot be right for employees to work in dangerous conditions, or for consumers to be exploited, or for the environment to be damaged permanently. Most government legislation is designed to protect people and the environment from harmful and exploitative business practices. Most people would wish the government to provide this protection. However, if the government gets too involved and creates legislation that discourages business activity, this might be counterproductive. Businesses provide jobs which generate income for individuals and products which meet the needs and wants of people. It would be undesirable if government legislation was too burdensome and people no longer wanted to set up in business.

Chapter 12

Getting started...

Look at Figure 12.1.

(a) Why is international trade important to Samsung?

Figure 12.1 suggests that international trade is very important indeed to Samsung. Almost all of its revenue comes from international sales. In 2006 and 2007 only around 1 per cent of its revenue came from South Korea. In 2008, this had shrunk to almost zero.

(b) How might international trade help a business like Samsung grow?

By selling overseas businesses can generate more sales and more profit. In this case, without international markets, Samsung would be considerably smaller because around 99 per cent of its revenue is generated outside Korea. The ability to sell in overseas markets has allowed Samsung to grow.

Question 1

(a) **(i)** Describe the pattern of international trade in Poland over the period shown.

Over the period shown, Polish imports and exports have grown consistently. For example, in 2000 the value of exports was just over €2,000m. However, by 2008 the value of exports reached almost €12,000m. This is a huge increase. However, both imports and exports fell sharply in 2009. Figure 12.3 also shows that Poland has generally imported more than it has exported. For example, by 2008 imports were over €12,000m with exports at around €10,000m.

(ii) What might account for the pattern identified in **(i)**?

The main reason why international trade has flourished in Poland in recent years is because the Polish economy has opened up. Since the break-up of the Soviet Union Poland has become more established as a trading nation. It has joined the EU and developed new trading links with other EU countries. Both exports and imports have increased consistently ever since. The reason why international trade fell sharply in 2009 is because of the world recession.

(b) Why do you think Poland imports: **(i)** capital goods; **(ii)** resources such as minerals and fuels?

(i) One of Poland's main imports is capital goods. Poland probably imports capital goods because other countries can produce them more cheaply. It may also be possible that Poland does not have the resources to produce capital goods. For example, they may not have the technical expertise.

(ii) Poland also imports fuel and minerals. They may import these basic commodities because there are insufficient quantities of fuel and minerals in Poland.

Question 2

(a) Calculate the price in US dollars of the machines sold by Miskin to the US firm (assume £1 = \$1.50).

The price in dollars is given by:

$$£3{,}600{,}000 \times \$1.5 = \$5{,}400{,}000$$

(b) Calculate the amount paid in pounds by Miskin for the €2.5m components bought from Germany (assume £1 = €1.10).

The sterling price of the German components is found by:

$$€2.5\text{m} \div €1.10 = £2{,}272{,}727$$

(c) Calculate the amount in euros received by the Spanish supplier for the £200,000 of materials sold to Miskin (assume £1 = €1.10).

The amount in euro received by the Spanish supplier is given by:

$$£200{,}000 \times €1.10 = €220{,}000$$

Chapter review – Nampak

(a) State two reasons why nations trade. (Use examples from this case study.)

Countries trade with each other for a number of reasons. One is to obtain goods that others can produce more cheaply. For example, South Africa buys machinery and scientific instruments from other countries. This may be because other countries have the resources to produce such goods more efficiently. It is obviously beneficial to buy goods from other countries if they are cheaper. South Africa sells commodities such as gold, diamonds and coal. This is because the country has more gold, diamonds and coal than it needs for its own purposes. Consequently it can generate income by selling them abroad.

(b) What is meant by an invisible export? (Use an example from this case study.)

Invisible trade involves the exchange of services. For example, South Africa has a flourishing tourist industry. It has some attractive resorts, such as Cape Town, and an interesting culture. The money South African businesses gets from tourists is recorded as an invisible export.

(c) Outline two methods of protectionism a government might use to reduce imports.

Despite the benefits of international trade countries sometimes believe that it is in their interests to restrict trade. There are several types of trade barrier. One approach is to make imports more expensive. This will reduce demand for imports and increase demand for home goods. Imports can be made more expensive if the government imposes a special tax on them. Taxes on imports are called tariffs. Tariffs also raise revenue for the government.

Another way of reducing imports is to place a physical limit on the amount allowed into the country. This is called a quota. By restricting the quantity of imports, domestic producers face less of a threat. They will have more of the market for themselves.

(d) (i) How will Nampak be affected by exchange rates?

Nampack will be affected by exchange rates because it deals with overseas businesses where the currency is likely to be different from that in South Africa. For example, it sells goods to European countries where the euro is used. This means that a change in the exchange rate could affect the price paid by European customers for Nampak's goods.

(ii) If €1 = R10 how much would a European customer have to pay in euro for R124m of packaging?

A European customer would pay €12.4m (R124m ÷ R10) for the packaging order.

(iii) If the exchange rate rose to €1 = R12 how might Nampak be affected?

Nampak will benefit from the change in the exchange rate. The euro has strengthened against the rand. One euro can now buy 12 rands instead of 10. This means that goods purchased in South Africa will be cheaper. For example, the R124m order for packaging will now cost €10.33m (R124m ÷ R12). As a result there is likely to be an increase in demand for Nampak's goods because they relatively cheaper for European customers.

(e) Discuss the problems businesses like Nampak are likely to have with fluctuating exchange rates.

Over time the exchange rate between different currencies is likely to change. This has implications for the prices of imports and exports. For example, the depreciation of the rand against the euro in this case means that demand from European customers is likely to rise because South African goods are now cheaper. One of the main problems of changing exchange rates is the uncertainty created. Nampak does not know what is going to happen to exchange rates in the future. This means that it is very difficult to predict demand for exports. This makes planning and budgeting more difficult.

Another problem with exchange rates is that it costs money to switch from one currency to another. When businesses buy another currency, there is a usually a commission charge. It could be around 2 per cent. This represents a business cost to importers and therefore reduces profit.

Chapter 13

Getting started...

(a) What external factors have contributed to the development of electric cars?

The development of electric vehicles has been encouraged by growing concerns about the damage done to the environment. The carbon emissions from exhausts contribute to global warming. Also, the rising cost of oil has made motoring more expensive and consumers may welcome alternatives.

(b) Outline two advantages to consumers of electric vehicles.

EVs will be more environmentally friendly because they will not discharge carbon into the atmosphere. Many consumers will see this as an advantage. The car is also cheap to run. It is expected to cost about 4 cents a mile. Also, the batteries used to power the car can be recharged in four hours.

(c) How might Nissan benefit from the launch of its electric vehicle?

If Nissan's electric vehicle is successful and demand is high, Nissan is likely to benefit from higher sales and higher profits. If Nissan's electric vehicle is better than its rival's equivalent the company may develop a reputation for environmentally friendly cars. This could help Nissan win a large share of this new market.

Question 1

(a) What is an ethical code of conduct?

An ethical code of conduct is a statement of guidelines which businesses need to follow if they want to be seen as socially responsible. The code will recommend the actions that a firm must take to be recognised as a socially responsible corporate citizen. The code helps businesses to meet ethical standards.

(b) How have the Kenyan flower pickers benefited from an ethical code of conduct?

Kenyan flower pickers are no longer forced into overtime and casual contracts. Pay slips are now available to staff on Kenyan flower farms, as are employment contracts, better medical facilities, improved housing and increased maternity leave. Better training on the use of pesticides and the stricter controls on the spraying of pesticides have been introduced. More women have been promoted to supervisory roles and staff welfare committees have been established. Workers are also taking up membership of trade unions in increasing numbers which will aid their protection further.

Chapter review – Recycling, holidays abroad and the environment

(a) **(i)** What does the graph in Figure 13.3 show?

The graph in Figure 13.3 shows two things. First, the total amount of waste generated per person per year rises between 1983/84 and 2002/03 from around 400 kg to over 500 kg. However, between 2002/03 and 2008/09 the waste generated falls back to under 500 kg. Secondly, the amount of waste recycled rises over the period from a very small amount to over 150 kg.

(ii) What contributions might businesses have made to the reduction of waste in society?

In recent years many businesses have made an effort to reduce the amount of waste they generate. For example, they have designed packaging that can be reused or recycled, used more energy-efficient equipment or renewable energy sources, explored ways of selling waste to other businesses as a by-product and stopped some unnecessary activities by replacing business travel with conference calls, for example. Businesses are keen to reduce waste and use recycled materials because it lowers costs.

(iii) What is meant by sustainable business development?

Sustainable development means that people should satisfy their needs and enjoy better living standards without reducing the quality of life of future generations. Business development that denies future generations of resources is not sustainable. This means that resource use by businesses and consumers needs to be reduced. If businesses take a sustainable approach they will also find it easier to comply with regulations, reduce costs, improve their image and increase profits.

(b) Outline one possible reason for the trend shown in Figure 13.4.

Figure 13.4 shows that the number of visits abroad made by UK citizens has increased enormously from under 10 million in 1971 to about 45 million in 2008. One reason for this is because overseas holidays are more affordable. On the one hand, some of the components of holidays abroad, such as air travel, have fallen in price. On the other, incomes have increased over this time period meaning that people have more disposal income.

Look at Figure 13.5.

(c) Which source of greenhouse gas emission has increased the most over the period?

According to Figure 13.5, the sources of greenhouse gas emissions that have increased over the period include households, other sectors and transport and communication. Of these it appears that sources from transport and communication have risen the most – from about 60m tonnes of carbon dioxide in 1990 to about 90m tonnes in 2007.

The government could impose a tax on air travel to help reduce greenhouse gas emissions.

(d) Evaluate the case for and against such action.

Governments are becoming concerned about global warming which may be affecting weather patterns and climates. Economic development means that car ownership and air travel increases. The emissions from cars and aircraft add to global warming. One approach that governments could use to reduce emissions from jet planes is to tax air travel. This would probably make air travel more expensive and therefore reduce demand. This would therefore reduce carbon emissions from air travel.

However, such a tax might discriminate against the poor. If airfares do rise as a result of the tax, poorer consumers may not have access to air travel. Another objection to such a tax is that the airline industry would be adversely affected. With less demand for air travel the airline industry might have to contract which could result in job losses for example. So far most governments have chosen not to tax air travel. This suggests that such a tax would be very unpopular.

Chapter 14

Getting started...

(a) What evidence is there to suggest that Huawei is a successful business?

There is quite a lot of evidence to suggest that Huawei is a successful business. Some financial evidence is provided in Figure 14.1. Huawei's turnover has increased significantly over the time period shown. It has more than trebled from CNY48m in 2005 to CNY149m in 2009. The profit made by the business has also increased sharply. In 2005 it was CNY5.5m. By 2009 it had more than trebled to CNY18.2m. Both of these suggest that the business has been very successful between 2005 and 2009.

There is also some non-financial evidence which supports the view that Huawei has been successful. In 2009, Huawei built a leading position in wireless, it is now ranked second in global market share of radio access equipment. It also successfully launched the world's first end-to-end 100G solution from routers to transmission system. Finally, Huawei reduced resource consumption by more than 20 per cent. It also deployed over 3,000 sites powered by alternative energies that promote the sustainable development of the industry and society.

(b) What other information might be helpful to make an improved judgment about the success of Huawei?

When making a judgment about the success of a business it is often helpful to make comparisons with other businesses in the industry. For example, if other firms in the industry enjoyed much bigger increases in turnover and profits than Huawei, then its performance is not quite so impressive. It is also important to take into account other factors such as market conditions. If the improvements in turnover and profit were made during a recession, then the figures are perhaps even better than they suggest.

Question 1

(a) Using evidence from the case study, and the table in Figure 14.4, determine whether Tata Group is a small, medium-sized or large business.

Tata is a very large business. For example, according to EU measures of size, if a business has more than 249 employees it is considered large. In this case, Tata has 360,000 employees. Also, if a business has turnover which exceeds €50m, it is considered large. Tata has a turnover of $62.5 billion which is well above this. Therefore, Tata can be considered a very large company according to the EU.

(b) Do you think Tata Group has been successful?

The graph in Figure 14.4 does suggest that Tata has been a successful company. Turnover has increased consistently since 1992 from around Rs12,000 crore. More importantly, the rate of increase in turnover rose very sharply between 2004 and 2008 from just over Rs50,000 crore to around Rs250,000 crore. This is a very sharp increase in such a short space of time. This does suggest a very robust performance.

Question 2

(a) What is the purpose of the form shown in Figure 14.5?

The form shown in Figure 14.5 is used by Tesco to monitor customer satisfaction. Customers can pick up one of these forms from inside the store and write a comment about their experience when shopping at Tesco. The form can be used to record both positive and negative experiences. However, it is more than likely that customers would use it to record complaints – about the quality of customer service perhaps.

(b) How else does Tesco gather information from customers?

Customer feedback is also collected by Tesco online. The form in Figure 14.5 gives the online address for making complaints. It is www.tescocomments.com. Tesco might also accept feedback over the telephone. Many companies record conversations with customers to help provide useful information. Tesco also collects information from customer loyalty cards.

(c) Suggest how such information can be used to judge the success of Tesco.

Many businesses, such as Tesco, monitor customer complaints very carefully. Increasingly, businesses recognise that it takes a lot of effort for customers to complain. Therefore, the subject of any complaint should be taken seriously and action should be taken to make improvements. Tesco will be able to make a judgment about its success by monitoring the number and severity of the complaints made. If the number and severity of complaints falls over time, this would suggest that Tesco's performance was improving.

Chapter review – Ganno Holdings

(a) Comment on the financial success of Ganno Holdings between 2005 and 2009.

The information in Figure 14.7 suggests that Ganno Holdings has performed well between 2005 and 2009. Its turnover rose from \$12.3m to \$20m. This is an increase of over 60 per cent. However, more significantly, profit rose from \$1.1m to \$4.1m. This is a much bigger increase of nearly 300 per cent. Since profit has increased faster than turnover this suggests that the company has improved its margins by lowering costs for example. Few would disagree that Ganno has enjoyed financial success over the last 5 years.

(b) Examine why targets are important when judging the success of a business.

Many owners set targets when running their businesses. This makes it easier to judge success. For example, a business might aim to grow its market share by 5 per cent. If, by the end of the trading year market share has grown by 6.5 per cent, then the business would be judged successful.

Targets might also be used to motivate staff. If targets are met or exceeded they may be given bonuses. Another advantage of setting regular targets is that they can be adjusted to take into account the current circumstances of the business. For example, during a boom a business might set challenging growth or profit targets.

(c) **(i)** How important is product quality to Ganno Holdings?

Some businesses attach a lot of importance to product quality and judge their success by how good their products are. In 2009, Ganno won two prestigious industry awards for the quality of its latex products. This was the result of its commitment to product development and investment in a \$50m research centre in 2007. If the company has won awards, and is prepared to invest heavily in research, this does suggest that product quality is important to Ganno.

(ii) State two ways in which product quality can be judged.

Measures of product quality and innovation might be reflected by:

- Awards and prizes won by businesses.
- Media reports.

In 1999, Ganno Holdings almost collapsed. The company was trying to grow too quickly and nearly ran out of cash.

(d) Analyse two other reasons why businesses might fail.

There are a number of reasons why a business might collapse. One may be because the people running the business may not have the skills required to be successful. A wide range of skills such as people management, financial management, purchasing, marketing, administration, time management and planning, are required to be successful. It is hard work running a business and without all of these skills business owners often fail.

Another common reason for business failure is a sharp fall in sales. This might be caused by new competition, sudden changes in consumer tastes, a recession, poor product quality or customer service or a failure to meet changing market needs.

(e) Do you think Ganno Holdings is a good corporate citizen?

An increasing number of businesses are making an effort to become good corporate citizens. This means that try to meet the needs of a wider range of stakeholders such as employees, suppliers, the local community and the environment. In this case, the needs of the owners may have been met effectively because the firm has increased its profit significantly. However, it could be argued that other stakeholder groups have been neglected. For example, in 2009, Ganno was the subject of an investigation by environmental officers about emissions from one of its factories. This was in response to complaints from people in the local community who claimed that their eyes were being irritated by fumes from the factory. A spokesperson from Ganno said 'We are aware of the complaints but we can assure everyone that there is no physical threat from the emissions. We comply with all environmental legislation.' However, around 60 local people have been treated for eye infections over the last two years.

Chapter 15

Getting started...

(a) Who is in control of Cerrillos Auto Hire?

Carlos is in control of Cerrillos Auto Hire. He is the general manager and has responsibility for the running of the business.

(b) Describe briefly how Cerrillos Auto Hire is organised.

Cerrillos is organised into four different departments. Each department has a specific function. The bookings and administration department is responsible for dealing with customers when cars are booked, collected and returned. The car maintenance and preparation department maintains and prepares the cars. The finance and accounts department records financial transactions, processes wages, deals with staff problems, carries out purchasing and deals with complaints. Finally, the marketing department is responsible for promoting the business.

(c) What is Gabriela's role in the organisation?

Gabriela runs the booking and administration department and is helped by Gina and Patricia. She is responsible for dealing with customers when cars are booked, collected and returned. They process bookings by dealing with all the paper work and provide customer service.

(d) To whom is **(i)** Veronica **(ii)** Jesus accountable?

(i) According to the organisation chart Veronica, who is responsible for the marketing of the business, is directly accountable to Carlos the general manager.

(ii) Jesus works in the car maintenance department and is accountable to Juan.

Question 1

(a) Give two examples of operatives at Chittagong Textiles Ltd.

According to the organisation chart the machinists and technicians are examples of operatives at Chittagong Textiles Ltd.

(b) Define the terms: **(i)** formal organisation; **(ii)** hierarchy.

(i) When businesses grow tasks such as planning, decision making, coordination and communication are easier if people are organised into a structure made up of several different departments. This internal structure is known as the formal organisation of a business. It can be represented by an organisation chart. In this case an organisation chart is shown for the production department at Chittagong Textiles Ltd. It shows how staff in the department are formally organised. For example, it shows that the 40 machinists on Line A are accountable to the four supervisors on that line.

(ii) Many organisational structures are hierarchical. This means that there are different layers of responsibility in an organisation. Those jobs with the least responsibility are usually at the bottom and the person with the most responsibility is at the top. For example, in Chittagong Textiles the chairman, who has most responsibility, is at the top of the hierarchy. Those at the bottom include machinists, packers and cleaners. These have very little responsibility.

(c) Outline the roles of: **(i)** the production director; **(ii)** line supervisors at Chittagong Textiles Ltd.

Directors are members of the senior management team and appointed by the owners to run the business. The production director of Chittagong Textiles Ltd is responsible for the whole of the production department and will work closely with the production manager. The production director will attend board meetings with the chairperson and other directors to plan the direction of Chittagong Textiles Ltd.

Supervisors monitor and regulate the work in their area. They have authority over operatives and general workers. At Chittagong Textiles there are eight supervisors according to the organisation chart. For example, four supervisors are employed on line A. They are responsible for the work of 40 machinists on the line.

Question 2

(a) What is meant by a 'flatter organisation structure'?

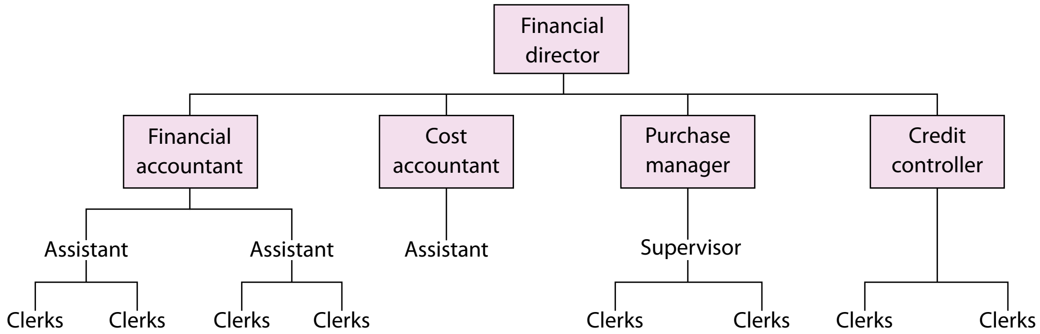
In 2004, M&S began a review of the business and made some significant changes. These changes created a business with a flatter organisation structure. This means that some layers of management in the organisational hierarchy were removed. This resulted in a shorter chain of command and a wider span of control.

(b) Why did M&S adopt a flatter structure?

One of the reasons why M&S decided to remove some of the managerial layers was to cut costs. The company had started to struggle financially and one way to improve financial performance is to cut costs. M&S was also criticised for being too bureaucratic. By removing layers of management bureaucracy is likely to fall because the structure of the organisation becomes simpler. For example, information will flow more easily from the bottom to the top if there are fewer layers of management.

Chapter review – Ceylan Pumps

(a) Draw an organisational chart for the finance department at Ceylan Pumps.



(b) What is the span of control for: **(i)** the credit controller; **(ii)** the cost accountant?

(i) The span of control for the credit controller is two.

(ii) The span of control for the cost accountant is just one.

(c) What is meant by the chain of command? (Use this case study as an example.)

The chain of command in a business is shown on an organisation chart. This shows the path by which orders are passed down the hierarchy. Orders will pass down through the layers from the top to the bottom. For example, in this case, an

Business Studies

order would pass from the chairman, to the finance director, to the purchasing manager, on to the supervisor and finally to the clerk. This is the chain of command.

The financial accountant often delegates work to the assistant accountants.

(d) Outline what this means.

In some situations it is appropriate for a manager, the financial accountant in this case, to hand a task to a subordinate. This is called delegation. Although the assistant accountant will be carrying out the task, the manager will still have overall responsibility. However, the accountant's time can be saved if a subordinate completes the task. Some workers might enjoy carrying out delegated tasks. They might think that more trust is being placed in them. However, others think that managers are just avoiding work.

'Having a formal organisational structure helps to control a business.'

(e) Analyse this statement.

Running a business involves planning, decision making, co-ordination and communication. These tasks are easier if people are organised into a structure made up of several departments. The internal structure of a business is known as its formal organisation. Large businesses that employ many people need formal organisation.

Once a business is formally organised the roles of employees are clarified. Each employee will know who has responsibility and to whom they are accountable. They will also understand the relationships between different positions in the business. If everyone in an organisation is accountable to someone for their actions, control can be exerted. Without accountability control can be lost as people begin to pursue their own personal objectives.

Chapter 16

Getting started...

(a) Describe the role of a finance department. (Use examples from the case study.)

The finance department is responsible for producing important financial statements such as cash flow forecasts and the profit and loss account. Thilak, the head of the department, is responsible for this job. The finance department is also responsible for the management of money in a business. In this case study Chandrika works in the finance department of the Colombo Hotel. Examples of tasks carried out by Chandrika in the department include the preparation of customer bills and payments, keeping financial records, processing employee wages, changing currency for hotel guests and paying cash into the bank.

(b) Name three other possible departments in the hotel.

Departments that are likely to exist in a hotel might be:

- Housekeeping
- Bar and restaurant
- Reception.

Question 1

(a) Outline two other activities that might be carried out in the marketing department.

Other activities that might be carried out in the marketing department include market research, advertising, sales promotion, product planning, packaging design, distribution and sales.

NB Any two of these are acceptable.

Marketing departments play an increasingly important role in businesses today.

(b) What might account for this development?

Marketing departments are becoming more important because of changes in the approach made by businesses. Firms are now more market-orientated. This means that they focus sharply on the changing needs and wants of customers. Much of marketing is about identifying these needs and satisfying them. Consequently, marketing departments are important.

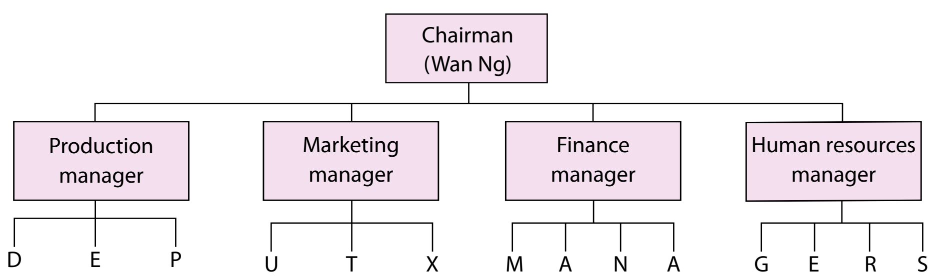
(c) What is Monica's job in the marketing department?

Monica has quite a specialised job in the marketing department at her company. She is responsible for PR. This involves dealing with the media by answering questions and providing a range of company information and organising company presentations to shareholders, potential investors and customers.

Monica also negotiates sponsorship deals on behalf of the company. For example, she recently secured a contract for her company to sponsor a national football competition in Brazil.

Chapter review – Wan Ng

(a) Draw a simple organisation chart for the management team at Wan Ng.



(b) Which departments at Wan Ng would be responsible for the following activities?

