IGCSE BUSINESS STUDIES

notes2you

bringing notes to you

MADE BY TANISHA SADIK

BUSINESS STUDIES

CHAPTER 1: UNDERSTANDING BUSINESS ACTIVITY

The Basic Economic problem:

The real cause of shortage or scarcity of goods and services is that there are not enough factors of production to make all of the goods and services that the population needs and wants.

Scarcity- lack of sufficient products to fulfil total wants of the population

4 factors of production:

. Land - all natural resources provided by nature
Ex: fields, forests, oil, gas, metals, and other me eineral resource ces.

. Labour - The number of people available to make products, the physical and mental effort put in.
. Capital - The finance, machinery and equipment needed for the manufacturing of goods.

. Enterprise - skill and risk taking ability of the person (Entrepreneur) who brings the 4 factors of production together to produce goods and services.

We have limited resources but so many wants, we therefore have to choose which wants to satisfy and which we will not. All choices involve giving something up which leads to opportunity cost.

Opportunity cost - The next best alternative foregone

Specialisation occurs when people and businesses concentrate on what they are best at.

Specialisation is now common because

- Specialised machinery and technology are now widely available
- Increasing competition means that businesses need to keep their costs low
- Most people recognize that higher living standards can result from being specialised

ADVANTAGES OF SPECIALISATION:
. Increases efficiency
. Increases output
. Less time is wasted
. Machinery also helps all jobs and can be operated 24/7.

DISADVANTAGES OF SPECIALISATION:
. Workers can become bored doing the same task over and over again
. Can lead to inefficiency
. If one worker is absent and no one else can do the job, the entire production process is delayed
. No flexibility because workers can only do one job and cannot do others well if needed.

Division of labour is when the production process is split up into different tasks and each worker performs one of these tasks. It is a form of specialisation.

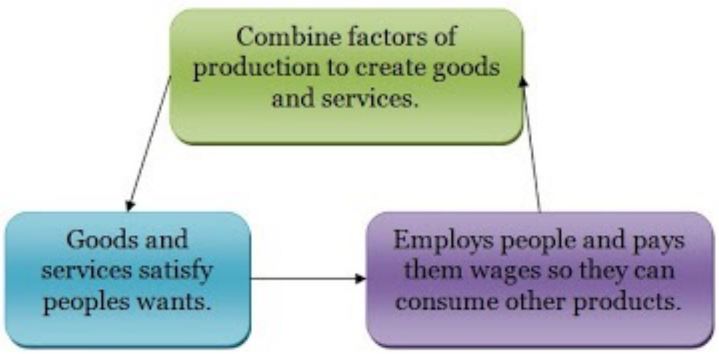
A **business** combines factors of production to produce goods and services which satisfy the wants of people.

By a slow process of specialisation, people begin to concentrate what they are best at and then traded those goods for others made by people who have different skills. In this way businesses are formed.

Why is business activity needed?
- Provides goods and services from limited resources to satisfy unlimited wants.
- Scarcity results from limited resources and unlimited wants.
- Choice is necessary for scarce resources. This leads to opportunity costs.
- Specialisation is required to make the most out of resources.

Business activity:

- **Combines scarce factors** of production to produce goods and services
- **Produces goods and services** which are needed to satisfy the wants and needs of the population
- **Employs people** as workers and pays them wages in order to consume products made by other people.



What is Added Value?

Added value is the difference between the selling price of a product and the cost of bought in materials and components.

HOW TO FIND ADDED VALUE (FORMULA)

SELLING PRICE – COST OF MATERIALS/COMPONENTS USED TO MAKE THE GOOD OR SERVICE = VALUE ADDED

WHAT ARE THE BENEFITS OF ADDING VALUE?

. Charging a higher price.
. Creating a point of difference from the competition.
. Protecting from competitors trying to steal customers by charging lower prices.
. Focusing a business more closely on its target market segment.

WHY IS IT IMPORTANT?
. Can pay other costs such as labour costs, management expenses and costs such as advertising and power
. May be able to profit if other costs total less than the added value

HOW TO ADD VALUE?
- Increase price
- Reduce material costs

why can a business can sell a product or service for more than what they paid for it in the first place?
Improved Quality
Improved design
Speed of service
Branding
Convenience

CHAPTER 2: CLASSIFICATION OF A BUSINESS

Primary sector - Extracts and uses the natural resources to produce raw materials used by other businesses. E.g. farming, forestry, mining... (earns the least money)

Secondary sector - Manufactures goods using the raw materials provided by the primary sector. E.g. construction, car manufacturing, baking... (earns a medium amount of money)

Tertiary sector - Provides services to consumers and the other sectors of industry. E.g banks, transport, insurance... (earns the most money)

Relative importance of economic sectors:
1.percentage of the country's total number of workers employed in each sector
2.value of output of goods and services and the proportion this is of total national output

De-industrialisation - Decline in the importance of the secondary manufacturing sector of industry in a country

Reasons for de-industrialisation:
1.natural resources for secondary sector become depleted
2.most developed economies are losing competitiveness in manufacturing to the newly industrialized countries
3.as a country's total wealth increases and living standards rise, consumers tend to spend a higher proportion of their incomes on service such as travel and restaurants than on manufactured products from primary products

---

Private sector - All businesses are owned by the **private sector**. **No** government intervention.

Pros:ss

- Consumers have a lot of **choice**
- High **motivation** for workers
- **Competition** keeps prices low
- **Incentive** for other businesses to set up and make profits

Cons:ès

- Not all products will be available for everybody, especially the **poor**
- No government intervention means **uncontrollable** economic booms or recessions
- **Monopolies** could be set up limiting consumer choice and exploiting them

Public sector - Government-owned or state-owned and controlled businesses and organizations. **Total** government intervention. Fixed wages for everyone. Private property is not allowed.

Industries under government ownership:

- health
- education
- defence
- public transport
- water & electricity

Pros:

- **Eliminates** any **waste** from competition between businesses (e.g. advertising the same product)
- Employment for everybody
- All **needs** are met (although no luxury goods)

Cons:
- Little motivation for workers
- The government might produce things people **don't** want to buy
- **Low incentive** for firms (no profit) leads to low efficiency

Mixed economy - Businesses belong to both the private and public sector. Government controls **part** of the economy.

Privatisation

Privatisation involves the government selling national businesses to the private sector to increase output and efficiency.

Pros:
- New **incentive** (profit) encourages the business to be more efficient
- **Competition** lowers prices
- Individuals have more **capital** than the government
- Business decisions are for **efficiency**, not **government popularity**
- Privatisation **raises money** for the government

Cons:
- **Essential** businesses making losses will be **closed**
- Workers could be made **redundant** for the sake of profit
- Businesses could become **monopolies**, leading to higher price

---

CHAPTER 3: ENTERPRISE, BUSINESS GROWTH AND SIZE

Entrepreneur - Someone who takes the risk, organizes and operates a new business venture.

Advantages of being an Entrepreneur:
- Have independence- Able to control their own time/money
- No control- They're able to put own ideas into practice
- Gain status, can become successful if the business expands
- Higher income/salary, possibly higher profit then working for someone else or another business.

- Can make use of their own interests and skills, again, not dependent on others.

Disadvantages of being an Entrepreneur:
- Take higher risk- new Entrepreneurs' business may fail if there is poor planning.
- Capital- Entrepreneurs will have to put there own money into the business and find other sources of finance to operate.
- Lack of knowledge/experience in starting up a new business
- Opportunity cost- lost income from not being am employee of another business

Characteristics of successful entrepreneurs

- Hard working