(i) Chasing customers for late payment. *Finance*

(ii) Dealing with the dismissal of an employee with a very poor attendance record. *Human Resources*

(iii) Placing adverts in farming magazines. *Marketing*

(iv) Setting output targets for processing plants. *Production*

(c) How might the marketing department find out the reasons for the trend in sales of Nitrogrow?

The graph in Figure 16.4 shows that sales of Nitrogrow fell sharply in 2008. This fall worsens slightly in 2009. It is important to find out reasons why sales have fallen. One approach that the marketing department might take is to carry out some market research. They might interview customers that have suddenly stopped buying the product. The department could use telephone surveys, for example, to gather information from customers. Possible reasons why demand has fallen might be because the price is too high, a new competitor has entered the market or the quality of the product has deteriorated.

(d) Outline two possible functions of the Wan Ng production department in addition to making agrochemicals.

In addition to making agrochemicals, production activities at Wan Ng might include research and development. This involves the investigation and discovery of new ideas for materials, processes and products. In the chemicals industry, research and development is important because new fertilisers and pesticides are always needed to help combat pests and improve crop yields.

Another production activity at Wan Ng might be purchasing. This involves buying in all the resources such as raw materials, components, energy, tools, equipment and packaging that are needed by the business.

(e) Outline the importance of interdependence between departments in a business. (Use examples from this case study.)

In this case study there has been a breakdown in communication between the production department and the finance department. This is because the production department is overspending on its labour budget. The production department argues that more skilled labour is needed to maintain quality. However, the finance department argues that expenditure budgets should not be exceeded. This breakdown in communication is having an adverse affect on the business. This is because some important data needed for a financial report has not been provided by the production department.

Chapter 17

Getting started...

(a) Identify the: **(i)** sender; **(ii)** receiver(s); **(iii)** message in the above examples of communication.

(i) The sender in the first example is the person talking to the group of staff. In the second example the sender is Waleed Abbas from customer services at Apollo Airways.

(ii) The receivers in the first example are the group of employees listening to their team leader. In the second example Mr Husain is the receiver.

(iii) The message in the first example is that the sales team has to increase sales this month. Staff are being told that every person who meets their sales target will get a bonus of $200. In the second example, Mr Husain is being informed about a change to his flight details from London to Dubai.

Question 1

(a) Who is the sender of the information in this example?

The sender in this example is Didier Bonnet.

(b) What is meant by vertical communication? (Use an example from the case study.)

Vertical communication takes place when messages are passed up and down the organisational hierarchy in a business. In this case the communication is upwards. Didier Bonnet is sending information to the finance director, a superior higher up the organisational structure.

(c) What sort of information is being sent in this example?

Some financial information is being sent in this example. The table in Figure 17.5 contains financial information about the performance of the stores in June 2009. The table has been sent to the finance director who is compiling a report for a board meeting.

(d) Outline why upward communication is helpful.

There are several reasons why upward communication is helpful. It may help managers to understand the views and needs of subordinates and alert them to potential problems. It also helps staff to feel that they are valued and provides managers with information that can be used to make decisions. Finally, upward communication can show whether or not downward communication has been effective.

Question 2

(a) **(i)** What is meant by jargon? (Use an example from this case study.)

Jargon is terminology that is used and understood by people in a specific group. However, outside that group or organisation it may be meaningless. In this case, jargon is being used to describe the eating habits of staff in the business. Eric has been told that employees eat Al Desco which means eating at your work desk.

(ii) Why should jargon be avoided when communicating?

The use of jargon should be avoided because many people do not understand it. In this case Eric did not understand the term Al Desco. He thought it was the name of a restaurant. The use of jargon can act as a barrier to communication.

(b) Do you think the communication medium used to notify people about a meeting in this case was effective?

When communicating it is important to use the right medium. In this case a notice on a notice board was used to inform staff of a meeting. Unfortunately Eric did not see the notice and so missed the meeting. Therefore, it could be argued that this method of communication was not appropriate for a new member of staff.

(c) What steps can be taken to ensure that messages are clear?

Generally, information is more likely to be clear and understood if clear and precise language is used and it is delivered at a reasonable pace. It also helps if the receiver is familiar with the sender and method of communication and the message only contains relevant information.

Chapter review – SASB

(a) What is meant by communication? (Use an example from this case study.)

Communication is about sending and receiving information. It involves a sender, receiver and a message. Once a message has been sent the receiver is likely to offer some feedback. In this case, an example of communication would be customers trying to speak to staff at the SASB call centre.

(b) What is meant by horizontal communication?

Horizontal communication occurs when workers on the same level in the organisation exchange information. Within a particular department horizontal communication will be very common as operatives, for example, discuss their work with each other. In this case the meeting between the Level 6 managers would be an example of horizontal communication. The managers are all on the same level but come from different divisions.

(c) Describe two communication barriers at SASB**.**

SASB appears to be having some communication problems. One communication problem results from a technical barrier. A technical problem on the switchboard has resulted in customers hanging up because they couldn't get through to a helpline. Some of the equipment in use is out of date and needs replacing.

The second problem results from a lack of information. Workers employed in one call centre based in Argentina have complained that they are not equipped to give out the information wanted by customers. The main reason for this is because they have been poorly trained. Generally, communications at the company are not good.

(d) How does this case highlight the importance of good communication in business?

If communication is poor in a business some serious problems can arise. Inside a business poor communication can lead to mistakes being made, resources being wasted and people becoming confused and demotivated.

In this case frustrated staff have left the business which has resulted in rising recruitment costs.

When communicating with people outside the business, poor communication can make the business look foolish and cost money. In this case, angry customers have cancelled their subscriptions to SASB. This is because, either, they cannot get through to customers services, or, when they do, their queries cannot be dealt with because staff do not have the information they require. These communication problems cost SASB $1.5m in lost subscriptions in a single month. This shows the damage that can be caused by poor communication in a business.

(e) Evaluate the measures that might be taken to overcome the communication problems at SASB.

Businesses are able to deal with communication problems. In this case, the technical problems with the SASB switchboard can be overcome by introducing more up-to-date technology. However, an urgent solution to the technical problem is needed because customers are leaving and money is being lost. It also seems that SASB could improve communications with customers by offering call centre staff some training. In the case study, it states that workers employed in one call centre based in Argentina have complained that they are not equipped to give out the information wanted by customers. The main reason for this is because they have not been trained effectively. Therefore, appropriate training should be organised immediately.

It also states in the case that communications in general at SASB are not good. It has been suggested that there are too many layers of management in the organisation. Also, people are not given enough opportunities to mix with their colleagues. Workers in the organisation do not know each other very well at all. If there are too many layers in the managerial hierarchy the company might benefit from removing some. This would shorten the chain of command and speed up vertical communications. Finally, the company could organise some social events so that staff could get to know each other better and improve communications.

Chapter 18

Getting started...

(a) Suggest suitable methods of communication for each of the above cases.

Case 1

One quick method a business might use to inform a customer that an order will be delayed due to an item being temporarily out of stock is to make a telephone call. Alternatively, if the order was placed online an email might be sent. If the customer cannot be contacted by telephone, a letter might be sent.

Case 2

A business would tell a member of staff that they have been promoted to a more senior position using face-to-face communication. However, such an important communication should be supported by a letter of confirmation.

Case 3

A general worker needing permission from a supervisor to finish work 15 minutes early to take her daughter for a hospital appointment would use face-to-face communication or an internal telephone. Depending on how established and respected the worker is in the organisation, it might be appropriate to send a memo or simple email.

Question 1

(a) Is the message in Figure 18.3 an example of internal or external communication?

The letter sent by TRM Finance Ltd to Mrs Kumar is an example of external information. This is because the communication is between the business and someone outside.

(b) Outline the advantages of using a letter as a means of communication in this case.

Some messages require a personal method which letters provide. Letters are also flexible because they can be sent to a variety of different people such as customers, employees and suppliers. In this case study, the letter is sent by a finance company to a particular customer about a late payment. Letters can also be used to convey confidential information and provide a record of the communication. In this case study, it would be important to record the message because it is of a financial nature. Also, in this case the message being communicated is very important and does contain personal information.

Question 2

For each of the above communication tasks:

(a) Suggest the most appropriate method of communication.

- Email
- Telephone

- Face to face
- Meeting

(b) Account for you answers in **(a)**.

- Li would probably send a copy of the marketing budget to the marketing manager using an email. She could send it as an attachment.
- Li would probably use a telephone to contact a member of the sales team currently working in Japan. This is because she wants immediate feedback. If the whereabouts of the person is unknown she may use a mobile phone, although it must be remembered that overseas calls to mobile phones can be very expensive.
- Interviews with job applicants would involve face-to-face communication. There is no real alternative to this. Interviews require immediate feedback and body language can be important.
- Li would probably hold a meeting to explain a new recording system. She would need face to face communication so that staff could ask questions if necessary.

Chapter review – Honda

(a) Who is the sender in this communication?

Honda is the sender of this information. The image shown is the home page for Honda's website.

(b) Suggest two stakeholders that might be interested in this website.

Customers or potential customers of Honda may be interested in this website. For example, someone looking for a new car might log on to this site.

Investors or shareholders in Honda can access financial information.

(c) State whether this is a formal or informal method of communication.

The use of this website to provide information about Honda is a recognised communication channel. Therefore it is a formal method of communication.

(d) Describe two pieces of information which can be obtained by receivers using this method of communication?

Much of the information on the website relates to the products sold by Honda. Users can click on to a wide range of product groups such as cars, trucks, SUVs, ATVs, engines, generators, lawnmowers and motorcycles. One of the main features on the website is an advert for Honda's new products. This shows a moving picture of a new car. There is a link to get more information.

Another important section on the website is that titled 'ABOUT'. This gives information all about the Honda Corporation. This might interest investors, the media, jobseekers, researchers or even competitors. One section gives news updates. This tells users about the latest developments at Honda such as awards the company has won, its achievements or involvement in the community.

(e) Weigh up the advantages and disadvantages of the internet as a method of communication.

The internet is used by Honda to provide a wide range of information for different business stakeholders. In general the internet can be used to market products by displaying them on websites. It allows customers to buy products with credit and debit cards. Websites can provide corporate information for investors and general information about the history and nature of the business. Websites can also be used to advertise jobs to people inside and outside the business.

The internet might be also be used to obtain information about other companies and products for market research, or to obtain information about potential supplies. It can also deal with customer queries online. The main advantage of websites is that the information is available 24/7. Information can also be accessed anywhere in the world and updated very easily.

However, online communication is not without problems. People can only use the internet if they have access to a computer and in some areas broadband connections are unavailable. Connections can also be lost when using the internet. Some websites are prone to 'going down' which can irritate users. They may not bother to return! When using email to communicate email inboxes get 'clogged up' with electronic junk mail called 'spam' and computer viruses can result in important files being lost.

Finally, computer hackers may get hold of sensitive and confidential information which puts the security of a business at risk. Although these problems might troublesome, many would argue that the benefits of the internet outweigh the drawbacks.

Chapter 19

Getting started...

(a) **(i)** What is the purpose of the Rossmoor advert?

The main purpose of the advert shown here is to attract applications from jobseekers for the post of Duty Manager at Rossmoor Ltd.

(ii) What sort of person is the business trying to attract?

Rossmoor hope to attract a mature and confident person for the job. The person will need to work 19.6 hours per week and be prepared to sleep over at the apartment block. The person will also have to be prepared to work some weekends. Finally, Rossmoor would prefer a person with a relevant NVQ qualification but this is not essential since training will be given.

(iii) How much pay is Rossmoor Ltd offering the successful applicant?

According to the advert Rossmoor are offering £8.95 per hour plus holiday pay. There is also a sleepover rate of £27.35 per night.

(b) **(i)** How does Cosmos Electronics recruit many of its managers?

Cosmos Electronics recruits a lot of its managers internally. This means they try to promote people who already work at the company.

(ii) State two advantages of recruiting managers in this way.

There are some advantages of recruiting people from within the business. For example, promoting from within is safer. The people who are appointed are known to the business. As Suzy Kato, the human resources manager at Cosmos Electronics says 'We know what these people are like and what their potential is. They are proven workers. It is also cheaper and quicker to recruit in this way'.

Question 1

(a) Outline the advantages of recruiting internally for the job of Purchasing Manager.

In this case the job of Purchasing Manager is being filled internally. The new purchasing manager will be recruited from the existing purchasing team. It is expected that three suitable people from the department will apply. One of the advantages of internal recruitment is it's cheaper because it saves on advertising. Internal recruits are also familiar with company policy and working practices. In addition, staff may be more motivated if they know there is a chance of promotion. Finally, the ability, personality, attitude and potential of the person appointed will be more predictable. This reduces the risk of recruitment.

(b) How might the vacancies for the machinists be advertised?

The jobs for machinists could be advertised in a number of ways. They might be advertised by word of mouth, e.g. current employees may tell their friends and relatives about the jobs. The jobs may also be advertised in a local newspaper or on the company website. Finally, Mirpur Garments Ltd may use an employment agency or rely on a list of past applications which have been filed by the business. All of these methods are suitable for jobs like machinists.

Question 2

(a) Draw up a job description for the Production Worker jobs at Nujumba Cement.

Job title

Production Worker

General role

Work as a member of the production team.

Responsibilities and duties

- Heavy manual work
- Handling heavy machinery
- Drive a fork lift truck
- Clean machinery and equipment
- Heavy lifting in a harsh working environment

Pay

Rs400 per hour

Hours and conditions of work

- 40 hours per week
- 4 weeks holiday
- Free protective clothing
- Free lunches

NB There may be acceptable variations on the answer given here.

(b) Outline two reasons why a business draws up a job description.

The main purpose of a job description is to show clearly what is expected of an employee. Extracts from it are likely to be used in a job advert. It might also be used during appraisal to see how well an employee has performed in relation to what was expected of them.

Chapter review – Internet job advert

(a) Draw up a simple person specification for the job of Sales and Marketing Director. (You **do not** need to show whether details are essential or desirable.)

Qualifications and Education	Degree in appropriate field
Experience	Minimum five years experience in similar role
	Carry out competitor analysis
	New business development
	Developing marketing plans
Communication skills	Strong presentation skills
	Monthly report writing skills
	Leadership skills
Other skills	Strong analytical skills
	Motivational skills
	Ability to chair meetings
Personal attributes	Ability to travel regularly and work in the UK
	Ability to develop a team

(b) How might a business use the person specification?

The main purpose of the person specification is to help with the short-listing process. Applications which do not match the person specification can be ignored.

(c) State four important details that should be included in any job advertisement.

Some of the important details likely to be included in a job advert are:

- Job title
- Name and address of employer
- Brief details of the job description
- Skills, qualifications and work experience required for the job

Applicants for the job shown have to apply with a CV.

(d) What is a CV?

CV stands for Curriculum Vitae. It is used by jobseekers to apply for jobs when an application form is not provided. It contains personal details, qualifications, experience, names of referees, hobbies and reasons why they are suitable for the job.

(e) Why do businesses draw up short-lists of candidates when interviewing?

A business usually draws up a short-list of suitable candidates for an interview because it is usually impossible to interview every single applicant. Some job adverts attract hundreds or even thousands of applications. It would be too expensive to interview everyone. Also, some of the people applying may be unsuitable and not worth interviewing.

(f) To what extent do you think the business was right to recruit externally for this post?

External recruitment is when a business recruits new employees from outside the business. There are some advantages of external recruitment. For example, a business will have a much larger pool of potential employees to choose from when attracting a new employee from outside the business. In this case the job has been advertised on the internet. People all over the country, or even overseas, may apply for the job. A new person may be very talented and have some have fresh ideas which could help the business become more competitive.

However, external recruitment is more expensive than internal recruitment and there is an element of risk because the new employee is unknown to the business. In this case, the job is quite a senior position. It is probably wise to recruit externally to get the best possible person for the job.

Chapter 20

Getting started...

(a) How does this case illustrate the need for protection at work?

If employees are not protected at work they may be exploited. In this case study Amir was treated badly at work. Amir works part-time with a fast food company. He said there was an accident one night at work and he injured his arm. Amir claimed that his manager did not call a doctor for him and refused to pay his medical bills. Amir said he was sacked one week after the accident. Most would agree that Amir's employer has treated him badly. Without the intervention and protection of the Australian Human Rights Commission, Amir would have lost his job and not received compensation.

(b) What do you think is meant by a conciliation meeting?

A conciliation meeting is where two parties come together to settle a disagreement. In this case, Amir and his employer have been encouraged to meet by the Australian Commission of Human Rights.

(c) How did Amir benefit from the meeting?

Amir did benefit from the conciliation meeting. While the company did not agree with everything that Amir said, at the meeting the company agreed to reinstate Amir to a similar job at a different location, to help him make a worker's compensation claim and pay him the wages he had lost. Amir's previous manger also wrote a letter of apology to Amir.

Question 1

(a) Examine whether Glenhawk has the right to sack Graham for refusing to work Saturday mornings in this case.

In this case, it would appear that Graham has the right to refuse to work the extra hours on Saturday mornings. This is because he has a contract of employment. This is a legally binding agreement between the employer and the employee. In Graham's contract the hours of work are stated clearly – 36 hours per week. He cannot be forced to work extra hours. Therefore Glenhawk does not have the right to sack him.

The pay and hours of work will be clarified in a contract of employment.

(b) What other details might be included?

In most cases, a contract of employment must contain details such as the start date, term of employment, job title and duties, place and hours of work, pay and holiday entitlement, pension and sickness absence, termination conditions and details relating to disciplinary, dismissal and grievance procedures.

Question 2

(a) What evidence is there to suggest that health and safety provision for workers in India is inadequate?

There is significant evidence in this case to suggest that health and safety provision is inadequate in India. It is stated that nearly 50,000 Indians die from work-related accidents or illness every year. In July 2009, six people were killed and more than a dozen others injured when a partially constructed bridge collapsed on New Delhi's metro project. Employers later said that more than 90 workers had died in accidents during the construction in the last 10 years.

(b) Why is health and safety legislation not working in India?

India has legislation to regulate health and safety but enforcement is often lacking. This means that many businesses ignore rules and regulations because no one forces them to comply. Existing laws are also outdated and the enforcement agencies do not have clearly defined areas of authority. This often leads to confusion and a lack of enforcement.

Chapter review – Protection at work

(a) What is meant by discrimination in the work place?

Businesses have to make a choice when recruiting staff or selecting employees for promotion or training. When employing and promoting people, employers must base their decisions on the ability of candidates, and not whether they are male or female, for example. If a business chooses a person because they are more experienced and better qualified than another, this would be legal. However, it is illegal in most countries to discriminate on grounds of gender, race, disability, sexual orientation and age. Many countries have legislation to protect such groups from discrimination.

(b) What evidence is there in this case study to suggest that the disabled face discrimination in the work place?

There is a certain amount of statistical evidence here to suggest that the disabled face discrimination in the workplace. The employment statistics show the imbalance between disabled and non-disabled people in employment. For example, only half of disabled people of working age are in work (50 per cent). This compares with 80 per cent of non-disabled people. Employment rates vary greatly according to the type of impairment a person has, for example only 20 per cent of people with mental health problems are in employment. Also, 23 per cent of disabled people have no qualifications compared to 9 per cent of non-disabled people. And finally, the average gross hourly pay for disabled employees is £11.08 compared to £12.30 for non disabled employees.

(c) How might businesses suffer if they discriminate in the workplace?

Discrimination by employers is likely to have an adverse affect on the performance of the business. There are a number of reasons for this. Businesses may incur increased costs if they are drawn into expensive legal battles by victims of discrimination. Businesses may fail to recruit or promote the best staff for the post. Certain sections of the workforce may become de-motivated and discrimination might also create unnecessary tension or conflict between employees. Such problems could result in poor punctuality, absenteeism and higher staff turnover.

(d) Outline two pieces of UK legislation designed to protect people from discrimination at work.

One of the earliest and most high profile pieces of discrimination legislation was designed to protect women. The Sex Discrimination Act, 1975, states that a person must not be discriminated against because of their gender. For example, adverts for jobs and job titles must be 'genderless'. Recruitment and selection must not be biased in favour of a particular gender. People should be promoted on grounds of ability not gender.

A more recent piece of legislation outlawing discrimination was the Disability Discrimination Act, 1995. This act defines disability as a 'physical or mental impairment which has a substantial and long term adverse affect on people's ability to carry out normal day-to-day activities'. The act makes it unlawful for a business to discriminate on grounds of disability.

(e) **(i)** What does the graph in Figure 20.2 show?

The graph in Figure 20.2 shows that the fatalities per 100,000 have fallen in the UK from 1.4 per 100,000 in 1992/93 to 0.4 per 100,000 in 2008/09. This is quite a large decrease in such a short space of time.

(ii) What might account for the trend shown by the graph in Figure 20.2?

The improving trend may be accounted for by a number of reasons such as fewer people employed in the primary and secondary sectors. Traditionally this is where fatalities are highest. There are probably more dangerous jobs in the primary and secondary sectors such as mining, farming and construction. Another reason is probably due to a greater awareness of the dangers at work. Workers receive better health and safe training during their induction period. The possible dangers to workers are emphasised at an early stage.

Finally, and perhaps most important of all, there has been an increase in the amount and quality of legislation forcing employers to protect their staff. It may also be the case that modern employers have a greater duty of care towards their employees. They may be highly valued.

Chapter 21

Getting started...

(a) Outline one advantage and one disadvantage of a large retailer using the services of Hemsley Fraser to train its staff in customer services.

Hemsley Fraser provides training courses for businesses. For example, it offers training in secretarial and administrative work, customer services, sales and health and safety and first aid.

One advantage of a large retailer using Hemsley Fraser to train its staff in customer services is that Hemsley is a training specialist. It might be an expert and therefore will provide good quality training. However, employing a training specialist is likely to expensive. It is usually cheaper to train workers 'in-house'.

(b) How did Dilip Halappa train to be a motor mechanic?

His employer gave Dilip Halappa an apprenticeship. He worked for a major Indian haulage company and spent one or two days a week at college. The rest of his apprenticeship was served learning how to maintain and service lorries at work. He worked with a senior mechanic who was responsible for his development. Dilip had to pass some exams during the five years and at the end of the period was awarded a recognised qualification as a motor mechanic.

Question 1

(a) What is the purpose of induction training?

The main purpose of induction training is to help new recruits settle quickly and become familiar with their new surroundings and productive as soon as possible.

(b) What might new recruits learn during the induction programme?

During an induction program new recruits are likely to get a tour of the whole workplace, an introduction to senior staff, some health and safety training and learn about the company's history, aims and objectives. Recruits are also likely to learn about company policies such as dress code, disciplinary procedures and holidays and get an introduction to the new job and meet their work colleagues.

At Orange new call centre staff get a three-week induction programme. The training covers brand awareness, product and systems training and customer service skills.

(c) Why is induction training so important?

If businesses fail to provide adequate induction training staff may feel anxious. This might lead to poor productivity, and at worst, staff may leave because they have not settled. At Orange induction is important to provide good quality customer service. According to Lisa Blewitt, Training & Development Manager at Orange, 'We pride ourselves on our customer service. It is very important that each of our new employees receives a comprehensive induction, so that they can provide excellent service to customers.'

Question 2

(a) Outline the difference between off-the-job and on-the-job training.

Some employees receive training away from the normal work area. This is called off-the-job training. For example, it might involve employees going on a special computer training course.

One of the most common methods of training is on-the-job training. This means that workers are trained in the work place while the job is being done. This might be done by watching another worker, mentoring or by using job rotation. PwC uses both on-the-job and off-the-job training in its organisation.

(b) How might PwC benefit from training its staff in different departments?

PwC provides plenty of opportunities for staff to learn and develop new skills. For example, if a new recruit opts for a commercial apprenticeship (auditing and accounting), an employee will spend a total of three years working in a variety of different departments to get an insight into many different aspects of PwC's international business.

Trainees will work in general operations (marketing, internal services, finance and human capital) and specialist departments (tax and legal and auditing/assurance) during their training. PwC will benefit from this because it provides the business with added flexibility. It allows PwC to shift staff to cover for an unexpected staff absence or to cope with a sudden increase in demand in a department.

Chapter review – ME plc

(a) Why is training needed at ME plc?

Training is needed at ME plc because some new technology has been introduced. There have been some 'teething problems' and the production manager thinks they can be overcome with proper training. Without training the new system will take up to six more months before it is up and running.

(b) State two other reasons why a business might need to train its staff.

A business might need to train its staff for the following reasons.

- Keeping workers up-to-date
- Improving labour flexibility

(c) Analyse two reasons why businesses may be reluctant to spend on training.

Training is often very expensive. As a result some businesses are reluctant to invest in training. In this case, the chief executive of ME plc seems reluctant to invest in training. One of the main reasons is because of the cost. The CE complains that the amount needed by the production manager, $120,000, is double the annual training budget for the entire company. Another reason which explains the reluctance is that when workers leave the training has been wasted. The CE of ME plc says 'I know that training is necessary but it's so expensive. Plus, what happens when the trained workers leave and go and work for someone else?' However, the production manager points out that ME often employ workers that have been trained elsewhere. Finally, it appears from what the CE says that he does not value all types of training. For example, he refers to off-the-job training as 'training holidays'. This may be another reason for not wanting to meet the high cost of training.

(d) Discuss the advantages and disadvantages of on-the-job training to ME plc.

On-the-job training means that workers are trained in the work place while the job is being done. One of the main advantages of this is that output is being produced. Although the productivity of a worker may be low while being trained, at least it is positive and the trainee is making a contribution to output. The training received on the job is also relevant. This is because it relates directly to the job. There is no simulation. On-the-job training is also generally cheaper and easier to organise than off-the-job training.

There are some drawbacks of on-the-job training. For example, output may be lost while a worker is training. This is because they have not learnt the job properly and are likely to make mistakes until training is complete. It may also be stressful for the worker knowing that mistakes will lead to lost output. The stress will be worse if working with others. Another problem is that trainers may get frustrated if training has been forced on them and they are not being paid for it. Finally, in some cases, mistakes made by trainees in the workplace can be serious. For example, a mistake made by a surgeon training on-the-job could be life threatening.

(e) Analyse the benefits of training to employees and customers at ME plc.

Although it is expensive, a number of stakeholders will benefit from training. For example, employees may benefit in a number of ways. If workers have been trained they will be able to do their jobs more effectively. This should reduce anxieties about their work and provide more job satisfaction. Employees may also feel valued if their employer is paying for their training. This will improve their motivation. They may develop a range of skills which they can use in the future – to gain promotion or perhaps a better job in another business.

Customers should benefit if workers are well trained. This is because effectively trained workers are more likely to produce better quality products. Customers might also get better customer service, such as dealing with complaints. Also, if productivity rises significantly as a result of training, a business might be able to lower prices. This shows that training can benefit a wide range of stakeholders – not just the business.

Chapter 22

Getting started...

(a) State two possible reasons why Alan is poorly motivated.

Alan may be poorly motivated for a number of reasons.

- He may think the pay is too low.
- He may find the work boring, unfulfilling or insufficiently challenging.

NB Other answers may be appropriate.

(b) Outline why you think motivation is important to businesses.

If workers are motivated, they likely to be more productive, they will be committed and work harder. For example, Brad is well motivated. He is punctual, reliable, supportive of his colleagues, enjoys solving problems and often gives up his own time to help new recruits. Businesses will benefit from having a well motivated workforce.

Question 1

(a) What is meant by a well-motivated employee?

Motivation is the desire to achieve a goal. If employees are well motivated they will be driven and have the desire to reach aims that have been set by employers. They will be productive and committed to the business.

(b) What evidence in Figure 22.2 suggests that workers have become poorly motivated?

The information in the bar charts shows that worker motivation at Red Star Holdings was falling between 2004 and 2007. For example, staff turnover rose from 28 per cent to 33 per cent and staff absenteeism rose from 6.7 per cent to 7.4 per cent. At the same time productivity at the business fell from 1230 to 1200 units per worker. In 2008 and 2009, after the factory had been re-equipped, worker motivation seemed to improve. For example, labour productivity rose to 1,530 units per worker.

(c) What is likely to be the effect on the working environment if workers are not motivated?

If workers are poorly motivated the working environment and atmosphere is likely to be unpleasant. Workers are less likely to be cheerful, courteous, supportive and positive. This can be quite important because many workers have to deal with customers. A business may lose customers if the attitudes of poorly motivated workers create a negative impression.

Question 2

(a) Do you think Mothercare satisfies Maslow's social needs?

Evidence in the case does suggest that Mothercare satisfies Maslow's social needs. There's a feel-good factor at Mothercare that makes employees feel part of one big happy family. Employees care a lot about each other, feel a strong sense of family in their team and go out of their way to help each other.

(b) Analyse the difference between Herzberg's motivators and hygiene factors.

According to Herzberg people at work will be motivated by factors such as recognition, personal development, interesting work, promotion and responsibility. He called these motivators. Motivators at Mothercare might include the opportunities given to staff for personal development such as providing sponsorship for professional qualifications, job swaps, coaching and training courses. Also, staff say that managers talk honestly and openly with them, are supportive and motivate them to give their best every day.

Factors such as pay, working conditions and the quality of leadership may be hygiene factors. However, if they are inadequate they will demotivate workers. At Mothercare there is evidence that hygiene factors are adequate. For example, two-thirds of employees earn £7,500 or less. They appear content with this because they job satisfaction has more to do with how your colleagues and employer make you feel rather than money.

(c) How does Mothercare recognise staff achievements?

Mothercare recognises staff achievements in a number of ways. For example, there are monthly awards for outstanding contributions from staff, who can also receive gifts of flowers, dinner or hotel vouchers for a job well done. In addition, senior executives recognise exceptional effort at company meetings, road shows and in personal telephone calls.

Chapter review – Data Connection

(a) Why do people need to work?

People go to work because work provides the means to satisfy needs. For example, the main reason why people go to work is to earn money to pay for food, drink, clothes and shelter.

However, work can meet other needs because employers provide opportunities for workers to meet new people, develop skills and reach their full potential. Without work most people would feel aimless, bored, dissatisfied, unfulfilled and isolated.

(b) Identify two examples that show that employees at Data Connection are well motivated.

Evidence in the case suggests that workers at Data Connection are well motivated. For example, employees say work is an important part of their lives and feel they can make a valuable contribution to the success of the organisation. Staff say they are proud to work for Data Connection. Many people, such as chief executive John Lazar, joined the firm 22 years ago as a software engineer and worked his way up through the ranks. Staff must be well motivated to stay for so long.

(c) State four reasons why staff motivation is important to businesses.

Staff motivation is import to businesses for a number of reasons. Examples include:

- Higher production
- Lower staff turnover
- Lower absenteeism
- More co-operation

(d) Give two examples of Herzberg's hygiene factors as used at Data Connection.

Hygiene factors cannot motivate workers but can be a source of dissatisfaction if they are inadequate. At Data Connection examples of adequate hygiene factors include job security, good leadership, free private healthcare for employees and their dependents, critical illness cover, life assurance and profit-related pay.

(e) To what extent does Data Connection satisfy the needs outlined by Maslow's hierarchy?

Maslow identified a hierarchy of needs. At the bottom are the physiological needs – these are basic human needs such as food, water and shelter. Businesses can satisfy these needs by providing workers with adequate pay. In this case, it can be assumed that Data Connection pays their workforce adequately. For example, chief executive John Lazar joined the firm 22 years ago and worked his way up through the ranks. It is unlikely that an employee would stay at a firm for so long if pay was inadequate.

The second level of needs identified by Maslow was safety and security. This means that people need protection from any form of danger and physical and psychological threats. Businesses can satisfy these needs by providing a safe working environment. In this case, Data Connections provides a flexible benefits package which includes free private healthcare for employees and their dependents, critical illness cover and life assurance. These benefits will help to enhance the security of workers.

The third level of needs in Maslow's hierarchy is social needs. This means that people are social animals and need love, affection, trust and acceptance. They also want to belong to a recognised group. At Data Connections employees say managers care about them as individuals. They feel supported by them and think they talk openly and honestly with them.

The next level of needs is esteem needs. This means that people need to be recognised and respected and their achievements praised. They also want self-respect and self-esteem. At Data Connections new employees are assigned a mentor who, along with managers, sets aside 50 days of their time to train a new starter in their first year. Every employee has an individual development plan that is updated every three months. 'Managing people here is about nurturing and getting the best out of them,' says recruitment manager Alison Jackson. This suggests that esteem needs are being met.

Finally, at the top of Maslow's hierarchy is self-actualisation. This means that people need to reach their full potential and feel some fulfilment in what they do. At Data Connections there is evidence that suggests that workers feel some fulfilment.

Employees say work is an important part of their lives. They feel they can make a valuable contribution to the success of the business and are proud to work for it. Generally, information in the case suggests that Data Connections make every effort to meet the needs of employees.

Chapter 23

Getting started...

(a) **(i)** How much would Nasir earn if he sold 11 insurance policies during a month?

Nasir would earn \$2,600 (11 × \$200 + \$400) if he sold 11 insurance policies.

(ii) State one advantage and one disadvantage of the payment system used by GVS Life Assurance.

Staff at GVS Life Assurance are likely to sell more policies with this system. This is because there is a significant financial incentive to sell. They earn \$200 for every policy sold. This should mean that sales of policies will be high and the company only incurs labour costs if a sale is made (apart from the low basic salary of \$400). However, some staff are not happy with the system. They lack the charm and selling skills possessed by Nasir and are often under a great deal of stress trying to earn a living. This might result in a high labour turnover for the company. This means GVS might have to spend a lot of time and money recruiting new staff.

(b) **(i)** What system of payment is used for most of the employees at Gazzetta di Brescia?

Most of the people employed at Gazzetta di Brescia are paid annual salaries.

(ii) What might be a disadvantage of this method for the employer?

Some might argue that paying workers an annual salary is not likely to motivate workers. This is because they get paid the same whatever they produce. Staff at Gazzetta di Brescia will get paid regardless of their productivity. As a result some workers might be poorly motivated and lack effort in their work.

Question 1

One of the mechanics worked 53 hours during a busy week in September.

(a) Calculate the gross pay earned by this mechanic.

Gross pay would be $(38 \times \$9) + (15 \times \$13.50) = \$342 + \$187.50 = \$529.50$.

(b) What is the difference between gross and net pay?

Gross pay is a worker's pay before deductions. Most workers have tax and other deductions, such as pension contributions and trade union fees, taken from their gross pay to get net pay. Net pay is the amount of money a worker actually takes home.

(c) What is meant by a salary?

Salaries are expressed in annual terms and are usually paid monthly. Such a system is more likely to be used to pay non-manual workers like managers and administrative workers. In this case, the manager of West Park Motor Services is paid \$32,000 per annum.

Question 2

(a) Calculate the amount each worker will receive if the business makes a profit of \$81.65m.

The amount each worker will receive is given by:

$$\$81.65\text{m} \times 0.15 \div 7{,}560 = \$1620$$

(b) Outline three advantages of profit sharing to Benson Industries.

Benson Industries may enjoy a number of advantages by using profit sharing. It should help to motivate workers because if they are more productive the business is likely to make more profit. It might help to unite workers and shareholders at Benson. They will have the same goal because both stakeholders will benefit from higher profits. Also, all employees can be involved in the scheme whether they are production workers or administrative workers. Therefore no one is excluded from the system and everyone benefits from the profit made by the business.

Chapter review – Zeal Mining Co

(a) What evidence is there to suggest that workers at Zeal Mining Co need motivating?

The bar chart in Figure 23.3 shows that labour productivity has hardly changed over a six-year period. In most industries one would expect labour productivity to increase over time. In this case, output per worker at Zeal Mining Co. has increased slightly from 2.1 tons per day in 2002 to 2.16 in 2006. However, it falls again on 2007 to 2.1.

(b) How does this case study highlight the main disadvantage of time rates as a method of payment?

Many workers are paid according to the amount of time they spend at work. This payment system is called a time rate. It is probably the most common payment system used by businesses and involves paying workers so much per hour or week. The main problem with time rates is that worker productivity is not rewarded. With time rates people are paid for their attendance at work. Conscientious and highly productive workers get the same as those who try to avoid work. In this case, there has been no significant increase in labour productivity in six years.

(c) Analyse the advantages and disadvantages in this case study of piece rate as a system of payment.

In 2007, Zeal Mining introduced a piece rate system which involved paying small teams of miners according to their weekly output of copper. The main benefit of this system for businesses is that it rewards productive workers. Workers who are lazy or slow will not earn as much as those who are conscientious and competent. Therefore the system helps to motivate workers and Zeal is likely to 'get more' out of its miners. However, piece rate systems do have problems.

One problem is that workers might adopt dangerous practices trying to work too fast. There is evidence in this case that workers have adopted dangerous practices to speed up work. The accident rate has increased by 32 per cent since piece rates were introduced. This is a problem at Zeal. Also, some workers might be jealous of those who are naturally more productive and therefore earning more. This might cause conflict in the business. In this case, the administrative workers have complained that they are working harder now that output has increased. They are not been being paid piece rates so they are not benefiting.

Finally, there was resistance to the new system when it was first introduced because workers claimed that they were often prevented from working when machinery broke down. However, this problem was eliminated when the company invested in more reliable machinery.

The Human Resources manager at Zeal Mining Co. has suggested using PRP to reward the administration workers.

(d) To what extent do you agree with this suggestion?

To deal with the problem of rewarding the administrative workers, the Human Resources manager at Zeal Mining Co. has suggested using performance-related pay. PRP is designed specifically to reward workers whose output is difficult to measure like admin workers. However, PRP will only really work if a business uses an appraisal system to evaluate staff performance. Zeal Mining might benefit from this system because it links pay to productivity and only those workers who perform well will get paid more. However, the system does have problems. Some workers feel that it is unfair because appraisers may be inconsistent when evaluating staff performance. For example, pay awards may be given to certain workers out of favouritism. This may demotivate staff and cause conflict. Also, the financial incentives may not be high enough to motivate workers to improve their performance. Some workers may feel that the performance targets set are too demanding and become frustrated. Some workers may blame other factors for not being able to achieve targets. For example, they may claim that targets could not be met because of problems with computer systems or the performance of other workers upon which they rely. So if Zeal introduced PRP they would have to consider whether the advantages outweighed the disadvantages.

Chapter 24

Getting started...

(a) (i) How is the Pakistan government allocating shares to the employees of OGDCL?

The Pakistan government is giving employees a 12 per cent stake in OGDCL by giving away 438 million shares. The stake will be given free of charge to the 10,576 employees. However, workers will only be entitled to shares if they have been employed for five years. The shares will be given away in lots of 3,000 shares each. Employees will be given between one and 20 lots each, depending on their length of service.

(ii) How might the business benefit from employees holding shares?

Once employees become shareholders they will feel a sense of ownership and may be strongly motivated. It was hoped that the scheme would create a sense of ownership among the workers. If workers put in more effort, productivity at the company will rise. This means more profit will be made and the workers themselves will benefit because they are shareholders.

(b) Describe three non-financial benefits used to reward staff at Vodafone.

Vodafone uses a range of non-financial benefits to reward its workers. Staff get exciting opportunities, such as meeting Lewis Hamilton through its sponsorship of Formula One, or developing their skills working abroad. Vodafone has supportive managers who care about worker satisfaction. They set challenging goals such as gaining qualifications in team leadership, customer service and IT. Vodafone also matches funds raised by employees for charities and encourages them to take up to 24 hours' paid volunteering time each year. Other benefits include a wellbeing centre with a gym, childcare vouchers and extra holidays.

Question 1

(a) What is meant by fringe benefits? (Use examples from the case study.)

Some employees receive fringe benefits in addition to their normal pay. They are often described as the 'perks' of the job and are in addition to pay. Morgan Stanley provide a range of fringe benefits for their workers. For example, it provides free private healthcare for the whole family, child care, dental insurance, life assurance, performance-related pay and a share option scheme. An employee assistance programme provides help for staff outside of work. For example, there is a legal helpline and one-to-one counselling. Finally, a health and wellbeing programme is on offer, as is a free gym on site. Staff can also use an on-site medical centre, massage therapist, physiotherapist, and acupuncturist.

(b) Outline two possible advantages of fringe benefits to Morgan Stanley.

Morgan Stanley may enjoy a number of benefits from using fringe benefits to reward workers. The amount of tax paid can be reduced. It may cost a business less to give employees may be $2,000 of fringe benefits than $2,000 in cash. Also, labour productivity may improve because there is less staff absence. Workers are healthier as a result of private health care, using the company gym and sports facilities and using counselling services.

Many fringe benefits are given as rewards for reaching targets or excellent performance. This will help to motivate staff. Also, some fringe benefits are only available to senior staff. This might encourage employees to progress closer to the top of an organisation.

Question 2

(a) How does Telefonica O2 help staff develop a career?

Providing opportunities for promotion and career development can be a way of rewarding workers. In this case, Telefonica offers its 13,142 staff training and career opportunities in addition to good pay and other benefits. Twice a year managers have career conversations with staff to discuss how they can help them learn new skills, and each employee has a personal development plan. These conversations will help staff identify training needs and plan for a future career. They may also encourage staff to go for promotion.

(b) How does Telefonica O2 show recognition to its workforce?

Some businesses reward their employees by giving them awards and prizes as a means of showing recognition. Telefonica uses a range of incentive and recognition schemes to show workers that they are valued. They include the Spirit of O2 awards which involves giving staff vouchers if they have gone the extra mile during the year. They are also give ad hoc prizes for top performers, courtesy of the firm's various sponsorship deals, such as concert tickets or the chance to see Arsenal play or an England rugby match. As well as Dragons' Den-style challenges which can result in employees' creative ideas being implemented, managers who care about staff as individuals also regularly show their appreciation when people have done a good job.

Chapter review – Microsoft

(a) What is meant by non-financial rewards? (Use examples from this case study.)

All businesses pay workers money for their services. However, some businesses use other ways of rewarding workers in addition to pay. For example, some businesses find ways of making work more interesting, challenging or fulfilling for their staff. Examples at Microsoft include comprehensive induction and training, opportunities for career development, fringe benefits and good working conditions such as a new building at the UK headquarters in Reading which provides a light, open and airy working environment with informal areas to encourage creative and relaxed thinking.

(b) Why do businesses such as Microsoft use non-financial rewards?

Businesses make more use of non-financial rewards than ever before. There are a number of reasons for this. For example, many people money is not an effective motivator and they attach more importance to non-financial rewards. Also financial incentive schemes cannot be used for workers such administrators, managers and teachers. Finally, since increasing numbers of people work in teams, individual financial rewards are no longer appropriate.

(c) State two fringe benefits enjoyed by workers at Microsoft.

Examples of fringe benefits enjoyed by Microsoft workers include a share option scheme, and childcare facilities.

NB Others include private health insurance, generous maternity leave and good holidays.

(d) Why do you think praise is important at work?

One way of rewarding workers is to recognise their achievements and offer praise in return. If someone has done a good job it is important to show appreciation and praise them. It costs nothing to say 'thank you and well done'. If said sincerely this can be uplifting and motivating for an employee.

(e) How important do you think training is at Microsoft?

Training appears to be very important at Microsoft. It wants staff to realise their full potential. Training will help people to reach their full potential. Microsoft recruits about 25 graduates every year and no time is wasted in training them. The Microsoft Academy for College Hires is a two-year programme that helps recruits adapt to the world of work. Over 80 per cent of the staff think the job is good for their personal development. A mentoring scheme ensures new graduates are supported by a colleague who has undergone the same induction. As well as the academy, graduates are given training specific to their role, and Microsoft supports people who want to obtain IT qualifications.

(f) How effective do you think team working is at Microsoft?

Like many businesses today, Microsoft organises its workers into teams. This can be rewarding for workers because they can form bonds and develop friendships with other members. Workers are also likely to develop a 'team spirit' which may improve motivation and productivity. As well as finding that working in a team gives them a buzz, staff at Microsoft say they also have fun. Regular events at team, department and company level ensure success is celebrated and staff remain engaged. Managers have morale budgets which are used to keep teams happy and motivated. This suggests that staff are happy working as teams at Microsoft and that they are effective.

(g) Outline two possible disadvantages of non-financial rewards.

The use of non-financial methods to reward workers does have some drawbacks. For example, some of the methods such as job enrichment and job rotation may mean changing working practices. Some workers may not want to do this because they are content with current methods. This change may cause conflict between managers and workers. Very importantly, some of the methods may cost money to introduce. For example, job enrichment and job rotation are likely to require training. This can be expensive for businesses. There may also be some disruption and loss of output while training takes place. Finally, for some workers it is not possible to make their jobs more satisfying and there may be a backlash from employees if they think managers are using these methods just to get more work out of them for the same pay.

Chapter 25

Getting started...

(a) Why is finance needed in the above examples?

Emily and Henry need money for different reasons. Emily is starting out in business for the first time. She needs to find another $30,000 to meet the costs of setting up an employment agency. This will help pay for an office from which to operate, and for desks, filing cabinets and computers. She also plans to spend heavily on advertising to get the business established.

In contrast, Henry has just received a big order from a hotel in Harare. The hotel wants Henry to make some furniture to help refurbish all the rooms. To complete the order Henry needs about $5,000 to pay for raw materials.

(b) How might finance be raised by Emily Robinson and Henry Dabengwa?

Both Henry and Emily may try to borrow money from a bank. This is one of the most common ways of raising money for business ventures. Emily might also try to persuade family or friends to invest their money. Another alternative may be to attract some private investors. Henry might try and persuade suppliers to allow him to buy materials on credit. He can then repay them when he gets paid by the hotel.

Question 1

(a) (i) Calculate the total amount of start-up capital that the business will need in this case.

The total start-up costs for Al-Sayed Raouf's pest control business are EGP2,400.

(ii) Al-Sayed Raouf has EGP500 of his own money. How much more will he need to raise in start-up capital?

Since total start-up costs are EGP2,400, Al-Sayed Raouf will need to raise a further EGP1,900 (EGP2,400 – EGP500) from other sources.

(b) Why is the need for funds probably at its greatest when businesses are first set up?

The need for funds is probably at its greatest when businesses are first set up because a lot of resources have to be purchased or hired before trading can begin. Many of the resources bought are 'one-off' items. In this case, the van, mobile phone, pest control manual, safety boots, hand lamp and traps are all examples of 'one-off' expenditure. These items will not have to bought again for some time.

(c) Why will Al-Sayed Raouf need working capital?

Working capital is the money needed to fund the day-to-day expenditure of a business. It is used to meet costs such as raw materials, wages and utility bills. In this case, Al-Sayed Raouf may need working capital to pay for pesticides, bait, advertising and other business running expenses.

Chapter review – Propshore Ltd

(a) What is meant by short-term finance?

Businesses often need to borrow money for a short period of time. This is called short- term finance and is money borrowed for one year or less. Short-term finance is often used to boost working capital. For example, Propshore Ltd may use short-term finance to pay for raw materials and wages to meet a large order. Short-term finance is also likely to be used to meet emergency expenditure.

(b) Why is retained profit an internal source of finance?

Internal sources of finance are those which come from inside the business. Retained profit is a very important source of funds and is generated internally. The retained profit is generated by the business.

Propshore Ltd of uses retained profit to fund business activity.

(c) What is the main reason for using this method of financing?

Retained profit is popular because it is cheap. There are no interest or administration charges when using retained profit. It is a free source of finance. However, if profit is retained it cannot be returned to the owners. This may sometimes result in conflict.

Propshore uses trade credit to buy raw materials.

(d) Analyse one advantage and one disadvantage of trade credit as source of finance.

Trade credit involves buying goods and paying for them later – perhaps up to 60–90 days after the goods were purchased. It is a popular source of finance because it is cheap and easy. There is often no direct charge for using trade credit. However, many suppliers encourage early payment by offering discounts so a business may miss out on paying less. Also the cost of goods is often higher if firms buy on credit and delaying payment can also result in poor business relations with suppliers.

(e) Discuss whether Propshore should lease the computer equipment or buy it with a short-term bank loan.

Propshore Ltd can obtain the equipment without having to borrow money. The maintenance and repair costs are not their responsibility. Also, the equipment would be up-to-date and a leasing agreement is easier for a business to obtain than other forms of loan finance. This is because the leasing company is only hiring out equipment. However, there is one serious disadvantage. Over a long period of time leasing is dearer than buying equipment. This means that Propshore's profit would be lower.

A bank loan would involve a fixed agreement between Propshore and the bank. The $10,000 must be repaid in regular instalments over an agreed period. The main advantage of a bank loan is that Propshore will know exactly what it has to pay every month. However, in this case, it might be advisable to lease the equipment. This is because Wally is worried about being stuck with out-of-date computer equipment. Computer technology changes very quickly and if Propshore does not have up-to-date technology they might lose business to competitors.

Chapter 26

Getting started...

(a) How did the Yanbu Cement Company raise its capital?

Yanbu Cement Company is a limited company. It raised capital from the sale of shares. At the end of June 2009, Yanbu's issued share capital was SAR1,050m.

Yanbu Cement Company is going to raise SAR1.5 bn to expand capacity.

(b) (i) What source of finance is the business going to use?

Yanbu is going to fund the SAR1.5 bn expansion using internal sources such as retained profit and a loan from the National Commercial Bank.

(ii) Identify other sources of funds used by the company.

Other sources of finance used by Yanbu include a bank overdraft of SAR2.94m, trade credit of SAR8.03m and SAR7.4m in other bank loans.

Question 1

(a) Why is Tune Hotels planning to raise $25m?

Tune Hotels needs to raise $25m to help fund a franchising operation and develop more hotels in other Asian countries. Tune Hotel wants to develop 20 franchised hotels in India, 20 in Indonesia, Singapore and Malaysia and possibly 20 more in Thailand.

(b) Using this case study as an example, state what is meant by a long-term source of capital.

Long-term capital is money that is borrowed for more than one year. In this case Tune Hotels hopes to raise $25m by selling shares. Share capital is permanent capital. This means that as long as the company is trading the capital is never repaid.

(c) Outline one advantage of raising capital by selling shares.

The main advantage of share capital is that it is permanent. It does not have to be repaid. Very large amounts of money can be raised by selling shares. There are no interest charges on share capital although dividends are expected to be paid if the business is successful.

Question 2

(a) State whether the following expenditure by D'Souza would require long-term or short-term funding:

(i) buying land for new stores *long-term*

(ii) paying wages *short-term*

(iii) buying food from farmers and other suppliers *short-term*

(iv) buying new lorries for distribution. *long-term*

D'Souza Ltd could not sell shares on the stock market to raise finance.

(b) What is the reason for this?

D'Souza Ltd could not sell shares on the stock market to raise finance because it is a private limited company. Only public limited companies can sell shares on the stock market.

(c) What sources of finance might be suitable to fund the building of a Rs350m warehouse for D'Souza Ltd?

The building of a new warehouse would be funded by long-term finance. There are a number of sources that D'Souza Ltd might consider. In 2008, the Group made a profit of Rs755m. Some of this could be used since the warehouse will only cost Rs350m. The advantage of retained profit is that it is cheap.

Another suitable source is a mortgage. A mortgage is a long-term loan – usually up to 25 years – and requires property as security. Consequently, it would be an ideal source to fund a warehouse. Mortgages are also a relatively cheap source of finance. Interest rates on a mortgage are very competitive.

D'Souza Ltd might also consider leasing. An increasing number of businesses now lease important fixed assets like property. This would avoid the need to lay out Rs350m. However, in the long term leasing can be an expensive form of finance. Other long-term sources that D'Souza Ltd might consider are bank loans and the issue of more shares.

Chapter review – Gulf Oil Supplies

(a) Examine how Gulf Oil Supplies raised its start-up capital.

Most of the start-up capital for Gulf Oil Supplies was provided by Ali Ibrahim and Yousef Maaded. They both purchased AED500,000 worth of shares and therefore provided more than half of the start-up capital. In addition to this share capital, the business also took out a AED250,000 bank loan and received a government grant for AED50,000.

(b) What is the main advantage of using a government grant as a source of finance?

The main advantage of using a government grant as a source of finance is that it is usually free. The money received from the awarding body, the government, does not normally have to be repaid.

Many new businesses struggle because they do not have enough capital when they start up.

(c) How did Gulf Oil Supplies avoid this problem?

He knew that small businesses that lacked funding in the initial stages would struggle. Also, to avoid spending all the start-up capital on expensive fixed assets, Gulf Oil Supplies rented its factory unit and leased the majority of its plant, machinery and equipment. This means that most of the money raised could be used as working capital. Therefore, Yousef's awareness and the policy of renting fixed assets helped the business to avoid running out of capital when starting up.

(d) **(i)** What is meant by gearing?

The gearing of a business is the relationship between the amount of loan capital and the amount of share capital. A company is said to be high geared if it has a large proportion of loan capital to share capital. A low geared company has a relatively small amount of loan capital.

(ii) What has happened to the gearing as a result of the expansion?

The gearing will increase because more money is being borrowed and there is no change to share capital.

(iii) State two disadvantages of being highly geared.

- Interest payments must be met.
- Changes in interest rates cause uncertainty.

(e) Discuss how Ali and Yousef should raise the rest of the money for the new technology.

Ali and Yousef would need some long-term funding to pay for the expansion and technology update. They need to raise about AED600,000. One possible option is a mortgage. The main advantage of a mortgage is that interest payments are competitive. However, the business will need to provide some security for a mortgage.

Another option is for the owners to put some capital into the business. This would avoid borrowing and the business would be less burdened. Profits would also be higher because there would be no interest to pay. However, the owners may not have enough of their own money to put into the business.

Another possible source for Gulf Oil Supplies might be venture capitalists. They provide funding for businesses with potential. However, the amount of money needed by the business might be too small for a venture capitalist. Also, a venture capitalist would want some say in decision making at the business. Ali and Yousef may not welcome this.

To conclude, if Ali and Yousef cannot provide any capital of their own, a mortgage might be the best option for the business. The business would have up to 25 years to pay it off and interest rates would be relatively low.

Chapter 27

Getting started...

(a) How much money does ELCO need to pay the wages on 30 July 2009 (assume no other income or expenses)?

ELCO will be $5,000 ($12,700 − $7,700) short when it comes to paying the wages on 30 July 2009. This assumes that ELCO can use the rest of its overdraft facility up to $20,000 (it has already used $13,700).

(b) How might Felipe deal with the problem?

Felipe needs to raise $2,700 by the end of the month to pay the wages. This assumes that there is no more income and no more bills to pay. Felipe might go to the bank and ask for an extension to the overdraft. This would be the easiest solution. The bank might be sympathetic if Felipe can prove that the business has a big order. If the bank refuses Felipe he may have to find some fresh capital. The owners might be forced to inject more money into the business.

(c) What might happen to the business if Felipe cannot get enough cash to pay the wages on 30 July 2009?

If Felipe cannot raise the money to pay the wages the business could collapse. Employees are unlikely to work if they are not paid what they are owed. Without staff work on the new order cannot begin. The situation for the business is very difficult and its survival is under threat.

Question 1

Businesses such as the Angula's gift shop need working capital.

(a) Outline the main reason for working capital.

Working capital is needed to fund the day-to-day trading activities of a business. In this case money will be needed to pay rent, rates, utilities and buy stock for the gift shop. Without working capital a business cannot pay its immediate bills. This could result in the business collapsing.

(b) How much working capital does the gift shop have?

The gift shop in this case has current assets of $11,430 and current liabilities of $3,800. Therefore the value of working capital is $7,630.

(c) What is likely to happen to working capital during the low season?

During the low season the size of working capital is likely to fall. This is because there will be less cash coming in from sales of gifts but expenses such as fixed costs will still have to be paid. Therefore, current assets will dwindle meaning that working capital will fall.

Question 2

It is suggested that Urals Energy was short of working capital.

(a) What evidence is there to support this view?

Information in the case study provides evidence that Urals Energy is short of working capital. In January 2009, it borrowed money to keep production going and pay off some of its debts. This suggests that the company seriously needed the money to carry on trading. It also states in the case that Urals Energy is a debt-laden company. This tells us that it already owes a lot of money. The company is also selling some of its assets to raise cash. Urals is selling its shares in some other businesses. Urals also owed money to contractors and suppliers which had to be paid by the end of January. This is also evidence of a company that is short of working capital.

Just after the new funding was announced, the share price for Urals Energy increased.

(b) What might account for this?

When it was announced that a third party had agreed to lend Urals some money, the share price rose by 13 per cent. This was probably because the company's short-term future was guaranteed and new investors thought that the company might flourish in the future. As a result the increase in demand for shares caused the price to rise.

Chapter review – Canton Metals

(a) Define the term working capital.

Working capital is the amount of money needed for day-to-day trading. It is used to buy resources and pay bills such as wages, insurance and advertising. Working capital is the difference between the liquid assets of a business such as cash and stocks, and the money owed by a business which must be repaid within a year. Working capital is shown in the balance sheet and is calculated by subtracting current liabilities from current assets.

(b) **(i)** Calculate the working capital for Canton Metals in 2007 and 2008.

$$\text{Working capital} = \text{current assets} - \text{current liabilities}$$

$$2007 = \$5{,}783{,}000 - \$5{,}441{,}000 = \$342{,}000$$

$$2008 = \$6{,}863{,}000 - \$8{,}971{,}000 = -\$2{,}108{,}000$$

(ii) Do the answers in **(i)** support the view that Canton Metals has a shortage of working capital?

The calculations in **(i)** do support the view that Canton Metals does have a shortage of working capital. In 2007, working capital is low. It is only $342,000. It is suggested that current assets should be between one and half and twice the size of current liabilities. This is not the case in 2007. In 2008 the situation is worse. This is because current liabilities are actually higher than current assets. This means that Canton Metals cannot meet its immediate debts.

(c) How might Canton Metals encourage customers to pay immediately for their goods?

Many customers prefer to buy goods using trade credit. This means they have more time to pay their suppliers. However, businesses would prefer their customers to pay immediately. One way to encourage customers to pay cash immediately is to offer discounts. For example, if Canton Metals allowed customers a 5 per cent cash discount, an order for $30,000 would only cost $28,500 if paid for immediately.

(d) Analyse how the measures agreed by the board will improve Canton Metals' working capital position.

Canton Metals' directors have agreed two specific measures to help boost working capital. They plan to take out an unsecured loan from a bank and reduce the trade credit period from 90 days to 30 days. Both of these measures should help to boost working capital. However, the loan will come at a cost. Assuming the bank is prepared to lend money interest will have to be paid which will raise costs and reduce profit. It may also be difficult to persuade customers to pay for their goods earlier – particularly as some are already slower payers. They may also lose some customers if they think the reduction in the trade credit period is unreasonable.

(e) Discuss whether Canton Metals is in danger of going out of business.

When a business runs out of working capital there is a danger that the business will collapse. Working capital is needed to pay important bills such as wages, materials and utilities. If these bills cannot be paid the business cannot trade. In this case it could be argued that Canton Metals is threatened with closure unless action is taken. It has run out of working capital and almost exceeded its overdraft. The overdraft is $2,500,000 and according to the data in Figure 27.5, the company is already $2,460,000 overdrawn.

However, the directors have identified the problem and appear to be taking action. The crucial point though is the bank loan. If the bank loan is refused the company may collapse. The fall in demand caused by the global recession may worry a bank. They may decide that lending the business more money is too risky in the circumstances. If this happens the company will struggle to survive. The reduction in the credit period from 90 to 30 days will not help much in the short term. The future for Canton Metals does not look good.

Chapter 28

Getting started

(a) What does the budget in Figure 28.1 show?

The budget for Gethin Foods shows that total production costs for the time period are planned to be $116.4m. The monthly costs are fairly steady – rising slightly from $28.2m $29.9m. The budget also shows that raw materials (including food products) accounts for about half of all production costs in the budget.

(b) How does Gethin Foods use their production cost budget?

The production manager at Gethin Foods is required to prepare a production cost budget every quarter. This shows the costs of producing the planned output for the four-month period. It helps the purchasing department to plan orders for materials and the finance department to plan payments to suppliers. The budget also helps the manager to keep costs under control.

Question 1

(a) Why is a sales budget so important?

Sales budgets are important because they affect all other budgets in the business. For example, if a business plans to increase sales, it will also have to increase production.

(b) What is the total planned sales revenue for the six-month period at Pablos?

The sales budget shows that total sales for the six-month period are expected to be €862,300. This is the monthly totals added together.

(c) What is expected to happen to monthly revenue at Pablos over the time period?

The sales revenue budget shows that monthly revenue is expected to rise over the six-month trading period. In January, Pablos plans to generate €136,500 in sales revenue. However, by June planned revenue has increased to €153,000.

Chapter review – Kosovo Mining Corporation

(a) Calculate the planned sales revenue for Kosovo Mining Corporation for the whole six-month period.

Planned revenue is €44.4m for the whole six-month period. This is calculated by adding together all the monthly revenue totals.

(b) Calculate the monthly, and total production costs, for the six-month period.

							€000
	Jul	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
Wages	1,100	1,200	1,200	1,400	1,600	1,700	8,200
Electricity	270	280	280	290	300	310	1,730
Transport	900	990	990	1,100	1,200	1,400	6,580
Production overheads	2,300	2,300	2,400	2,500	2,500	2,600	14,600
Total production costs	4,570	4,770	4,870	5,290	5,600	6,010	31,110

(c) Account for the pattern of costs over the time period.

Production costs rose from €4,870,000 in September to €6,010,000 in December. This was probably due to the increase in planned output. During the winter more coal is likely to be consumed. Kosovo Mining Corporation planned to increase output from 1,200,000 tonnes to 1,700,000 tonnes over the same period.

(d) Analyse the possible advantages to Kosovo Mining Corporation of preparing budgets.

Larger businesses, like the Kosovo Mining Corporation, are more difficult to control than smaller ones. A small business can be run informally. The owner will know everyone, be aware of what is going on and will make all decisions. In larger firms work and responsibility are delegated, which makes informal control ineffective. Managers can keep control of a larger business by setting objectives and targets which are represented by budgets. Success in achieving those targets can be found by comparing the actual results with the budget. If there are big differences between the two a business will need to find out the reasons why and take action. Another important reason why businesses prepare budgets is to protect against fraud. All spending in a business has to be authorised by budget holders. This means that no one else can spend money without the budget holder's permission. This stops staff from spending money fraudulently, such as buying things for themselves.

Budgeting forces management to think ahead. Without budgeting, too many managers would work on a day-to-day basis, only dealing with opportunities and problems as they arise. Budgets help to anticipate problems and develop solutions in advance. Another advantage of budgets is that they help to keep costs down. Budgets often mean that budget holders have to justify expenditure. If they can't do this money will not be granted. This means that money is not wasted and efficiency improves. Finally, budgeting may help to motivate the workforce. It provides workers with targets and standards. Improving on the budget position is an indication of success for a department or group of workers. Fear of failing to reach budgeted targets may make staff work harder.

Chapter 29

Getting started...

(a) Identify ways in which cash is flowing into and out of the businesses in the above businesses.

During May in 2009 Nadeeka paid out Rs3,200 for diesel, Rs3,500 for repairs to a bus, Rs2,000 in wages and Rs500 in other running costs. These are examples of cash outflows. These payments represent cash flowing out of the business. During the month Nadeeka's bus service generated a total of Rs9,300 in bus fares. This Rs9,300 represents cash flowing into the business from customers.

The flows of cash at Northbridge Engineering are much higher. During June the company made a number of payments. These include $45,600 to its workers, $145,000 to suppliers for raw materials, $31,890 in bills for rent, utilities and other expenses and $12,300 to the tax authorities. During the same month the company received payments of $311,800 from customers, $1,400 interest and $50,000 from a bank loan to help pay for some new machinery. These are all examples of cash flowing into the business.

(b) **(i)** Calculate the net cash flow (cash inflows − cash outflows) for NK's Gallle Bus Service.

Net cash flow	=	cash inflows − cash outflows
	=	(Rs3,200 + Rs3,500 + Rs2,000 + Rs500) − (Rs9,300)
	=	Rs9,200 − Rs9,300
	=	− Rs100

(ii) What does the answer in **(i)** show?

During May 2009 Nadeeka's bus company experienced a negative cash flow. This means that more cash flowed out of the business than flowed in. The net cash flow was − Rs100. This is not a great deal of money but it is something that Nadeeka would be concerned about. The reason for the negative net cash flow may have been the bus repair bill – this is probably not a normal monthly expense.

Question 1

(a) What is the difference between cash inflows and cash out flows? (Use an example from this case study.)

Cash inflows are the cash receipts of a business. In this case, Yosuke's book shop receives cash from the sale of books, some interest in February and in March some fresh capital.

Cash outflows are the payments made by the business. In this case, payments are made for stocks of books, casual labour, rent and other expenses. In January the total cash inflows for Yosuke's business was $3,000. Total cash outflows were $3,430.

(b) Complete the cash flow forecast for Yosuke Makino's bookshop to show:

(i) the total cash outflows for each month;

(ii) the net cash flows for each month;

(iii) the closing balance for each month;

(iv) the opening balance for February and March.

	Jan	Feb	Mar
Cash inflows			
Book sales	3,000	3,500	3,100
Fresh capital			2,000
Interest		150	
Total cash inflows	**3,000**	**3,650**	**5,100**
Cash outflows			
Stock	1,700	1,790	1,900
Casual labour	500	500	500
Rent	1,000	1,000	1,000
Other expenses	230	240	230
Total cash outflows	**3,430**	**3,530**	**3,630**
Net cash flow	**−430**	**120**	**1,470**
Opening balance	**230**	**−200**	**−80**
Closing balance	**−200**	**−80**	**1,390**

It is suggested that Yosuke Makino's bookshop is struggling.

(c) What evidence is there in the forecast to support this view?

Although the cash flow forecast for Yosuke's book shop shows that the closing balance improves from −$200 in January to $1,400 in March. The reason for this is because $2,000 of fresh capital was injected in March. Without the cash injection the closing balance in March would be −$600. This shows a worsening situation over the three-month period.

Business Studies

Chapter review – Evans Garden Maintenance

(a) What is a 'cash flow forecast'?

A cash flow forecast is a financial document, usually produced on a spreadsheet, which shows the likely receipts and payments of a business for a future period. All expected payments and receipts are listed month by month and the expected cash balance is calculated at the end of each month.

(b) Draw up a nine-month cash flow forecast for Evans Garden Maintenance. (Use a spreadsheet if possible.)

	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Cash inflows									
Bank loan	3,000								
Own capital	2,000								
Cash receipts	2,000	2,100	2,000	2,500	2,500	2,000	1,000	500	0
	7,000	2100	2000	2500	2500	2000	1000	500	0
Cash outflows									
Van	2,000								
Tools & equipment	3,400								
Laptop	600								
Yellow pages		100							
General overheads	400	400	400	400	400	400	400	400	400
Advertising		100		100		100		100	
Drawings			800	800	800	800	800	800	800
Loan repayments	200	200	200	200	200	200	200	200	200
Total payments	6,600	800	1,400	1,500	1,400	1,500	1,400	1,500	1,400
Net cash flow	400	1,300	600	1,000	1,100	500	−400	−1,000	−1,400
Opening balance	0	400	1,700	2,300	3,300	4,400	4,900	4,500	3,500
Closing balance	400	1,700	2,300	3,300	4,400	4,900	4,500	3,500	2,100

(c) (i) Comment on the cash position of the business during the nine-month period.

The expected cash position for Evans Garden Maintenance looks quite promising. In the first month of trading, when all the setting up costs are incurred, the business is still expected to have a positive cash balance at the end of the month. After that, the cash position improves every month up until September when it is expected to be £4,900. In the next few months the cash position worsens because revenue starts to decline. But even in December when there is no revenue, the closing cash position is still positive.

(ii) What would you expect to happen to the cash position of the business in early 2011?

The cash position of the business in early 2011 is expected to worsen. This is because revenue is likely to be zero for a few months. Garden maintenance is likely to be affected by seasonal demand and people will not be thinking about their gardens until the growing season begins in the spring. If the cash payments stay at £1,400 each month and there is no more revenue, the cash position at the end of February will be −£700 (£2,100 − £2,800) if all the outflows remain the same as in December.

Chapter 30

Getting started...

If output in the above examples increases.

(a) Which of the costs described will increase?

For Agustina's shoe shop, examples of costs that will increase when output increases are stocks of shoes and footwear and the wages paid to sales assistants. When the business is busy (i.e. at weekends), more shoes will be sold and more staff will be required. This means stock and wage costs are linked to output.

For Costantini Design, examples of costs that will increase when output increases are the exotic hardwoods, leathers and fine fabrics used in production, and the wages paid to the skilled craftsmen. As more furniture and other products are produced more raw materials and more labour will be required. Therefore material costs and wages will rise – they are linked to output.

(b) Which of the costs described will remain unchanged?

Some business costs stay the same even when output changes. For Agustina's shoe shop examples include the monthly payments of rent and interest. Neither of these payments are linked to output. Both costs have to be paid regardless of how busy the shop is.

For Costantini Design, examples of costs that will stay the same when output increases are the tools used by craftsmen to make the products and the cost of staging the exhibition in Milan. These two costs are not linked to output.

Question 1

(a) Using examples from the case study state what is meant by a fixed cost?

Fixed costs are costs that do not vary with output. If output is increased, for example, fixed costs will remain exactly the same. In this case examples of fixed costs include rent, business rates and other fixed costs. These are annual costs and do not vary with output.

In 2008, BatCraft produced 4,800 bats.

(b) Calculate the total cost of production.

TC = FC + VC
= (\$50,000 + \$5,000 + \$25,000) + 4,800 × (\$30 + \$10 + \$50 + \$10)
= (\$80,000) + 4,800 × (\$100)
= \$80,000 + \$480,000
= £560,000

In 2009 the rent increased to \$60,000 and 6,000 bats were produced.

(c) What would happen to total costs?

TC = FC + VC
= (\$60,000 + \$5,000 + \$25,000) + 6,000 × (\$30 + \$10 + \$50 + \$10)
= (\$90,000) + 6,000 × (\$100)
= \$90,000 + \$600,000
= \$690,000

Business Studies

Question 2

In 2008, Jenkins produced and sold 4,500 control systems.

(a) Calculate the total cost.

Total cost	=	Fixed cost + Variable cost
	=	\$160,000 + (4,500 × \$120)
	=	\$160,000 + \$540,000
	=	\$700,000

(b) Calculate the total revenue.

Total revenue	=	Price × Quantity
	=	\$250 × 4,500
	=	\$1,125,000

(c) Calculate the profit.

Profit	=	Total revenue − Total cost
	=	\$1,125,000 − \$700,000
	=	\$425,000

In 2009, fixed costs and the price charged remained the same. However, variable costs rose to \$140 per system.

(d) Calculate the profit made in 2009 if 5,200 systems were sold.

Profit	=	Total revenue − Total cost
	=	\$250 × 5,200 − (\$160,000 + 5,200 × \$140)
	=	\$1,300,000 − (\$160,000 + \$728,000)
	=	\$1,300,000 − \$888,000
	=	\$412,000

Chapter review – Glenn's Fishing Trips

(a) What is the difference between direct costs and indirect costs? (Use examples from the case study.)

One way of classifying costs is to distinguish between direct and indirect costs. Direct costs are those that can be linked directly to a particular unit of output. In this case, any cost that is linked directly with providing places on the fishing trips is a direct cost. Examples include tackle hire, picnic hampers and fuel. These costs are incurred every time a fishing trip takes place.

Indirect costs are those which the business as a whole incurs. They cannot be associated with a unit of output – i.e. a fishing trip. Examples include the costs of insurance, interest and advertising. These costs cannot be linked directly to the provision of a fishing trip.

(b) (i) What is fixed cost per month?

$$FC = \$50 + \$3,000 + \$100 + \$300 = \$3,450$$

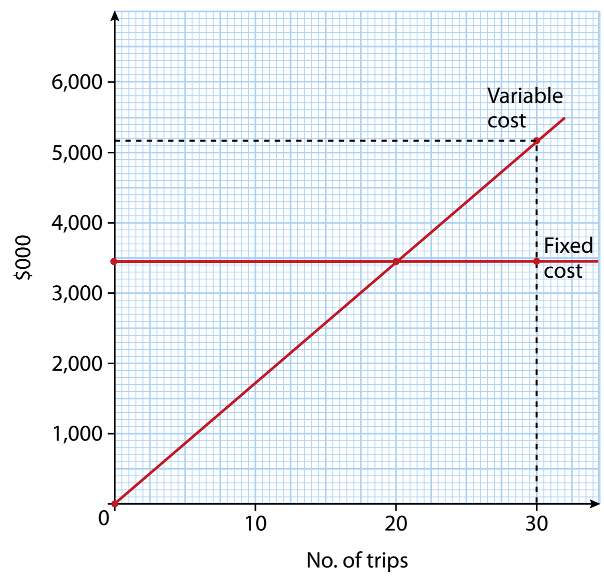
(ii) What is the variable cost per trip?

For January:

$$\text{Total VC} = \$560 + \$2,800 + \$1,400 = \$4760$$

$$\text{VC per trip} = \$4,760 \div 28 = \$170 \text{ per trip}$$

(iii) Plot fixed cost and variable cost on a graph. (Use a range of output of 0 to 30 trips.)



Fixed cost and variable cost for Glenn's fishing trips (monthly)

(c) Calculate Glenn's total cost in January.

The total costs are found by adding up all the costs in the January column. These are $8,210.

(d) Calculate the profit made by Glenn in January.

Profit	=	Total revenue − Total cost
	=	$500 × 28 − $8,210
	=	$14,000 − $8,210
	=	$5,790

(e) Calculate the average cost of a trip in January.

Average cost = Total cost = $8,210 = $293.21

Output 28

In January 2009, Glenn plans to raise the price of the trips to $600. Assume that all costs remain the same and that he manages to sell 28 trips again.

(f) Calculate the new level of profit.

Profit	=	Total revenue − Total costs
	=	$600 × 28 − $8,210
	=	$16,800 − $8,210
	=	$8,590

Chapter 31

Getting started...

(a) Show whether the firms in the above examples are making a profit, loss or breaking even.

In 2008, ANEK Lines made a loss of €6.4m (€278.9m − €285.3m).

Chellappan Limited broke even in 2008. Its total costs were Rs40m (20m + Rs2,000 × 100,000) and its total revenue was also Rs40m.

Question 1

(a) How many kilos of ice cream must the business produce and sell to break even?

$$\text{Break-even point} = \frac{\text{Fixed cost}}{\text{Selling price} - \text{variable cost per unit}}$$

= Rs100,000

Rs100 – Rs50

= 100,000

50

= 2,000

So, Galle Ice Cream Ltd would need to sell 2,000 kilos to break-even.

(b) What is total cost and total revenue at the break-even point?

$$\text{Total cost} = \text{Rs}100{,}000 + (\text{Rs}50 \times 2{,}000)$$
$$= \text{Rs}100{,}000 + \text{Rs}100{,}000$$
$$= \text{Rs}200{,}000$$
$$\text{Total revenue} = \text{Rs}100 \times 2{,}000 = \text{Rs}200{,}000$$

Total revenue and total cost are both Rs200,000 at the break-even point. This shows that the business does not make a profit or a loss.

(c) What would happen to the break-even point if fixed costs were reduced to Rs80,000?

$$\text{Break-even point} = \frac{\text{Fixed cost}}{\text{Selling price} - \text{variable cost per unit}}$$

= Rs80,000

Rs100 − Rs50

= 80,000

50

= 1,600

When fixed costs fall the break-even point is lower. Galle Ice Cream Ltd now only needs to produce and sell 1,600 kilos to break-even.

Question 2

(a) What is the value of fixed cost for the Grand Hotel?

The fixed costs incurred by the hotel are $15,000.

(b) **(i)** How many rooms need to be occupied to break even?

The hotel will break-even when 300 rooms are occupied. This is where total cost and total revenue intersect.

(ii) What is total revenue at the break-even point?

Total revenue at the break-even point is $30,000.

(iii) What is total cost at the break-even point?

Total cost at the break-even point is $30,000.

(c) If 500 rooms are occupied what is the **(i)** amount of profit **(ii)** margin of safety?

(i) Profit is the difference between total cost and total revenue on the break-even chart. When 500 rooms are occupied the total cost is $40,000 and the total revenue is $50,000. Therefore, the profit made by the Grand Hotel when 500 rooms are occupied is $10,000.

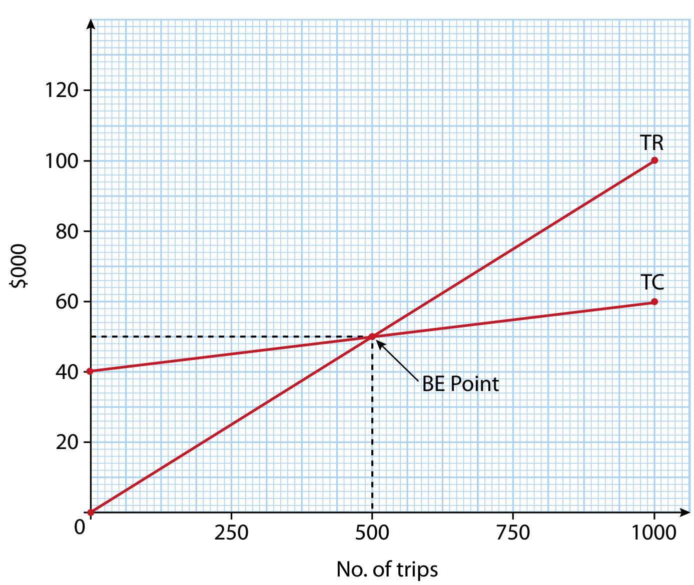
(ii) The margin of safety when 500 rooms are occupied is 200. It is the difference between the break-even point and current output.

Chapter review – Style Travel

(a) Construct a break-even chart for Style Travel.

The co-ordinates for TC and TR are shown in the table below.

Output	TC	TR
0	$40,000	0
1000	$60,000	$100,000



Style Travel – BE chart

(b) **(i)** What is the break-even point for Style Travel?

The break-even point for Style Travel is 500 trips.

(ii) What is the total cost and total revenue at the break-even point?

Both total cost and total revenue are $50,000 at the break-even point.

Mohammed plans to make 800 trips during the year.

(c) How much profit will be made?

Profit is the difference between total cost and total revenue on the break-even chart. Total cost is $56,000 and total revenue is $80,000. Therefore profit is $24,000.

(d) **(i)** Explain what is meant by the margin of safety.

The margin of safety is the range of output over which the business can make a profit. It is the difference between current output and the break-even level of output.

(ii) What is the margin of safety for Style Travel if 800 trips are made?

If Mohammed makes 800 trips in his limousine during the year the margin of safety for Style Travel is 300 (800 − 500).

(e) Describe what would happen to the break-even point for Style Travel if variable costs were to increase.

If VC increase, TC will be steeper and the break-even point will shift to the right. This means that Mohammed would have to make more trips to break even.

(f) Analyse the limitations of break-even analysis to Style Travel.

Although break-even charts can provide a business with some useful information, break-even analysis does have some limitations. One of the main ones is that the TC and TR are shown as straight lines. In practice they may not be straight lines. For example, a business may have to offer discounts on large orders, so total revenues fall at high outputs. In this case study the total revenue line would rise and then fall. A business can lower costs by buying in bulk. So costs may fall at high outputs and total cost will be curved.

Another problem is to do with the information used to construct the chart. The accuracy of the break-even chart depends on the quality and accuracy of the data used to construct total cost and total revenue. If the data is poor and inaccurate, the conclusions are drawn on the basis that the data is flawed.

Chapter 32

Getting started...

(a) State the **(i)** turnover; **(ii)** total expenses; and **(iii)** profit made by the Golf Discount Store.

(i) Turnover is the sales = $256,400

(ii) Total expenses = $78,500

(iii) Net profit = $40,800

(b) How might Hank Donavan use the profit and loss account?

The profit and loss account will show Hank how well his business has performed during the year. The net profit made by a business is an indicator of business performance. Hank might also use the profit and loss account to make decisions. For example, he may decide to invest some of the profit made by the business in the future.

Question 1

(a) Calculate: **(i)** gross profit; **(ii)** net profit.

(i) Gross profit = turnover − cost of sales

= \$12.56m − \$7.6m = \$4.96m

(ii) Net profit = gross profit − expenses

= \$4.96m − \$2.56m = \$2.4m

French Ltd distributes \$0.8m to shareholders.

(b) **(i)** How much profit is retained?

Retained profit is the money left after any distribution to the owners. Therefore in this case retained profit is \$1.6m (\$2.4 − \$0.8m).

(ii) What is likely to happen to the profit retained by the business?

Retained profit is kept by the business. This means it may be used to help fund investment projects. It may also be kept as a reserve in case trading conditions become difficult in the future.

Question 2

(a) Complete the profit and loss account for SoftHart plc by calculating the operating profit and retained profit for 2009 and the cost of sales and profit after tax for 2008.

For 2009:

Operating profit = \$5.1m

Retained profit = \$2.2m

For 2008:

Cost of sales = \$18.1m

Profit after tax = \$3.1m

(b) Comment on the performance of the business over the two years.

It could be argued that the SoftHart's performance has deteriorated since 2008. Turnover has fallen from \$29.2m to \$26.9. This is a fall of about 10 per cent. Gross profit has fallen by a similar amount. Net profit has fallen by a larger percentage. It has fallen by 29 per cent from \$3.1m to \$2.2m. A possible reason for this is the world recession. During a recession demand for non-essentials such as computer games is likely to fall. It could be argued that the business has performed quite well despite world trading conditions.

Chapter review – Spring Valley Farm Ltd

(a) Using this case study as an example, state what a profit and loss account shows.

The profit and loss account shows the income received and the expenses incurred by a business during a financial year. It is used to calculate the gross profit and net profit made by a business. It is divided into three sections and contains a trading account which is used to calculate gross profit, the profit and loss account, which is used to calculate net a profit and a profit and loss appropriation account, which shows how profit is distributed. The account helps to show how well a business has performed during the year.

(b) Draw up a profit and loss account for Spring Valley Farm Ltd.

Spring Valley Farm Ltd Profit and loss account for the year ending 31 December 2009		
	$	$
	2009	2008
Sales turnover	560,400	470,600
Cost of sales	302,100	270,500
Gross profit	258,300	200,100
Expenses	113,700	103,200
Operating profit	144,600	96,900
Interest paid	20,000	20,000
Net profit	124,600	76,900
Taxation	40,000	25,000
Profit after taxation	84,600	51,900
Dividends	20,000	10,000
Retained profit for the period	64,600	41,900

(c) Comment on the performance of the business over the two years.

The performance of the business has improved over the two years. Turnover has increased from $470,600 to $560,400. This is an increase of nearly 20 per cent. Gross profit has improved by more than 25 per cent which suggests that gross profit margins have been improved. The net profit made by farm has increased from $76,900 to $124,600. This is an increase of over 60 per cent. This increase suggests that the business is also being run more efficiently because net profit has risen faster than turnover. The business has also doubled the dividend payment to shareholders and increased retained profit. Spring valley Farm Ltd seems to be doing very well and improving.

At the end of the financial year the cash balance for Spring Valley Farm Ltd was $136,700.

(d) Analyse two possible reasons why this cash balance is different from the profit made in 2009.

The amount of cash Spring Valley Farm Ltd has ($136,700) is more than double that of retained profit in 2009 ($64,600). However, it should not be surprising that cash and profit are different. There could be a number of reasons for this. One obvious reason is that the business probably had some cash in the bank at the start of the financial year. This means that when the retained profit is added the overall cash balance will be higher than the value of profit. It is also possible that the business sold some assets during the year. Sales of assets generate cash but do not appear in the profit and loss account. Also, some goods are sold on credit and at the end of the financial year payment by some customers may not yet have been received. Therefore, profit is greater than cash. Similarly, a business may receive cash at the beginning of the trading year from credit sales made in the previous year. This would increase the cash balance, but not affect profit. It is possible that flowers are sold to customers on credit.

Chapter 33

Getting started...

(a) What is the value of all the assets owned by the business?

The value of assets owned by Benazir's business is $19,400. This is fixed assets and current assets added together ($12,500 + $6,900).

(b) How much money does the business owe to: **(i)** the owner; **(ii)** all other creditors.

(i) Owners put capital into the business. The value of capital at the end of the trading year was $15,200.

(ii) The total amount of money owed to other creditors at the end of the year was $4,200, $1,200 to trade creditors and $3,000 to the bank.

(c) What do you notice about the value of assets and the total amount owed by the business?

The value of assets, $19,400, was exactly the same as the total amount of money owed by the business, $19,400 ($15,200 + $4,200).

Question 1

(a) Using this case study as an example, explain the difference between assets and liabilities.

Assets are the resources which belong to a business. Assets are used by businesses to produce goods and services. In this case study examples of assets might be the property, tools and equipment and stocks of motor accessories used by the garage and petrol station.

Liabilities are monies owed by the business to suppliers, banks and other businesses, for example.

(b) Calculate the value of the mortgage for this business. (There are no other liabilities.)

Assets = capital + liabilities

$145,600 = $105,600 + liabilities

$145,600 − $105,600 = liabilities

Liabilities = $40,000

Therefore, the value of the mortgage is $40,000.

Question 2

(a) Calculate the value of **(i)** stocks; **(ii)** overdraft; **(iii)** net assets.

(i) Stocks = $3,400

(ii) Overdraft = $7,600

(iii) Net assets = $31,000

(b) Using this case study as an example, outline the difference between fixed assets and current assets.

Fixed assets are the productive resources of a business. They are assets which will be used and kept by a business for more than one year. In this case, fixed assets include vans, tools and equipment. These will be used by the business to construct conservatories, extensions and loft conversions.

Current assets are the liquid assets belonging to the business. They are assets which will be converted into cash within one year. Examples in this case, include work-in-progress, which is partly finished construction projects, debtors and stocks of raw materials.

Chapter review – The Golden Inn Ltd

(a) State two ways in which a balance sheet might be used.

Balance sheets show the financial position of a business and can be used to evaluate its performance and potential. It shows the:

- value of all business assets, capital and liabilities
- asset structure of a business.

(b) How is The Golden Inn funding its business activities?

The Golden Inn Ltd has total assets of $624,000. These come from a combination of sources of finance. However, more than half is funded from retained profit. This is $395,000. The shareholders have contributed $100,000 and there is a mortgage of $60,000. The rest of the funding comes from a combination of trade creditors, money owed to the authorities and other reserves.

(c) Prepare a balance sheet for The Golden Inn Ltd.

The Golden Inn Ltd Balance sheet as at 31 December 2009	
	2009
	$
Fixed assets	
Property	440
Fixtures and fittings	100
	540
Current assets	
Stocks	60
Debtors	68
Cash	56
	184
Current liabilities	
Trade creditors	112
Taxation	12
	124
Net current assets	60
Long term liabilities	
Mortgage	(60)
Net assets	540
Capital and reserves	
Share capital	100
Retained profit	395
Other reserves	45
Capital employed	540

(d) What is the value of The Golden Inn Ltd?

The value of a business is represented by the value of net assets. In this case, the net assets for The Golden Inn Ltd are $540,000.

(e) Do you think the business has enough working capital?

Working capital, which is shown as net current assets in the balance sheet is calculated by subtracting current liabilities from current assets. This is an important figure in the balance sheet. It shows the amount of liquid resources a business has available to meet the running costs. If a business is running short of working capital it could have cash flow problems. The Golden Inn Ltd has $60,000 of working capital. This should be enough to meet any immediate debts.

Chapter 34

Getting started...

(a) How will Zheng Peng use the profit and loss account in this case study?

Zheng Peng is going to use the profit and loss account for 2009 to make an important decision regarding his future. He has decided that if the farm does not make a profit of $25,000 in 2009 he will retire from farming. Unfortunately, the profit and loss account shows that the farm's profit in 2009 is only $19,700. Presumably he will now retire.

(b) Which stakeholder is interested in the accounting information in Figure 34.3?

The information in Figure 34.3 shows current assets and current liabilities for the Birmingham Brick Company. A supplier will use the information to decide whether to give the brick company trade credit.

(c) What conclusion might the stakeholder in (b) draw from the information shown in Figure 34.3?

The information in Figure 34.3 shows that the working capital position for the Birmingham Brick Company is worsening over the time period. Current assets fell between 2006 and 2009 while current liabilities have risen. Indeed, in 2009 working capital is negative because current assets are less than current liabilities. This suggests that the company will struggle to pay its immediate bills. As a result the supplier is not likely to grant the Birmingham Brick Company any credit because they might not get paid.

Question 1

(a) What do you think is the main reason why owners use accounts?

The owners of a business will obviously be interested in the performance and the financial position of the business. For example, a sole trader might look at the annual profit to see if profit targets have been met. Shareholders in limited companies will also be interested in the performance of the business. They may look at the size of dividends. They may use ratio analysis to see how their investment in the business is performing. Shareholders might also make comparisons with other companies in the same industry. In this case, the shareholder set targets for return on capital employed. The shareholders aim to get a 10 per cent return on capital employed. They use the accounts each year to check whether this target has been achieved.

(b) Has the business reached the targets set by the shareholders in this case study?

According to the information in Figure 34.4 the return on capital employed has exceeded the shareholders' targets every year except for 2009. In 2009, ROCE was only 8.3 per cent. Although this is below their 10 per cent target, it may not be too disappointing because there was a world recession at this time.

Chapter review – Goldenport Holdings

(a) State two possible reasons why employees at Goldenport Holdings might be interested in the information shown.

Employees might need financial information during wage negotiations. For example, information about the profitability, liquidity and financial prospects of the business could be used to decide whether a business can afford to raise wages. They may also look at accounting information to see whether their jobs are secure. The information in Figure 34.5 is very positive for employees. Revenue and profits are rising and the order book looks very full for the future. This suggests that their jobs are safe and that a wage demand might be met.

One objective of Goldenport Holdings is growth.

(b) What evidence is there to suggest that this objective has been achieved?

Many businesses aim to grow and Goldenport Holdings is no exception. Evidence in Figure 34.5 suggests that the company has grown consistently between 2005 and 2008. For example, sales revenue has grown from $83,649,000 to $154,968,000. This is an increase of 85 per cent. Profit has also nearly doubled in four years and the number of ships it owns has also nearly doubled.

(c) How might a manager of Goldenport Holdings use the information shown in this case?

Managers need financial information, such as details of current assets and creditors , to help keep control of the money flowing in and out of the business. This becomes more important as the firm grows and the amount of money used increases. Managers will also want to assess the performance of the company, make comparisons with competitors, and keep a record of the firm's progress over a given period of time. In this case study, the pattern of sales revenue and net profit would be very encouraging for managers. Finally, managers use financial information to help make business decisions.

(d) Outline why: **(i)** the media; **(ii)** competitors might wish to look at the accounts of Goldenport Holdings.

(i) Business is often the subject of newspaper, television and radio reports. There are specialists that focus on business information. For example, in the US and UK *The Financial Times* is a newspaper devoted almost entirely to business and financial reports. Company accounts give valuable information to journalists and producers when writing their reports and making programmes. The information shown in Figure 34.5 relating to turnover and profit is likely to be of interest to the media when reporting on the progress made by Goldenport Holdings.

(ii) The accounts of limited companies are available to the public. Therefore competitors may wish to analyse them in order to make comparisons. If a competitor is going to take over a company it can use the information to help make a decision. In this case, other shipping companies will be interested to see how Goldenport Holdings is performing. It is performing well and rivals may be concerned at its strength.

(e) Why do auditors need to see company accounts?

Every year the accounts of limited companies have to be checked by an independent firm of accountants and registered auditors. The process of checking the accuracy of accounts is called auditing. Those accountants who carry out the check are called auditors. In the UK the law requires accounts of limited companies to be audited if the turnover exceeds £6.5 million.

(f) Evaluate the performance of Goldenport Holdings between 2005 and 2008.

The information in Figure 34.5 shows some important performance data which has been extracted from the accounts. It is all very positive for Goldenport Holdings. Sales revenue has increased by 85 per cent during the time period and profit has nearly doubled. The profit margins are also very impressive. For example, in 2009 the profit margin is around 50 per cent. This is very high. The order book also looks healthy. Orders look set to more than double in 2009 and treble (from 2008 levels) in 2010. The management and shareholders are probably very optimistic about the future of Goldenport Holdings.

However, to draw a full conclusion it would be necessary to look at a wider range of accounting information. For example, it would be necessary to look at the returns on capital and the solvency of the business. However, based on the information presented here, Goldenport Holdings has performed very well between 2005 and 2008.

Chapter 35

Getting started...

LemCo Ltd has been badly affected by the arrival of new competition in the market for soft drinks.

(a) What evidence is there to support this view?

Both the profit and loss account and the extracts from the balance sheet show that LemCo was hit by the arrival of a new competitor. The turnover of the business fell from $1,231,500 to $890,600. This is a fall of about 28 per cent. The net profit made by the business also took a turn for the worse. In 2008 LemCo made a net profit of $158,600. However, in 2009 this turned into a loss of $2,400. This is only a small loss but it is a big drop from the previous year. The extracts from the balance sheet show that working capital has fallen sharply from $239,300 to $13,700. This may well mean that the business has difficulties in paying day-to-day bills.

(b) How might the staff lay-offs improve financial performance at LemCo in 2010?

Laying off staff at LemCo could improve the financial performance of the business. This is because if people are laid off the wage bill will be reduced. With lower wages, costs will fall and the company may return to profit again. However, laying off staff may result in production difficulties.

Question 1

Look at the sales figures for GMC between 2003 and 2007.

(a) How has the company performed?

Sales turnover has increased significantly between 2003 and 2007. It has increased by nearly 100 per cent from £12.4 million to $24.1 million. This suggests that GMC has performed very well indeed.

(b) What impact has the flood of orders had on GMC?

Figure 35.5 shows that both gross profit and net profit rose sharply in 2006. This coincides with the flood of orders resulting from the Beijing Olympic construction projects in 2006 and 2007. This appears to have had an impact on the profits for 2006 and 2007. Both gross profit and net profit doubled between 2005 and 2007.

(c) Calculate: **(i)** gross profit margin; and **(ii)** net profit margin.

	2003	2004	2005	2006	2007
	per cent	per cent	per cent	per cent	per cent
Gross profit margin	39.5	40.6	40.9	49.5	51.0
Net profit margin	8.1	8.7	8.7	10.6	10.8

(d) Discuss possible reasons for the changes in **(c)** between 2003 and 2007.

Between 2003 and 2005 both the gross and net profit margins are fairly stable. They have increased slightly but not by much. However, in 2005 and 2006 they both rise sharply. This coincides with the flood of orders. The gross profit margin rises from 40.9 per cent to 49.5 per cent between 2004 and 2006. This may be because GMC has been able to buy raw materials more cheaply. They will have increased production for the orders and may have enjoyed cheaper materials through bulk buying. The net profit margin has increased from 8.7 per cent to 10.6 per cent. This may be because GMC have enjoyed some technical economies of scale, ie making better use of their machinery when increasing production. The net profit margin will usually rise if a business keeps control of its overheads. It appears that GMC has done this since 2005

Question 2

(a) Calculate the: **(i)** current ratios; **(ii)** acid test ratios for both companies in 2008 and 2007.

	HR Owen		BPI	
	2008	2007	2008	2007
Current ratio	1.16	0.96	1.76	1.58
Acid test ratio	0.37	0.36	0.89	0.85

(b) Which is the more liquid of the two companies?

According to the calculations in (a) BPI is the most liquid of the two companies. The current ratio in both years for BPI lies in the preferred range of 1.5 to 2. The acid test ratio in both years is just below 1. HR Owen's figures are significantly worse. The current ratios in both years are well below 1.5 and the acid test ratios are well below the preferred target of 1. Between 2007 and 2008 both companies have improved their liquidity position slightly. For example, the current ratios for both companies have increased.

There may be a reason why HR Owen appears to have a poorer liquidity position than BPI. HR Owen is a specialist car retailer and sells prestige and expensive cars from car showrooms. Consequently its main asset will be stock (the value of cars in the showroom). This would account for the low acid test ratios. It is also possible that HR Owen is paid immediately when a sale is made – it probably does not have to wait for customers to pay. Therefore it does not have to wait for cash. This means they can operate with much lower current and acid test ratios. BPI is a manufacturer and probably allows its customers trade credit. This means they have to wait for cash and therefore need higher liquidity ratios to be safe.

Chapter review – Muscat Shipping Company

Muscat Shipping Co has been affected by the world recession.

(a) What evidence is there in Figure 35.6 to support this view?

During a recession a business might expect its sales turnover and profit to fall. This is what happened at Muscat Shipping Co. Its turnover fell from $12.5m in 2007 to $9.6m in 2008. Net profit also fell from $1.13m to $0.34m. This suggests that trading conditions were difficult during 2008 and there was less transportation. However, in 2009 both turnover and net profit picked up again.

The return on capital employed is a performance ratio.

(b) What does this mean?

Performance ratios show how profitable a business is. The ROCE shows how much profit is generated by the money invested in the business.

(c) Calculate: **(i)** net profit margin; **(ii)** current ratio; **(iii)** ROCE; for Muscat Shipping Co in each of the three years.

	2007	2008	2009
(i) Net profit margin	9.04%	3.54%	9.83%
(ii) Current ratio	1.49	1.02	1.64
(iii) ROCE	11.30%	2.83%	9.75%

(d) Evaluate the performance of the business over the three-year period.

Over the three years the net profit margin has risen from 9.04 per cent to 9.83 per cent. This is a small improvement but during 2008, the net profit margin fell to 3.54 per cent during the world recession. This does not suggest that there is a problem with the business, just that trading conditions were difficult.

In the same period the current ratio has also improved from 1.49 to 1.64. If the current ratio lies between 1.5 and 2.0 a business is said to have adequate working capital. Since 1.64 lies in this range, Muscat Shipping Co appears to have enough working capital to fund its day-to-day activities. However, the current ratio did fall to nearly 1 in 2008 which provides further evidence that trading was difficult.

Finally, the ROCE has fallen over the three years from 11.3 per cent to 9.75 per cent. The company is still recovering from the recession and in 2008 the amount of capital employed was increased when the owners injected another $2m of capital. Clearly, the net profit has not risen sufficiently yet to recover the lost returns.

Chapter 36

Getting started...

(a) Describe the approaches used in the above examples to help sell Coca-Cola and Nike products.

Coca-Cola uses a number of methods to help sell its products. Three are mentioned in the case study. Coca-Cola sells a lot of different brands in the same market. It has developed over 3,000 different products including brands such as Coca-Cola, Diet Coke, Coca-Cola Zero, Fanta, Dr Pepper, Sprite, Lilt, Powerade and Dasani. This increases the chances of someone buying a Coca-Cola product when buying a drink. Coca-Cola also spends hundreds of millions of dollars on advertising all over the world and its brand name is often associated with sporting events. For example, Coca-Cola was one of the main sponsors of the 2008 Olympic Games in Beijing.

Nike used mobile telephones to promote its products. It erected a large, interactive billboard in Times Square, New York. Passers-by could use their mobile phones to text in their own custom design and receive a free pair of Nike IDs. After designing a trainer on screen, the user received a text message within seconds that had in it an image of the design. It then showed a link to the Nike ID site where the design could be bought.

(b) Assess the importance of marketing to Coca-Cola and Nike.

Marketing is very important to both Coca-Cola and Nike. Both companies operate in very competitive markets. They have to be innovative and creative when trying to persuade customers to buy their products. Both companies also spend huge amounts of money on marketing. For example, Coca-Cola spends hundreds of millions of dollars on advertising every year. Nike gave away 3,000 pairs of trainers in just one promotion. Spending large amounts on marketing suggests that marketing is very important to both companies.

Question 1

(a) Describe how Hotel El Prado is attempting to satisfy customer needs.

Businesses have to satisfy customers' needs and wants. To do this they must gather information from customers. At the Hotel El Prado Catalina uses a questionnaire left in the guest's room to gather feedback. This feedback will tell the hotel what guests thought after they had sampled the service. If guests complete the questionnaire they can collect a free gift when they check out.

(b) How might the hotel use the information it gathers?

Catalina is always keen to make improvements to the hotel service and aims to exceed the expectations of guests. Catalina can use the information she collects from the questionnaires to generate ideas for improvements. For example, if a number of guests indicated in their responses that the rooms were too hot, Catalina might repair or upgrade the air conditioning.

Chapter review – Marketing in the car industry

(a) Outline the role played by marketing in business.

Marketing is used to help a business sell its products. However, marketing is not just about selling, it involves a range of activities. For example, marketing involves identifying the needs and wants of consumers, designing products that meet these needs and understanding the threats posed by competitors in the market. It also involves telling customers about products, charging the right price, encouraging or persuading customers to buy products and making products available in convenient locations.

(b) To what extent is the car industry product or market orientated?

Product orientated businesses focus purely on the product. In contrast, market orientated business focus on customer needs. They respond to the market. In this case, focus groups are used to gather information from customers about their needs and wants. Participants discussed the different types of car that they thought should be available in the market. For example, participants said that a low maintenance car would be a good idea. This was because dealerships provide bad service and cars are too complicated for consumers to repair themselves. Therefore, why not design and manufacture a car which requires limited service and can be maintained by owners? This approach suggests that the car industry is market orientated.

Car manufacturers are one of the largest spenders on advertising. In 2007, $9.42 billion was spent on advertising cars.

(c) What might account for this high advertising spend?

In 2007, $9.42 billion was spent. The main reason for this is to persuade customers to buy their particular models. The global car market is very competitive. Therefore manufacturers spend huge amounts on persuasive advertising.

The amount spent on television advertising by car manufacturers has fallen from $7 billion to less than $6 billion in four years.

(d) Outline two possible reasons for this change.

The amount spent on TV advertising has dropped significantly from $7bn to less than $6bn in four years. One possible reason for this may be because businesses have cut their overall spending on advertising, of which TV advertising is a part. Cuts in the advertising budget may have been forced by a lack of funds due to the global recession.

Another reason may be because businesses have increased spending on other advertising media at the expense of TV. Businesses will want to spend their advertising budget on the most effective media. They are also likely to be attracted to new media. For example, many businesses are increasing the amount of money they spend on internet advertising.

(e) Using this case as an example, explain what is meant by the marketing mix.

The marketing mix refers to the main marketing activities which businesses use when marketing their products. The marketing mix emphasises four particular elements – usually referred to as the 4Ps. In this case, the product means that businesses need to design high quality cars which meet customer needs. They must be fuel-efficient, safe and good to look at for example. Cars must be priced so that customers think they are getting value for money. However, the price charged must also generate a profit for the car manufacturers. Customers must be given information about products and encouraged to buy them. Car manufacturers spend huge amounts on TV advertising, for example. Finally, cars must be available in convenient locations at times when customers want to buy them. Most cars are sold through a network of dealerships.

(f) Suggest a future marketing objective for the car manufacturer in this case study. (Hint: use the information gathered from the focus group.)

In this case, a focus group has been used to gather information about the types of cars people would like to see designed. The group came up with three specific ideas – a low maintenance car, a safe sports car for teenagers and a durable car to save money. The marketing objective of the manufacturer in this case might be to design a new model and launch it effectively. It is unlikely that the manufacturer would work on all three ideas suggested by the focus group. They might do some more research to determine which idea is the most popular with the market. Car manufacturers spend a lot of money researching the market and trying to come up with designs that people like. Most manufacturers would want to try and launch a new design effectively. This is a very likely marketing objective.

Chapter 37

Getting started...

(a) Describe the different groups of customers targeted by Etihad in this example.

Etihad caters for the needs of three different customer groups on its planes. The main group of customers is likely to travel economy class when flying with Etihad. In this example, an economy glass flight from Abu Dhabi to Mumbai will cost AED1,775. Most people when they fly travel economy class. This will be the largest customer group.

Etihad also targets business customers with its Pearl Business service. This is priced at AED3,025. The final group targeted by Etihad is very wealthy travellers. The Diamond First Class service is offered to this customer group at a price of AED5,495.

(b) How might Etihad benefit from offering three different services?

By targeting different customer groups Etihad will be able to serve a wider range of customers. This will enable them to increase revenue. If Etihad only offered economy class, it would miss out on the opportunity to charge higher prices to those who are willing to pay for a higher quality service onboard a flight.

Question 1

There are many different segments in the holiday market.

(a) Outline the main reason for this.

There are many different segments in the holiday market because a wide range of consumers want different types of holidays. For example, there are long-haul holidays, cruises, weekend breaks, adventure holidays, family holidays, 18–30 holidays, special interest holidays and touring holidays. These different types of holidays, and many more, are likely to be purchased by different types of age-related consumer groups.

(b) Describe the market segments each of the above companies is targeting.

- Pontins aims its holidays at families and low income groups.
- Saga aims its holidays at the over-50s.
- Kuoni aims its holidays at wealthier consumers.
- DR Yachting aims its holidays to those with special needs such as wheelchair users.

Question 2

(a) Using this case study as an example, explain what is meant by a niche market.

A niche market is a small section or segment of a market. Niche marketing is the complete opposite of mass marketing. It involves selling to a small customer group, sometimes with specific customer needs. In this case, Nomads is selling clothes to a very specific customer group. Nomads is targeting customers that want a particular, possibly unfashionable, style of clothes – designs including Celtic, tie-dye, ethnic and hippy, for example. Nomads also use fair trade materials and suppliers who both give and receive a fair rate of pay. This market is quite specialised and therefore could be considered a niche market.

(b) Outline two advantages of producing for a niche market.

Although niche markets are small they do have advantages. For example, small firms can often survive by supplying niche markets. They can often avoid competition because large firms are not generally interested in very small markets. It is also a lot easier to focus on the specific needs of the customer in a niche market.

Chapter review – Toyota

(a) Describe the market segment that Toyota is likely to target with the vehicles described here.

The Toyota Prius is likely to be targeted at people who are concerned about the environment. It produces lower emissions than normal petrol driven cars because it relies more on electricity for its power. The Toyota Prius has become the byword for eco-conscious driving.

The Hiace is a commercial vehicle. It is a van and will be targeted at businesses that require that require this type of transport.

The AYGO is a small, low cost car. It is not a family car and is therefore likely to be targeted at single people on relatively lower incomes. However, it might be bought as a second car by a family. It is also said to be the ultimate city car so it might also be targeted at single people who live in cities.

The Land Cruiser is an expensive 4 × 4 vehicle and described as a Sports Utility Vehicle. It is likely to be targeted at wealthier people who have an interest in sport. It might also appeal to wealthier families because of its size.

(b) Assess if these products are likely to be targeted at particular:

(i) geographical areas

(ii) income groups.

(i) Buyers of the AYGO may be segmented geographically. This is because it is described as the ultimate city car. This suggests that it will be targeted at city dwellers.

It might also be argued that the Land Cruiser is targeted at rural customers because it is an 'off-road' vehicle. It may be that many are sold to people that live in the countryside. However, there is plenty of evidence to suggest that 4 × 4 vehicles are also popular with drivers who live in towns and cities.

(ii) The AYGO is likely to be targeted at lower income groups. This is because it is a cheap car at just $13,500. It is also economical which will appeal to lower income groups. In contrast the Land Cruiser may be aimed at wealthier drivers. This is because it is expensive – priced at $48,900. It is also said to offer premium levels of comfort which would appeal to higher income drivers.

(c) Examine whether Toyota relies on mass marketing or niche marketing.

A mass market is a very large market whilst a niche market is a small section or segment of a market. Toyota is the largest car manufacturer in the world with factories and customers in many different countries. In 2008, Toyota sold over 8 million cars. This suggests that Toyota produces cars for the mass market. This means that Toyota can produce large quantities at a lower unit cost by exploiting economies of scale. This might result in higher sales and higher profits. Although there is no information in this case, Toyota, like most other global car producers, uses television to reach a mass audience when advertising its vehicles. It is unlikely that Toyota would be interested in a niche market. It would be too small.

(d) Analyse the benefits to Toyota of market segmentation.

Generally Toyota will be better placed to meet the needs of different customer groups if the market is segmented. It can design models for groups of customers that have similar characteristics. By producing different products for different market segments Toyota can increase its revenue. Toyota produces at least 14 different models for different customer groups. There will also be variations on these models because 'extras' can be added by paying more. This means that it is getting more out of the market. Another benefit of market segmentation is that customers may be more loyal to a business that provides products which are tailored specifically to them. Once drivers become familiar with a particular manufacturer's model, if it meets their needs exactly, they are likely to replace their old model with a new one. Market segmentation might also help Toyota to avoid wasting resources by targeting products at customers that do not want them. Advertising and other forms of marketing are expensive and Toyota would not want to waste money targeting a particular customer group with a model in which they would have no interest.

Chapter 38

Getting started...

(a) Describe the marketing methods used in the above examples to help sell the products.

Businesses can use a number of approaches when marketing their goods. The above examples demonstrate three particular methods that businesses use to help sell their products.

Sony is cutting the price to generate sales of its PlayStation 3. Prices have been cut by $100 worldwide to $299. When the PlayStation was first launched in 2006 it was priced at $600.

LG is using an advert to promote a new range of HD televisions in Egypt. The image is designed to make the new range look attractive and desirable. The image also contains the LG logo which helps to promote the company.

McDonalds has had to focus on its products when setting up India. It has changed the menu to suit the tastes of Indian consumers. It has items on the menu such as McVeggie, McAloo Tikki and Paneer Salsa Wrap. It is unlikely that McDonald's would have been successful in India without changing the product.

Chapter review – Ryanair

(a) Using this case study as an example, outline what is meant by the marketing mix.

The marketing mix is the combination of elements in a firm's marketing strategy which is designed to achieve marketing objectives. Ryanair provides low cost flights to many European destinations. It charges low prices, designs its own promotional activities, such as using simple adverts telling customers that prices are low, and flies from 'secondary airports'.

(b) Describe the product being sold by Ryanair.

Ryanair is a 'no-frills' budget airline. This means that it provides a basic flight with very low fares. Ryanair does not provide any free food or drink during the flights. However, food and drink can be purchased on board. Ryanair generates other income from deals it has with Hertz Car Rental and a number of other businesses such as hotels, phone cards and bus companies.

Ryanair sells tickets online.

(c) Outline two advantages of this approach.

Like many airlines, Ryanair sells flight tickets online. The main advantage of this to the company is that operating costs are lower. It states in the case study that online selling saves Ryanair from paying agency fees of 15 per cent. There may also be other savings because it reduces the amount of time spent on administration.

Consumers can also benefit because they can buy tickets from the comfort of their own homes at a time that suits them. Online transactions can be conducted 24/7. This is both convenient and cost effective for the majority of customers.

(d) Analyse two factors that are likely to affect the marketing mix chosen by a business.

Businesses have to find the right balance between product, price, promotion and place when devising a marketing strategy. Different businesses will attach different levels of importance to each element in the marketing mix.

The marketing mix may be influenced by a number of factors. For example, the level of competition in a market is very important. In highly competitive markets, such as air transport, price is likely to be very important. Ryanair recognises this and charges low prices. In some circumstances technology can affect the marketing mix. Ryanair sells all of its tickets online to keep costs down. Other factors that might affect the marketing mix are market research, the nature of the product, the size of the marketing budget and the mix used by competitors.

(e) Assess which element of the marketing mix is the most important to Ryanair.

Most people would argue that price is the most important element of Ryanair's marketing mix. Ryanair is a 'no-frills' budget airline and its prices reflect that. Ryanair has low fares – often the lowest in the market. Seventy per cent of seats are sold at the lowest two fares. Thirty per cent of seats are sold at higher fares. The last six per cent are sold at the highest fare. Ryanair's whole business model relies heavily on selling lots of tickets at low prices. However, it is important not to ignore other elements. It is necessary to have the right balance and recognise that all elements are important. For example, it would be no good if Ryanair had the lowest prices but no-one knew about it.

Chapter 39

Getting started...

(a) How are prices set in the above examples?

Dell computers set their prices low so that they could get a foothold in the market. For example, when Dell broke into the Chinese market in 2007, the price of PCs was set between 2,599 yuan to 3,999 yuan. The prices of rivals' PCs were around 5,000 yuan.

Sanjay bases the prices charged in his store on costs. He uses a very simple method to calculate the prices of all products sold in the shop. He adds 20 per cent to the cost of buying them in.

(b) Outline one possible advantage of using the pricing method in each case.

The low prices charged by Dell Computers will help the company get established in a very competitive market.

The method used by Sanjay will ensure that his business makes a profit. This is because the prices charged are 20 per cent higher than costs.

Question 1

(a) Identify the pricing strategy used by SmithKline Beecham for Tagamet.

The pricing strategy being used by SmithKline Beecham is called skimming or creaming. It involves charging a high price when the product is first launched and then lowering it once competition starts to arrive. In this case the price of Tagamet in 1978 was $10. However, today Tagamet can be bought for 29 cents a unit.

(b) Why did the price of Tagamet fall in 1994?

The price of Tagamet fell sharply in 1994 because the patent owned by SmithKline Beecham was about to expire. A patent prevents rivals from copying a product for a certain length of time. However, once the patent runs out other producers can sell their version of the product on the market. Rivals were expected to enter the market in 1995 so SmithKline Beecham lowered their prices to remain competitive.

(c) Outline the main advantage to SmithKline Beecham of this pricing strategy.

Skimming allows a business to charge a high price for a unique product for a certain length of time. In the pharmaceuticals industry this is important. The cost of researching and developing new drugs is lengthy and very expensive. The opportunity to skim the market provides an incentive to companies like SmithKline Beecham to invest in research and development.

Question 2

(a) Describe the pricing strategy being used by the multinational.

The multinational coffee chain in this case is using predatory or destroyer pricing. The idea is that a very low price is set to deliberately undercut competitors like Eduardo Urondo. Once Eduardo's coffee shop goes out of business, the chain will raise prices.

(b) How can the new rival afford to trade at a loss?

Predatory pricing is an expensive approach because it usually means a business has to trade at a loss for some time. However, in this case a large multinational is using predatory pricing to drive out a small independent coffee shop. Large multinationals have huge resources and can afford for one outlet to trade at a loss for a period.

Chapter review – The Sharjah Tile Centre

(a) (i) Using this case study as an example, explain what is meant by cost plus pricing.

Cost plus pricing is very popular with retailers. It involves adding a mark-up, or profit margin, to the cost of goods. In this case, Faris Mubarak adds another 50 per cent to the cost of tiles bought in.

(ii) Calculate the price Faris would charge for a pack of ceramic tiles costing him AED30.

The price of a pack of ceramic tiles costing AED30 would be AED45 ($30 + [50\% \times 30]$).

(iii) Outline one advantage and one disadvantage of cost plus pricing.

Cost plus pricing is a simple method of pricing. The calculations are straightforward. The method also ensures that costs are covered and that the business makes a profit. In this case the Sharjah Tile Centre knows that the costs of buying in the tiles will be more than recovered.

However, one of the drawbacks of this method is that it ignores market conditions. For example, the prices set for the tiles may be far too high in relation to the prices of other suppliers in the market. This might result in low sales.

(b) Define competition based pricing.

Some businesses take a very close look at what their rivals are charging when setting their prices. This is called competition based pricing. In this case, Faris has noticed that other tile suppliers in the area are lowering prices to trade customers. Faris is now considering similar tactics.

The products sold by The Sharjah Tile Centre have price elastic demand.

(c) Describe what this means.

Goods which have price elastic demand are responsive to price changes. This means that when Faris changes the price of tiles there will be a significant change in demand for them. Most goods have elastic demand. This is because there are usually substitutes for products – there is competition.

Faris is considering a price cut for tiles.

(d) Assess the likely effect on demand and revenue.

Price elasticity is important when setting the price of products. If a product is price elastic, like the tiles in this case, it is possible to raise revenue by lowering price. Products which are price elastic have lots of substitutes, so when Faris lowers the price of his tiles, customers will be attracted from other suppliers. Demand will rise by a greater proportion than the reduction in price. Therefore revenue will rise as well.

Chapter 40

Getting started...

(a) Describe the methods used by these businesses to promote their products.

Supermarkets often use leaflets like those shown in the photograph to promote special offers. They are usually distributed to households in the hope that the special offers will draw shoppers to the stores.

La Villa Des Orangers is a luxury hotel located in Marrakech, Morocco. The hotel has its own website which is used as a means of promotion. It contains information and photographs of the hotel. It is hoped that the information and attractive photographs will encourage people to make a booking. A booking can be made immediately online.

Greenhouse Bonanza is using an advert placed in a gardening magazine to help sell greenhouses.

(b) Which of these businesses is most likely to use TV advertising?

Supermarkets are most likely to use television advertising. This is because most supermarkets are large national chains and have the financial resources to pay for expensive TV adverts.

(c) How is Greenhouse Bonanza targeting customers?

Greenhouse Bonanza is targeting a group of customers that are likely to be interested in buying a greenhouse. This is because their advert is placed in a gardening magazine. Most readers of gardening magazines would have an interest in greenhouses.

Question 1

(a) What is meant by above-the-line promotion?

Above-the-line promotion involves paying the owners of media to place an advert. The amount of money spent on advertising, especially in western countries, is huge. For example, in the US around 2 per cent of GDP is spent on above the line promotion every year. Between 1997 and 2007 the amount spent on total advertising media in the US rose from $187,529 million to $279,612 million.

(b) Outline three key changes in advertising expenditure shown by Figure 40.4.

The graph in Figure 40.4 shows changes in the amount of money spent on different advertising media in 1997 and 2007. It shows that spending on all types of media has increased. However, the amount spent on newspaper advertising has only increased slightly. The largest increase is the amount spent on Internet advertising. It has increased by over 1,000 per cent. This is because advertising on the internet is new and has grown in popularity in recent years. Other significant increases include cable TV, direct mail and miscellaneous publications. Although newspaper advertising has not increased by very much in 10 years, it is still the most popular single medium.

Question 2

(a) What is meant by a trade fair? (Use this case study as an example.)

Some businesses attend trade fairs or exhibitions to promote their products. Businesses set up a stand and promote their products face-to-face with possible buyers. Fairs may be attended by commercial buyers or consumers or both. In this case, Gifts India 2009 is India's largest trade fair for corporate and personal gifts. Around 20,000 visitors are expected to attend representing distributors, merchandise buyers, catalogue houses, dollar stores, gift buyers and many other commercial buyers. Exhibitors at the trade fair will include gift wrappers, souvenirs, festival decoration products, handicrafts, promotional toys and Jewellery.

(b) Discuss three advantages to a Chinese toy manufacturer of attending Gifts India.

The use of exhibitions or trade fairs as a method of promotion have some distinct advantages. Products might be tested out on consumers before a full launch. In this case, visitors or buyers can actually play with the toys on display at the manufacturer's stall. Some exhibitions are overseas and can be used to break into foreign markets. In this case, a Chinese toy manufacturer is promoting toys in India.

Other advantages are that products can be physically demonstrated and questions can be answered. Exhibitions also attract the media so there may be some free PR and customers can speak to business owners or senior personnel face to face.

Chapter review – UEFA Champions League

(a) Using this case study as an example, explain what is meant by sponsorship.

Sponsorship is a form of PR. Many companies attract publicity by linking their brands with sporting events. In this case, a number of high profile multinationals such as Ford, Mastercard, Sony and Adidas are sponsoring the UEFA Champions League. This is one of the most important football tournaments in the world. In return for a large payment sponsors get publicity every time the UEFA Champions League is mentioned.

(b) Outline two advantages to the sponsors of their involvement in the UEFA Champions League.

Sponsors of the UEFA Champions League get two key benefits. The main motive for sponsorship is publicity. Their corporate names are always linked with this world popular football tournament whenever it is mentioned or promoted. Since the Champions League is televised all over the world the exposure enjoyed by the sponsors is significant.

Sponsors also get a range of benefits. Here, each sponsor is also allocated four advertising boards around the edges of the pitch, logo placement at pre- and post-match interviews and a certain number of tickets to each match. This, combined with a deal to ensure tournament sponsors are given priority on television advertisements during matches, ensured that each of the tournament's main sponsors was given maximum exposure.

(c) Give two other methods of PR that businesses might use to promote their products.

Two other methods of PR which are popular include:

- Press conferences
- Press releases.

(d) **(i)** What does the graph in Figure 40.6 show?

The graph in Figure 40.6 shows how different supporters of football follow the progress of the UEFA Champions League. The majority of interest in the tournament is expressed by watching coverage on the television. More than 80 per cent of both Champions league followers and passionate followers follow it on TV. The next most popular medium is newspapers at just under 40 per cent. The least popular method of following the tournament is through magazines and spectating (attending matches).

(ii) Suggest how the graph in Figure 40.6 might be helpful to the sponsors of the UEFA Champions League?

The information in Figure 40.6 is likely to be of interest to the sponsors of the UEFA Champions League. One reason is because all of the sponsors advertise their products heavily. For example, Ford, like many other multinational car manufacturers, spend heavily on TV advertising. They will be pleased that so many followers will be watching matches on the TV. This means that their advertisements will be seen by this consumer group when they are shown before and after the match and at half time (assuming they are still watching). The sponsors will also be pleased that their names will get so much coverage on TV in front of this large audience. They may also use the information to target products using different advertising media in the future.

(e) Evaluate the factors that might influence the choice of promotion for a company like Ford.

Ford is a major car manufacturer and like many multinationals, is likely to use a range of different promotional methods. The main factor that might affect their choice of promotion is likely to be product type. Most car manufacturers use TV advertising to promote their cars. Car producers are heavy advertisers on TV. This is because cars are targeted to a mass market. Ford may be influenced by the promotions used by competitors. If other car producers are advertising heavily on the TV, Ford may feel pressurised to do the same or get left behind. The cost of promotions may not be an important factor. This is because Ford is a huge corporation with deep resources. The type of market though might be another important factor. Ford's products will be directed at mass markets so they need to reach consumers all over the world. TV and national newspapers can help here. Finally, one method of promotion popular with car manufacturers is exhibitions. There are some big motor shows around the world during the year where companies like Ford will show their products. Car producers often use such shows to launch new products. And they will also use PR, such as sponsorship in this case. However, TV advertising is the most important media.

Chapter 41

Getting started...

(a) Outline the methods of distribution used in the above examples.

Mars sells its confectionery products in as many outlets as possible. Chocolate bars can be bought in newsagents, sweet shops, supermarkets, petrol stations, bars, cinemas, sports venues and vending machines and kiosks located in places like bus and railway stations.

Loot.com uses the internet to sell products. People order books, CDs and DVDs online and they are delivered directly to South African residents.

(b) State two advantages to Mars of selling goods through vending machines.

The main advantage of vending machines is that people can purchase confectionery 24/7. It is also a cheap method of distribution because the sale of chocolate bars does not need any staff. Vending machines are a low cost method of selling.

(c) Is Mars likely to use the internet to distribute confectionery?

Mars is not likely to use the internet to distribute confectionery. It would not be cost effective to receive orders for small quantities and deliver to customer's homes. Many people buy confectionery on impulse. They are not likely to order a Mars bar, for example, and take delivery three days later.

Question 1

(a) What is meant by direct selling? (Use this case study as an example.)

Direct selling involves a producer selling directly to consumers. There is no use of intermediaries. In this case, Dove Chocolate Discoveries sells its products at shopping parties organised by chocolatiers appointed by the company. At the parties, guests learn fun facts about chocolate while sampling the products. They place orders during and at the end of parties.

(b) Outline two advantages to Dove Chocolate Discoveries of direct selling.

The main advantage of direct selling is that intermediaries are avoided so producers are able to make more profit. In this case, Dove Chocolate Discoveries also controls their own marketing and can reach customers that do not like going to shops. The shopping parties are fun and people may tell their friends which could result in more sales or increased attendance at future parties.

(c) State four other methods of direct selling.

Other methods of direct selling include:

- The internet
- Direct mail
- Door-to-door
- Mail order catalogues.

Question 2

(a) Outline two advantages to producers of selling online.

Selling online is becoming increasingly popular. Online shopping can be cheaper because businesses have lower costs. Therefore demand may increase and more profit can be made.

Online shopping may be more convenient. It can be done 24/7 and there is generally a huge amount of choice. For example, goods can often be purchased from overseas sellers. People can also shop from different locations such as at work, at home, on holiday or travelling on a train. All they need is access to the internet – via a laptop or a mobile phone.

(b) Calculate the percentage increase in total online spending between 2001 and 2008.

Online retail spending in the US has risen from $31 bn in 2001 to an estimated $147.6 bn in 2008. This is an increase of 376 per cent. ($116.6 ÷ $31bn × 100).

(c) Briefly account for the pattern in **(b)**.

The increase in online retail spending calculated in **(b)** is huge. Online shopping is relatively new. People are just beginning to get used to the experience and starting to trust the security of online payments, for example. Also, the number of people with access to computers has increased rapidly over the same time period.

(d) Which products are the most popular with online shoppers?

According to the table in Figure 41.6 the most popular product group for online shopping is apparel, accessories, footwear and jewellery at $27.1 bn. This overtook computer hardware and software in 2008 which is now $26.7 bn. The third popular product group bought online is home products at $22.7 bn. This has shown the largest percentage increase of the three product groups over the time period.

Chapter review – Distribution channels

Look at the images.

(a) Suggest suitable distribution channels for these businesses.

Banks use a number of methods to distribute their services. They generally sell their products direct to consumers from branches in towns and cities. However, people can also operate bank accounts over the telephone and on the internet. Some banks are closing down some of their branches because of the growth in internet banking. It may also be possible to have postal bank accounts.

Electricity may be distributed in two ways. In some countries in the world electricity is distributed to consumers and businesses from power stations and the power generator collects payment directly from final users. However, some power generators use an intermediary. The metering, billing and collection of payments may be carried by a retailer which buys electricity from the power generator and sells it to consumers and businesses.

Agricultural goods may be distributed in different ways depending on the size of the farmer. Very small farmers may take their produce to a local market and sell it direct to customers. Or they may sell to market traders and other retailers. Large producers are likely to use wholesalers. This is because they have such large quantities to sell that they would not be interested in selling smaller quantities to retailers.

(b) Outline the main disadvantage to farmers of using an intermediary to help distribute produce.

Farmers operating very large farms are likely to use intermediaries to sell their produce. This is because they will not want to sell in small quantities. However, the use of intermediaries does have its drawbacks. The main one is that intermediaries will take a share of the profit. Therefore the profit made by the farmer is reduced.

(c) Discuss two reasons why banks are making increased use of online services.

Most banks around the world offer customers the opportunity to manage their bank accounts online. People can look at their statements, transfer funds to other accounts and make payments online. Banks are very happy to offer this service for a number of reasons. The main one is that their costs will be lower. It is cheaper to offer online services than deal with all customers face-to-face in branches. Consequently, many banks have reduced the number of branches they operate to cut costs and increase profit. Also, banks can reach a wider market with online services. People can easily have a bank account in the UK and live in Australia, for example. The well developed network of ATMs allows people to withdraw cash anywhere in the world. All other transactions can be conducted online. Banks are also offering more online services in response to consumer demand. People are increasingly 'at ease' with online banking – it is more convenient.

(d) Why might a business selling overseas use an agent?

Agents are another example of an intermediary in the supply chain. Their main role is to link buyers and sellers. Agents are used in a variety of markets. For example, manufacturers may also use agents when they sell goods abroad. Selling overseas is often risky but agents can minimise the risk because they have knowledge of the country and the market. They will understand the needs of overseas customers, the laws relating to trading and the way business is 'done'. Many businesses use agents when exporting – particularly if it is their first venture abroad.

(e) Analyse two factors that a business is likely to take into account when choosing an appropriate distribution channel.

Different types of products may require different distribution channels. Businesses need to decide which distribution channel is the best for them. One important factor when choosing an appropriate channel is the nature of the product. For example, most services are sold directly to consumers. It would not be appropriate for service providers such as window cleaners, gardeners and hairdressers to use intermediaries. Other produces like fast moving consumer goods such as breakfast cereals, confectionery, newspapers, crisps and toilet paper cannot be sold directly by manufacturers to consumers. Wholesalers and retailers play an important role in the distribution of these goods because they break bulk.

Businesses will tend to choose distribution channels that minimise costs. If possible producers will choose the shortest possible channel. This is because each time an intermediary is used they will take a share of the profit. Large supermarkets will try to buy direct from manufacturers. This is because they can buy very large quantities and get favourable prices. Independents are more likely to buy from wholesalers and have to charge higher prices as a result. An increasing number of producers are selling direct to consumers from their websites. This helps to keep costs down. Other factors that might affect the choice of distribution channel is the market and the amount of control a business needs.

Chapter 42

Getting started...

(a) What is the name of the product in the example?

The name of the product in this example is the Golf GTI.

(b) What is the length of the product's life cycle to date?

The Golf GTI has been on the market since it was launched in 1975. Therefore the product has enjoyed a life of 34 years to date.

(c) Give one reason why Volkswagen brings out new models.

Businesses operate in a changing and competitive market. They have to meet the needs and wants of customers. Volkswagen launch new models to meet the changing needs and wants of customers. If they failed to do so rivals might benefit.

(d) Do you think the Golf GTI will ever be withdrawn from the market?

The Golf GTI has been a very successful product for VW over a 34-year period. VW will probably keep the model on the market provided it makes a profit for the company. However, there may come a time when the Golf GTI starts to look tired and out of date. VW may then be forced to replace it with another model. This is common when products come to the end of their life cycle.

Question 1

(a) Using an example from this case study state what is meant by a brand name.

Many businesses give their products a name. These are called brand names. Brands might also include a term, sign, symbol or any other feature that helps consumers to identify a particular product. A brand might be the name of a product, a product group or the business itself. In this case the top ten brand names in the world are listed according to their value. They are all corporate brands, ie the name of the company. Google is the most valuable brand in the world at the moment – worth around $100 billion.

(b) Analyse three reasons why businesses use brand names.

The brand values in Figure 42.2 show why brands are important to businesses. In 2009, the Google brand was worth around $100 billion. In the last two years the value of shares, property, pensions and other assets have fallen because of the global recession. However, the value of many brand names has continued to rise. Businesses use brands for a number of reasons. They help to differentiate a product. When competitors' products are very similar one way of making a difference is to give it a specific name. Brands also help to create brand loyalty. Once a brand becomes established consumers often stick to their favourite brand. New competitors find it hard to compete with strong brands.

Question 2

(a) What is the main role of packaging for the products shown in the image?

The confectionery products shown in the photograph are very colourful and alluring. They are designed to attract customers. Each product is packaged differently in brightly coloured wrapping which helps to distinguish it from the rest. The main role of the packaging in this case is to encourage consumers to select the product. However, confectionery is a perishable product so the packaging must also protect the contents from spoiling.

Businesses might need to change their packaging when selling goods abroad.

(b) Suggest reasons for doing this.

When businesses export their products it may be necessary to change the packaging. There may be a number of reasons for this. In some cases the names of products on packaging may have to be changed. This is because they may be misunderstood, inappropriate or offensive in other languages. Different countries also have different regulations relating to the packaging of products. For example, in some countries all the fat and salt content of food products have to be clearly shown on labels.

Chapter review – GlaxoSmithKline

(a) Using this case study as an example, outline what is meant by a product life cycle.

The product life cycle shows the level of sales at the different stages through which a product passes over time. The life cycle drawn in Figure 42.7 is for a pharmaceuticals product. The first stage shows product development. Sales will be zero and for pharmaceuticals products this stage is long. The introduction stage is next. In this case study sales pick up very quickly. This is likely to be the case with a new drug because people might be desperate to use it, and because of the protection from the patent which prevents competition. The growth stage in this case shows a sharp increase in sales. Again , this is likely with drugs and medicines if they can provide cures and reduce suffering. The maturity and saturation stages are also long. If a company gets a patent sales may remain steady for nearly 20 years until the patent expires. Sales will eventually decline because when the patent runs out other companies are allowed to market the drug.

The development stage is long for products in the pharmaceuticals industry.

(b) Outline the reason why.

The development stage for products in the pharmaceuticals industry can be very long indeed. The discovery and development of a new product can take many, many years. One reason is because research and development is uncertain. A company may not know when a breakthrough discovery will come. Also, drugs have to go through lengthy clinical trials to ensure that they are safe before they can be marketed.

The prices of pharmaceuticals products is likely to be high in the introductory and growth stages of the product life cycle.

(c) What is the main reason for this?

The prices of products sold by pharmaceuticals companies are likely to be much higher when they are first introduced and throughout the growth stage. This is because products are protected by patents. A patent prevents competition with a product for up to 20 years. Without competition a producer can charge a much higher price because there are no alternatives.

(d) Why do businesses use extension strategies?

Most products start to decline at the end of their life cycle. However, the decline may be halted, or even reversed, using extension strategies. For example, if a business can find a new use or a new market for the product, sales might be rejuvenated. This means that the product will carry on earning revenue and profit for the business. Extension strategies are used to prolong the life of products before they start to decline in order to make more money out of them.

(e) Evaluate the success of GSK's extension strategy in this case study.

In this case GSK has used an extension strategy. The company has found another use for one of its existing drugs. Originally, Requip was developed and launched in 1997 to treat people with Parkinson's Disease. However, in 2004 GSK got approval to market the drug as a treatment for a previously lesser known disorder, the 'restless legs syndrome' (RLS). After gaining approval for marketing the drug as a treatment for RLS, the brand experienced strong growth. Sales of Requip grew from £120m in 2004 to £268m in 2007. Prior to 2004 aimed at sufferers of Parkinson's Disease only, sales had been stable. Clearly in this case the extension strategy has been an overwhelming success for Requip. Sales of Requip have more than doubled over the time period which should help to improve the profitability of GSK.

Chapter 43

Getting started...

(a) What sort of information was gathered by Eurostar in this case?

Eurostar employed Maritz Research to carry out a survey to explore all aspects of a customer's journey – from booking and departure, through the actual journey and to arrival at their destination. Maritz assessed the customer experience in areas such as the Eurostar Call Centre, customer relations, the ticket offices, the terminals and actually on-board the trains.

(b) How did the information help Eurostar?

The information collected on behalf of Eurostar was used to improve the quality of service provided by the train company. In order for Eurostar to respond quickly to problems, Maritz developed an online reporting tool. This allows Eurostar's managers to examine customer responses to the survey. As a result of the market research Eurostar was able identify customer problems quickly and make immediate improvements.

Eurostar employed a market research agency to gather information.

(c) State one possible advantage and one disadvantage of doing this.

Market research agencies are experts in the field of market research, consequently the quality of the research carried out should be better than if Eurostar had carried it out alone. However, Eurostar would have incurred an expense. Market research agencies such as Maritz may be expensive.

Question 1

Wang Zhi used primary research when gathering information about the Chinese takeaway market in Dubai.

(a) What does this mean?

Primary research involves collecting new information from new sources. Primary data is usually gathered by asking questions or observing people's behaviour. In this case, Wang Zhi gathered fresh information about competitors in the city of Dubai. The main advantage of primary research is that it is original and the information gathered can be tailored to the needs of the business. Wang Zhi wanted to find out all about his competitors so that he could offer a service which was better.

(b) Analyse how this research might benefit his new business.

Carrying out market research will usually reduce the risk of failure in business. The information gathered by Wang Zhi was very helpful. For example, he discovered that one of the main criticisms of current restaurants was the slow speed of service. When Wang Zhi opened the Cathay Garden his speed of service was a unique selling point. This might help the business be more successful.

Question 2

(a) Analyse two advantages and two disadvantages of online surveys.

The main benefit of online surveys is that they can be completed and processed quickly – the person types in the data which is then fed straight back for immediate analysis. Survey costs are lower because there is no need for printing, postage and typing in. Online surveys are often fun to complete because they may be interactive. They can also be accessed 24/7 and be completed at the convenience of the person responding. Online surveys also make it easy to give feedback. Results can be e-mailed to back to the person responding.

One of the problems with online surveys is that the sample used may not be reflective of the total population. This is because online surveys are only presented to internet users. The views of others will be neglected even though they may be a potential customer. Also, in some parts of the world internet connections are restricted because of the cost.

(b) Discuss whether an online survey would benefit a company selling to:

(i) customers in isolated areas;

(ii) less developed countries such as Bangladesh, Sudan and Vanuatu.

(i) An online survey would be of benefit to a company selling to customers in isolated areas. It would allow a company to gather information cheaply without incurring the cost of travelling to such customers, for example. This would be particularly the case if a face-to-face interview was the alternative.

(ii) An online survey is not likely to be of benefit to a company selling to customers in undeveloped countries such as Bangladesh, Sudan and Vanuatu. This is because many people in these countries do not yet have access to computers where they can get an internet connection.

Chapter review – Manzini Safari Tours

(a) Why is the research carried out by Manzini Safari Tours primary research?

Manzini Safari Tours is carrying out primary research because the tour operator is collecting new information – data that has never been collected before. It is phoning potential customers and asking them questions about the tours. This data does not already exist, it is new data and therefore primary research.

(b) Analyse one advantage and one disadvantage of using telephone surveys.

Telephone surveys involve interviewing people over the telephone. The main advantage of interviewing people over the telephone is that it is cheaper. People from a wide geographical area can be covered. In this case, the customers may be spread all over the world. However, many people are becoming irritated by telephone interviews because they may be intrusive. They may refuse to take part in the interview.

(c) What is the difference between open questions and closed questions in a survey?

A good questionnaire will usually contain an appropriate balance of closed and open questions. Closed questions have definite answers. In Figure 43.7 the questions 1 to 5 are all closed questions. There is a definite answer to all of them. The answer is either yes or no. Open questions have many different possible answers. When answering open questions, respondents can give a wide variety of responses. In this case, Figure 43.8 might be answers to the question 'Why haven't you been on a Manzini Safari Tour?' Each one of the responses shown is different. There could also be many other answers to this question. Closed questions can be used to generate quantitative information whilst open questions tend to generate qualitative information.

(d) Consider the limitations that might exist in the survey carried out by Manzini Safari Tours.

Although carrying out market research can reduce the risk of products failing in the market, it is not entirely dependable. Market research data may be biased. For example, if the sample used by a business is not representative of the entire population, any conclusions drawn on the basis of the sample will be inaccurate. In this case, the sample is said to be random which should improve accuracy. However, the list of potential customers provided by the agency may not be representative.

Another problem is that human behaviour is unpredictable. Although people may indicate their intentions in a questionnaire, what they do in reality might be quite different. People might change their minds, they may have misunderstood the question or they gave answers that they thought the interviewers wanted to hear.

Finally, poor research techniques will provide limited information. If questionnaires are poorly designed or interviewers have not been trained properly, the quality of the research carried out might be poor. In this case, there does not appear to be any evidence of poor technique but there is only a limited amount of information in the case.

(e) Analyse the data for Manzini Safari Tours and suggest reasons why the number of visitors have fallen in recent years.

There could be more than one reason why the number of people going on safari tours to the Mlilane Wildlife Sanctuary has fallen in recent years. Only 7 per cent of people in the survey had been to the sanctuary although 61 per cent had been on safari tours which would suggest some interest in such trips.

It is possible that Manzini Safari Tours are too expensive. Forty-four per cent of people said they would go if it was cheaper. This is nearly half of those interviewed. Also, one of the respondents comments in Figure 43.8 says, 'It's too expensive – it would cost me and my family over £300 to go for the day.'

Another possible reason for the fall in visitor numbers is that the Park's advertising has not reached many people. Only 7 per cent of respondents had seen adverts for the tours. Also, one response in Figure 43.8 said 'I have never heard of Swaziland'. Perhaps consumer awareness needs to be raised.

Finally, some of the comments shown in Figure 43.8 might suggest other reasons for the fall in visitors. These include that the tours appear too supervised and that there are no tigers. However, unless a lot of people made similar comments, these may not be very important.

Chapter 44

Getting started...

(a) **(i)** Which of the two businesses is the largest?

CaterGroup is the largest business. It employs 210 people while The Snack Box is run by just two people. The CaterGroup sells about one million sandwiches a week to supermarkets while The Snack Box sells about 1,000 to shoppers, tourists and workers in the local area.

(ii) Which business has the lowest costs?

CaterGroup buys ingredients direct from farmers and manufacturers. For example, it buys thousands of loaves of bread from a Sydney baker for $1.10 each. It buys tomatoes from a local farm for $1.50 a kilo and cheese for $7.00 a kilo. The Snack Box buys supplies from supermarkets and wholesalers. It buys about 20 loaves of bread at a cost of $1.80 each. Tomatoes cost $2.50 a kilo and cheese is $10 a kilo. Clearly CaterGroup is buy supplies more cheaply. Other costs are lower as well. For example, The Snack Box has a $5,000 loan and pays an interest rate of 8.9 per cent. However, CaterGroup pays 7.5 per cent on a $1,000,000 loan.

(b) Which firm is likely to be the most efficient?

CaterGroup is likely to be the most efficient because it has lower costs.

(c) How might CaterGroup benefit from its cost advantage?

CaterGroup will benefit from its lower costs. For example, it sells sandwiches at an average price of $1.40 per round to its customers while The Snack Box sells most of their sandwich range for $2.00 a round. The Snack Box could never compete with CaterGroup on grounds of price. CaterGroup might also make more profit with its lower costs.

Question 1

(a) What is likely to happen to average costs at News International as a result of opening the new plant?

News International is likely to enjoy lower average costs as a result of opening the new printing plant. This is because it can exploit economies of scale. When a firm increases the scale of operations, average costs will fall. In this case, News International has more than doubled its printing capacity from 30,000 copies an hour to 70,000.

(b) What is meant by technical economies of scale? (Use the example in the case study to illustrate your answer.)

Technical economies arise because larger plants are often more efficient than smaller ones. There can be more specialisation and more investment in machinery, for example. In this case, News International is exploiting technical economies. It has invested in a huge new plant – more than double the size of its previous plant. It contains twelve state-of-the-art colour printing presses which cover an area the size of 23 football pitches. The presses are quieter and much faster than those they replaced. The new, larger plant is more efficient and cost effective because it requires fewer workers.

Question 2

(a) What is meant by external economies of scale?

Sometimes all firms in a particular industry can enjoy falling average costs as the whole industry grows. This is called external economies of scale. External economies are more likely to arise if an industry is concentrated in a particular region. In this case, large numbers of high-tech companies, silicon chip innovators and manufacturers in particular, have congregated in Silicon Valley. Silicon Valley is in the southern part of the San Francisco Bay Area in Northern California. As a result the industry has been able to benefit from external economies of scale.

(b) Discuss examples of external economies that are evident in this case study.

External economies of scale may arise for a number of reasons. For example, an established industry in a region will encourage suppliers in that industry to set up close by. Specialist marketing, cleaning, banking, insurance, waste disposal, distribution, maintenance and components suppliers are likely to be attracted to the area. All firms in the industry will be able to benefit from their services. In this case study, venture capitalists, computer experts, engineers, computer programming and service companies all developed in Silicon Valley to serve the semi-conductor manufacturers. There was also a ready supply of industrial space and housing was still relatively inexpensive.

Chapter review – Sensations

(a) Define the term 'scale' in business.

The term scale in business means size. If a business increases the scale of operations, it means that the business is getting bigger. For example in this case, Sensations increased its scale when it bought the chain of shops in the Middle East.

(b) Examine the affect that economies and diseconomies of scale are likely to have on Sensations' average cost.

As a business grows and expands the scale of its operations, average costs are likely to fall. Larger firms can operate more efficiently than smaller firms. This is because a business begins to enjoy economies of scale. As Sensations grew, it employed a specialist marketing manager which is a managerial economy. Sensations bought more clothes and shoes so they would probably enjoy purchasing economies as well. However, if a business grows too big average costs will start to rise. This is because inefficiencies creep in as a result of diseconomies of scale. For example, in this case Sensations bought a chain of shops in the Middle East and it appears that problems started to arise. Communications became difficult due to language and cultural difficulties. Such a problem can result in higher costs as a business tries to find solutions. As a result of economies and diseconomies of scale a firm's average cost curve is U-shaped.

(c) Why is employing a specialist marketing manager an economy of scale?

As firms expand they can afford specialist managers. In this case, Sensations has employed a specialist marketing manager. A small business may employ a general manager responsible for finance, human resources, finance, marketing and production. The manager may find this role demanding and lack competency in some fields. A large firm can afford to employ specialists in these fields. As a result efficiency is likely to improve and average costs fall. Through his or her expertise, the marketing manager was able to raise the profile of the Sensations brand right across Canada. As a result the company grew quickly and became very profitable.

(d) Discuss whether Sensations has benefited from purchasing economies of scale.

Large retail chains like Sensations are very likely to benefit from purchasing economies.

Big firms that buy large amounts of stock can get cheaper rates. Shoe and garment manufacturers will offer discounts to firms that buy stock in bulk. This is similar to consumers buying multi-packs in supermarkets. They are better value for money. Sensations has expanded rapidly and now buys large quantities of stock from China. Inevitably, the company will benefit from purchasing economies.

(e) To what extent is Sensations experiencing diseconomies of scale?

Diseconomies of scale occur when average costs start to rise because the firm has grown too big. In this case, there is some evidence that Sensations is suffering from diseconomies of scale. Since buying the chain of stores in the Middle East problems have arisen. For example, communications became difficult due to language and cultural difficulties. There were also some employee problems. There was a lack of employee empathy. Many of the staff did not seem to care whether the company succeeded or not. This would result in inefficiencies and rising costs. Also, some of the store managers complained that the company was becoming too bureaucratic. Rising bureaucracy is a common source of diseconomies of scale. If a business becomes too bureaucratic it means that too many resources are being used up in administration. Too much time may be spent filling in forms and writing reports. Also, decision-making may be too slow, communication channels too long and too many managers may be employed. It could be argued that Sensations is experiencing diseconomies of scale to a significant extent since buying the chain of stores in the Middle East.

Chapter 45

Getting started...

(a) Compare the two production methods used in the above examples.

Kellogg's is a mass producer. It makes millions of units of breakfast cereals and convenience foods such as cookies, crackers, toaster pastries, cereal bars and frozen waffles. Its production methods are capital-intensive which means that plant and machinery are used in large quantities relative to labour. Many of its brands are produced on automated production lines which run continuously for many hours.

In contrast, Mehreen Carpets operates on a much smaller scale. It produces hand knotted oriental carpets and rosewood furniture. Most production is labour intensive and involves people making products by hand. For example, workers use looms to make carpets. All products are crafted by skilled craft workers and can be made to specific customer orders.

(b) Outline two possible reasons why the two businesses use different production methods.

Kellogg's produces on a very large scale. Its production processes will be highly automated with little use of labour on production lines. The products produced by Kellogg's are well suited to mass production. For example, Kellogg's could not use the same production method as Mehreen Carpets. It is not appropriate to make such products by hand. However, the carpets and furniture produced by Mehreen Carpets are well suited to being handmade. They require craft and skill and the quality of finish could not be guaranteed with mass production techniques.

Question 1

(a) Using this case study as an example, explain what is meant by job production.

Job production involves the production of a single product at a time. It is used when orders are small, such as 'one-offs'. Production is organised so that one 'job' is completed at a time. A wide variety of goods and services are supplied using this method of production.

In this case, Henry Ndzima is providing a financial service to his clients. He uses job production because every single job he undertakes is unique. Every client is different and every set of accounts produced by Henry will be different. The accounts will contain different financial information because his clients run different businesses. Henry is likely to work on one client's accounts, complete them, and then move on to the next client.

(b) Consider why job production might improve motivation.

It is argued that job production will help to motivate people at work. The tasks Henry and his trainee carry out may require a variety of skills, knowledge and expertise. For example, they will be dealing with different clients and different businesses when producing accounts. Their work may be more demanding and interesting. They will also see the end result of their efforts and be able to take pride in their work. This should help raise the level of job satisfaction.

Question 2

(a) Using this case study as an example, explain what is meant by batch production.

Batch production involves performing several processes on a number of identical units all at the same time. The group or collection of identical units is called a batch and can vary in size. After a particular process has been performed on the entire batch, the batch is transferred to another work station where another process is performed. In the clothes industry the processes might involve making patterns, cutting, sewing, attaching buttons and zips, finishing and packaging.

(b) Why is batch production common in the clothes industry?

Batch production is common in the clothes industry because manufacturers produce a variety of different clothes and designs in different sizes and colours in the same factory. For example, Yalta Apparel might make some outfits for hotel staff, overalls for industrial workers and sportswear all in the same day. The same processes are likely to be used, the same staff and the same machinery. Only the designs and materials are likely to be changed. Demand is not likely to be high enough to continually produce one type of outfit all day, every day.

(c) Discuss how Yalta Apparel has overcome some of the typical problems associated with batch production.

One of the problems with batch production is that different machinery and tools might be needed when switching from one batch to another. To overcome this problem the manufacturers of machinery have tried to develop more flexibility and diversity in their machinery. In this case, Yalta Apparel has invested in flexible machinery to help overcome this problem in batch production. Flexible machinery can cope with a wide variety of designs and materials that Yalta Apparel need to offer their customers. Yalta Apparel also employ multi-skilled staff. This means they are adaptable and can use the variety of skills needed when switching production from one design to another.

Chapter review – Saudi Armaco

(a) Using this case study as an example, outline what is meant by flow production.

Flow production is a highly efficient method of production. It is organised so that different operations can be carried out, one after the other, in a continuous sequence. Products move from one operation to the next. In this case, process production, a form of flow production, is used to refine crude oil. Crude oil is heated and the different products are pulled out at different temperatures. For example, lubricating oil, used for motor oil, grease and other lubricants, boils at a temperature between 572 to 700 degrees. After this chemical processes are used to remove impurities. A system of pipes is used to link all the different processes so that refining continues unstopped.

(b) What method of production would be used to build a new oil refinery for Saudi Aramco?

Most construction projects involve job production. Job production is where a business produces one product from start to finish before moving on to the next. Each item produced is likely to be different. It is used when orders for products are small, such as 'one-offs'. A new oil refinery would be an example of a 'one-off'.

(c) Discuss how businesses choose an appropriate method of production.

Businesses have to decide on the most appropriate method of production for their particular situation. The method chosen might depend on a number of factors. Some products often require a specific method of production. For example, in this case it is unlikely that any other method of production would be used to refine oil other than flow production. Some goods such as fast moving consumer goods like soap, confectionery and canned drinks are normally produced using flow production because the market is so big. When the market is small, flow production techniques are not cost effective so batch or job production will be favoured. When firms are first set up, they often produce small levels of output and employ job or batch production methods. As they grow and enjoy higher sales levels they may switch to flow production. Finally, as technology advances, new materials and machinery become available. Changes in technology often result in firms adopting new methods of production. For example, the development of refining technology has probably resulted in changes to oil refining over the years.

(d) Evaluate the advantages and disadvantages to Saudi Aramco of flow production.

Flow production is a highly efficient method of production provided large quantities of output can be sold. In this case, Saudi Armaco is the largest oil corporation in the world. It has revenues of around $200 billion. This suggests that it produces vast quantities of oil. Flow production requires large scale production but results in economies of scale. Therefore unit costs will be low. Saudi Armaco probably enjoys some of the lowest unit costs in the industry. Another advantage of flow production is that the speed of production can usually be varied. In this case, oil refining could be slowed down if there was a dip in demand by pumping less oil into the refinery. Alternatively, to speed production up, more crude oil could be pumped in. Some of the refining facilities operated by Saudi Armaco might be quite flexible. For example, the company may be able to produce many different products from its refineries.

Flow production does have disadvantages. The cost of building a large oil refinery is huge. Oil refining requires a very large financial investment and many companies could not afford the set up costs. However, a corporation like Saudi Armaco is not likely to be restricted in its operations by a lack of financial resources. Another problem might be staff motivation. If the jobs done by people working in refineries are boring and tedious, as they often are on production lines, their motivation might suffer. This might lead to mistakes and a loss of output. Finally, businesses using flow production are vulnerable to breakdowns. If there is a breakdown in one small part of the refining process, it may be necessary to stop the flow of production while repairs take place. This could prove very expensive. Overall, in this case, the advantages of using flow production far outweigh any disadvantages.

Chapter 46

Getting started...

(a) AMZ Tyres raised output by 70,000 tyres between 2007 and 2008. How did AMZ achieve this improvement?

AMZ Tyres improved productivity by training the workforce. In 2008, the firm retrained the entire workforce. In particular the training focused on improving labour flexibility. Perhaps workers were trained in a range of different skills. As a result in 2008, tyre production rose.

(b) What measures were taken to improve productivity at PepsiCo?

In 2008, PepsiCo, installed a new $2.35 million heat and power system in its bottling plant in New York. To cut its electric consumption, Pepsi installed four generators powered by natural gas that produce 80 per cent of the power needed to run the filling, packaging and processing machines. These measures helped PepsiCo to reduce the quantity of power needed in production.

(c) How might the two businesses benefit from the improvements in productivity?

AMZ Tyres has been able to produce more tyres without employing more workers. This means that their revenue will rise when the extra tyres are sold. This should improve profitability. It might also allow AMZ Tyres to lower prices. This will make the company more competitive.

The generators installed by PepsiCo give off heat which is captured and converted into steam. This is used to warm bottles and clean machines. It has reduced Pepsi's boiler use by 70 per cent and is four times more efficient than a typical generator. These lower costs mean that PepsiCo will make more profit.

Question 1

(a) Calculate the labour productivity in each of the four factories.

Factory	Output	No. of employees	Labour productivity
India	28,500	150	190
Germany	54,000	270	200
China	79,050	310	255
Brazil	46,000	200	230

(b) Which factory is Huber likely to close down?

Huber is likely to close the factory in India. This factory has the lowest labour productivity at 190 containers per worker.

Question 2

(a) What is meant by downsizing? (Use this case study as an example.)

In recent years many firms have attempted to improve their efficiency by downsizing. This involves reducing capacity, i.e. laying off workers and closing unprofitable divisions. In this case, Airbus has opted to shrink its operations in measures involving 10,000 staff cuts, the closure or sale of three plants in France and Germany and plans for widespread outsourcing – some of which is likely to go to lower cost countries such as China. Unfortunately 1,600 jobs will be lost in the UK. Most of these will be in Bristol. Three other sites, one in France and two in Germany will either be sold or closed.

(b) Why has Airbus decided to downsize its operations?

Downsizing is a strategy used by businesses to improve efficiency. In this case, Airbus has appointed a new chief executive, Louis Gallois, to put the company back onto an even keel following new aircraft delays and the impact of a falling dollar. Mr Gallois, who has a reputation for bold and decisive moves said, 'We have no choice … we have to reduce our costs.' Laying off 10,000 staff and closing down sites will improve productivity because Airbus will use fewer resources.

Airbus plans to outsource some production to China.

(c) What does outsourcing production mean?

In an effort to reduce costs Airbus has plans for outsourcing – some production is likely to go to lower cost countries such as China. Outsourcing involves finding a contractor to carry out work that was currently undertaken by the business. Airbus may contract out the manufacture of components that were once made in Bristol or at other sites which are due to be closed down in France and Germany. Airbus will outsource such production because it will improve productivity. Quite often sub-contractors are specialists and can undertake certain types of production more cost effectively.

Chapter review – Glen Morgan Mail Order (GMMO)

(a) Describe the measures that GMMO have taken to become more flexible.

GMMO has introduced some flexible working practices in its organisation. For example, staff can choose 60 per cent of the hours they worked in return for being on call at certain times. One problem that GMMO experienced was a surge in demand immediately after a TV advert. This often meant that staff were overworked and mistakes were made with order picking and dispatch. Staff have also been trained to do a variety of different jobs so that they could be moved around when necessary. Both of these measures make GMMO more flexible.

(b) What evidence is there to suggest that worker motivation has improved?

Figure 46.6 shows that absenteeism has fallen at GMMO. It fell from 10.1 per cent in 2006 to 6.9 per cent in 2009. This means that workers are taking less time off. Therefore this might suggest that workers are happier and better motivated.

As a result of the new technology introduced at GMMO, staffing in the order processing department was cut from 120 to 32.

(c) Analyse the likely impact on labour productivity of this cut.

Labour productivity is the output per worker. It can be measured by dividing the total output by the number of people employed. In this case study, the number of people employed in the order processing department has been cut substantially. If total output in the department does not fall, or falls at a slower rate than the cut in the workforce, labour productivity will improve. There is no evidence in the case to suggest that output has fallen (indeed revenue has increased), so labour productivity has more than likely increased.

GMMO have used a number of measures to improve productivity in their organisation.

(d) Evaluate the success of these measures.

It could be argued that the measures introduced at GMMO to improve productivity have been very successful. The company has introduced new, more efficient technology and is now more flexible. The performance indicators shown in Figure 46.6 seem to support this view. For example, the lead time has been cut from 10 days to 3 days. This means that customers get their orders much more quickly and shows a significant improvement in performance. The number of order picking errors has also been reduced from 7,445 to 2,187. This will save time and money and reduce customer dissatisfaction. Absenteeism at GMMO has also been reduced from 10.1 per cent to 6.9 per cent. This will save money and improve productivity. Customer complaints have fallen from 1,343 in 2006 to 312 in 2009. This also suggests that GMMO are now more efficient – there is less for customers to complain about. The wage bill has been cut from $5.3m to $4.1m which means that GMMO is operating with less labour. Lower costs should result in higher profit. Finally, GMMO has been able to increase its revenue from $34m to $47m – this is more than a 33 per cent increase. It is obvious that productivity has improved dramatically at GMMO.

Chapter 47

Getting started...

(a) How important was staff involvement at Thara when trying to make improvements?

Staff involvement was recognised as being very important when Thara began making improvements in its operations. As a result of this more training was organised. Investment in training improved staff motivation. If a business is prepared to spend money on training it shows that staff involvement is highly valued.

(b) Outline the benefits to Thara from introducing Japanese production methods.

Thara enjoyed a wide range if benefits after adopting Japanese production methods. Turnover increased by 50 per cent, production set-up time was reduced by 74 per cent, machine down time was reduced by 73 per cent, delivery targets were increased by 21 per cent and product rejection fell by 50 per cent. The investment in staff training also improved staff motivation.

Question 1

(a) Harley Davidson introduced just-in-time manufacturing (JIT) in its business. What is meant by JIT?

Just-in-time manufacturing is a production system where stocks are only delivered when they are needed by the production system. This means that stock levels in a factory will be very low indeed. Sometimes the only stock in the factory would be that needed immediately.

(b) Discuss the benefits to Harley Davidson of JIT manufacturing.

It has been suggested that the transformation at Harley Davidson was driven by the introduction of JIT. Certainly the benefits are significant. Harley recorded some impressive improvements as a result of introducing JIT. Stock turnover was increased from 5 to 20, the amount of stock held was reduced by 75 per cent, the percentage of motorcycles coming off the line completed rose from 76 per cent to 99 per cent, scrap and rework was reduced by 68 per cent, productivity rose by 50 per cent and factory space requirements were reduced by 25 per cent. Indeed, it could be argued that without JIT Harley Davidson may not be trading today!

Chapter review – Delhi Metal Products

Delhi Metal Products wanted to become a 'lean producer'.

(a) What does this mean?

Lean production involves using less of everything. The aim of lean production is to reduce the amounts of inputs used wherever possible in the production process – everything from staff time to raw materials to factory space. Delhi Metal Products wants to be a lean producer and has introduced a number of techniques with the aim of reducing waste in production.

Delhi Metal Products has introduced multi-skilling.

(b) How can this improve flexibility?

Through training, workers were able to develop additional skills, which led to an increase in workforce flexibility. Fifty-seven per cent of the workforce at Delhi Metal Products became multi-skilled. This means they were trained to perform a variety of work tasks. This allows them to move from one job to another if necessary. This improves flexibility because workers are more flexible. A person can be moved to cover for an absent colleague for example. A multi-skilled workforce is usually better motivated as well. People get more variety in their work.

(c) Outline the benefits to Delhi Metal Products of suggestion schemes.

Delhi Metal Products used a suggestion scheme**.** These encourage workers to put forward ideas for improving production or any activity that will reduce costs. A simple scheme would involve workers writing their ideas down and putting them into a suggestion box. If an idea is adopted the worker who came up with it will be rewarded – with cash or a prize perhaps. The benefit to the business is that new ideas are generated that, if implemented, reduce costs or improve efficiency. It is a relatively cheap way of making improvements.

It is suggested that Delhi Metal Products is committed to Kaizen.

(d) (i) What evidence is there in the case study to support this view?

Delhi Metal Products is committed to Kaizen. Foremen were told to set aside at least half an hour every week as Kaizen time – time to do nothing but think about improvement in the factory. Factories are advised not to hold meetings during this 30-minute period, and foremen should not even answer the telephone.

(ii) How will Kaizen improve performance?

Kaizen will improve performance because waste will be eliminated. The elimination of waste in business is an important part of Kaizen. This is why Kaizen has a strong association with lean production. Examples of waste may be time wasted while staff wait around before starting tasks, such as waiting for materials to arrive. It might also be the time wasted when workers move unnecessarily in the workplace, such as walking to a central point in the factory to get tools. If workers can continually come up with ideas to reduce such waste, waste will be reduced and performance improved. Firms that adopt Kaizen train workers to continually search for waste and suggest how it might be eliminated.

(e) Evaluate the performance of Delhi Metal Products since becoming a 'lean producer'.

The charts in Figure 47.3 show that Delhi Metal Products has improved its performance in a number of areas since becoming a lean producer. Production set-up time has fallen from 90 hours in month 1 to 60 hours in month 6. Lead time has fallen by 25 per cent from 4 days to 3 days as a result of the standardisation of procedures and processes. This will help get products to customers more quickly. There has been a 75 per cent reduction in scrap work, which will save time and materials, and a 45 per cent production space increase as a result of improving layout. Machine downtime has fallen by 60 per cent and response time by 42 per cent. Other evidence of improvements includes better motivation as a result of implementing quality circles and suggestion schemes and more flexibility as a result of multi-skilling. Generally, there is a great deal of evidence to suggest that Delhi Metal Products has improved its performance significantly.

Chapter 48

Getting started...

(a) What impact did the automated administration system have on Vidéotron's costs?

The BlackBerry® automated administration system helped Vidéotron to lower its costs. The new system was about 40 per cent less expensive than giving each technician a laptop. When combined with staff reduction costs and improved efficiency, Vidéotron believes it will save approximately $1.6 million over three years. Also, switching from a paper-and phone-based system to the BlackBerry® application reduced staff costs by 40 per cent and phone calls by 35 per cent.

(b) How might Vidéotron's labour requirement have been affected by the new system?

Although there is no specific information in the case, Vidéotron may have reduced its staffing levels. This is because the new technology reduced staffing costs by 40 per cent. This does suggest that fewer people would have been required. For example, it states in the case that fewer dispatchers were needed. It is quite common for businesses to reduce staffing levels when new technology is introduced.

Question 1

(a) What is the difference between material handling robots and processing operations robots?

Material handling robots are usually employed in the transport of goods, parts or cargo from one place to another, most often within the same factory or plant. Automated warehouses are an example of this, where goods are transported and loaded onto vehicles automatically.

Processing operations robots perform a specific task such as spot welding or spray painting. These robots are outfitted with a specialised tool to perform the programmed task. They are usually found positioned on a production line.

(b) How can robots improve productivity in a business?

One of the main reasons why manufacturers install robots is because they improve productivity. They can carry out repetitive tasks 24/7. They do not need breaks and holidays. They are also easier to manage than humans. Robots do not have emotions and they do not go on strike. They can usually perform tasks more quickly and consistently. All these factors help to improve productivity, reduce costs and improve competitiveness.

Question 2

(a) How might businesses benefit from the technology illustrated in this case study?

The technology in the case study is used to gather market research information. The new device can analyse the faces of passers-by who look at outdoor advertising. The software measures the attention different consumers (men, women, older, younger) are paying to outdoor media. For example, the hidden camera provides information about the number of actual viewers, on viewership such as attention time, viewership demographics (eg, the age and gender of viewers) and about the links between viewership and content. For example, it can tell what sort of people look at an image showing an attractive landscape. This technology can collect valuable data easily and at a low cost.

(b) Analyse two advantages of gathering market research data online.

An increasing number of firms are collecting market research data online. This is more convenient for consumers. Customer can complete questionnaires in their own time in the comfort of their own homes. They will be more confident and are unlikely to be intimidated by the questions or the interviewer. As a result more data is likely to be gathered and it may be more accurate because respondents will not be pressurised in any way.

Gathering market research data online is also more cost effective than many other methods. For example, the need to employ people to stop people in the street to gather data is avoided. The gathering, processing and presentation of market research data is cheaper using IT Also, large amount of data is likely to be gathered – perhaps from all over the world.

Chapter review – Online selling

(a) What is meant by e-tailing?

E-tailing is a branch of e-commerce. It involves trading in physical goods such as clothes, accessories, gifts, books, DVDs and consumer durables. Customers order and pay for goods online and take delivery at home. Most large retailers now have online services in addition to their stores. Some e-tailers trade entirely online.

It is suggested in the case study that online selling is growing rapidly.

(b) (i) What evidence is there in this case study to support this view?

The case study contains evidence of strong growth in online selling. Online sales reached £7.7bn in the 10 weeks leading up to Christmas 2006, marking a 54 per cent rise compared to last year. IMRG, the e-retailing body, reports that online sales exceeded all expectations, with sales of close to a billion pounds a week during the first three weeks of December. Online sales were strong across all sectors, with gifts such as flowers and pre-wrapped items up 142 per cent, clothing and accessories rising 64 per cent and electrical sales up 50 per cent.

(ii) Analyse two benefits to consumers of online selling.

For many consumers internet shopping is more convenient. For example, those who live in rural and isolated locations, those that do not have the time to go shopping, those that dislike going to shops and those with mobility problems. It can be done 24/7 and there is generally a huge amount of choice.

Online shopping can be cheaper because business costs are lower. Businesses do not have to operate expensive stores, employ sales staff and provide as much customer service if they operate purely online. These lower costs can therefore be passed on to the consumer in the form of lower prices.

Some online traders may use EPOS.

(c) (i) What is meant by EPOS?

EPOS refers to technologies which record the sale of goods or services to the customer at the point where they are purchased. In stores goods are likely to be scanned into a machine by cashiers at the check-out. Information contained on packaging in the form of a bar code is recorded by the system. The system also produces an itemised till receipt for the customer.

(ii) Outline two benefits of using EPOS to businesses.

Information from bar codes on packaging is recorded and used to generate a range of information such as till receipts, stock details and customers' purchases. It also improves stock control.

In stores, EPOS saves time and reduces queues at the checkout. This is because it is quicker to scan goods than input the prices of individual goods.

(d) Evaluate the costs and benefits of new technology in business.

The benefits to businesses of new technology are numerous. The main benefit is the improvement in productivity which new technology brings. Machines can carry out repetitive tasks 24/7. They do not need breaks and holidays. They are also easier to manage than humans. Machines do not have emotions and they do not go on strike. They can usually perform tasks more quickly and consistently. All these factors help to improve productivity, reduce costs and improve competitiveness.

Technology also makes many worker tasks easier. Health and safety is also improved. This is because some modern technology can carry out dangerous tasks in dangerous environments such as in mines. New technology also results in new products which firms can market. For example, iPads helped Apple to generate a huge increase in profit in 2010.

However, new technology is not without problems. It is often very expensive for businesses to purchase and install new technology. The cost of investment in new technology can be a burden if large amounts of money have to be borrowed. Serious problems can also result if technology breaks down. If the whole production process is controlled by computers and there is a computer malfunction, production might come to a complete standstill while the fault is corrected. This can be hugely expensive. There may also be industrial relations problems. This is likely to be the case if the introduction of new technology results in job losses. There may be conflict between employers and employees. To conclude, many would argue that the benefits of new technology far outweigh the costs. This is because if businesses do not embrace new technology, they will get left behind and ultimately fail.

Chapter 49

Getting started...

(a) How important do you think quality is to Casio?

Casio is committed to quality. The company aims to impress customers. It creates products that can win the solid approval of customers in all areas, including reliability, durability, safety, serviceability, as well as consideration for the environment and compliance with laws and regulations. Casio has a clear quality policy and identifies a number of important quality issues such as those shown in the diagram.

(b) What was the purpose of Casio's 'Delight Our Customers' program?

In 1996, Casio started its 'Delight Our Customers' program to ensure that all employees of the Casio Group become thoroughly familiar with Casio's philosophy about products and services. The program was used to raise employees' awareness about the importance of quality.

(c) State two possible advantages to Casio of producing good quality products.

Possible advantages of producing high quality products may include:

- Higher sales levels
- Improved reputation in the industry

Question 1

(a) How does VisitScotland.com assess quality?

VisitScotland.com uses a five-star grading scheme to assess the quality of accommodation and visitor attractions in Scotland. The awards focus on the standard of the welcome, hospitality, cleanliness, accommodation, comfort and service they provide. For example, if a hotel is awarded 1 star this means the quality is acceptable. If 5 stars are awarded this means that quality is exceptional.

(b) Outline two benefits of the system to visitors.

The five-star grading schemes give visitors all the reassurance they need – quickly and clearly. They know for example, that 5-star accommodation will be much superior to 1 star accommodation. The grading system will also put pressure on Scottish businesses in the tourist industry to improve their quality. For example, hotels may refurbish their accommodation to get more stars.

Question 2

(a) What is meant by a product recall? (Use this case as an example.)

Sometimes, if it is discovered that a product is faulty after it has been sold to customers, it is necessary to ask customers to return the product. This is a product recall. Businesses may do this if there is a danger that the product sold could cause injury to the customer. In this case, the cotton buds sold by Boots have been recalled because of a fault that could cause harm to a customer.

(b) Why is quality so important for products like the one in this case study?

Quality matters to all businesses. However, with some products quality is even more important because the health and safety of customers is at stake. This is the case with products such as the cotton buds sold by Boots. Products like these have to be made according to rigorous safety standards to protect consumers from possible harm. Here there is a problem with the material used to make the cotton buds. It is contaminated which could lead to an infection, especially if used in the eye area, nose or mouth. Clearly quality standards have not been met.

(c) How might Boots be affected by this product recall?

In the short term, product recalls can be expensive. Boots will have to refund all those customers that return the cotton buds. Boots will then have to return the products to the manufacturer. This will take time and cost money. It is also possible that a customer may be infected and make a financial or legal claim on the company. Boots may not be to blame but if it was there might be legal fees and compensation to pay. In the long term there could be a loss of reputation for Boots. If it is proved that Boots was at fault they may lose customers. The long-term effects may be even more severe if the press get hold of the story and draw attention to it. Even if Boots is not to blame for the problem, its name will be dragged down because of the adverse publicity surrounding the case.

Chapter review – Bangalore Business Software (BBS Ltd)

(a) How does BBS Ltd ensure quality in its business?

Many businesses follow codes of practice. These show that a production process has been carried out to a certain standard. Once a business has been assessed and has achieved a certain standard, it is regularly checked by the awarding organisation to make sure standards are maintained. In this case, BBS Ltd has been granted ISO 9001 certification, the internationally recognised standard for the quality management of businesses.

(b) What role does the BSI play in BBS Ltd quality assurance?

The BSI is the body responsible for awarding the ISO 9001 certificate. They visit businesses to ensure that business processes meet the required standards for certification. Some of the basic requirements include a set of procedures that cover all key processes in the business, monitoring development processes to ensure they are producing quality products, keeping records, checking outgoing applications for defects, with appropriate corrective action where necessary, regularly reviewing individual processes and the quality system itself for effectiveness and ensuring continual improvement. Regular monitoring by the BSI ensures that these standards are upheld and that BBS Ltd remains worthy of its title as an accredited ISO 9001 provider.

(c) Why does quality matter to businesses such as BBS Ltd?

The importance of quality has grown in recent years. Consumers are more aware. They get information through specialist consumer magazines and the internet. As a result they have higher expectations than ever before. Increased competition has also forced firms to improve the quality of their products. Government legislation designed to protect consumers have forced firms to improve quality. Faulty products are costly for a business. For example, if faulty products find their way onto the market they may have to be recalled which is expensive and embarrassing for a business. IF BBS Ltd supplied faulty software to clients, it could disrupt their operations and result in lost customers. Consequently BBS Ltd may face compensation claims. Quality matters to a business because, generally, they will enjoy more sales if they can deliver quality products. Poor quality is likely to result in lost customers.

BBS Ltd has been awarded the ISO 9001 certificate.

(d) Analyse two benefits from winning this award.

One benefit that BBS Ltd should enjoy as a result of ISO 9001 certification is that the award can help a business to examine and improve systems, methods and procedures. This will lower costs, motivate staff and encourage them to get things right first time. It can also highlight product or design problems and develop improvements, record and investigate all quality failure and customer complaints and make sure that they do not reoccur.

The ISO 9001 award also gives a clear signal to customers that BBS Ltd are taking measures to improve quality. This should help to generate more sales and lead to higher profitability.

BBS Ltd is considering the introduction of TQM.

(e) Discuss the possible advantages of this to the company.

Total quality management (TQM) is an approach to quality control designed to prevent errors, such as poor quality products, from ever happening. The business is organised so that the production process is investigated at every stage. BBS Ltd may enjoy a number of benefits if they introduce TQM into their organisation. TQM helps a business to become more market orientated. This is because it improves customer focus by encouraging staff to focus on customer needs. Since TQM is adopted through the whole organisation it helps improve quality in all aspects of the business. TQM also removes waste and inefficiencies which will save BBS Ltd money. TQM will also help BBS Ltd to develop ways of measuring performance in its operations and improve communication and problem solving. However, BBS Ltd must also appreciate that TQM is very expensive to introduce, can be bureaucratic and will only work if everyone in the business is committed. Generally, most would agree that if TQM is introduced effectively with the commitment of all staff and adequate training for everyone, quality will improve and the business will benefit financially in the long term.

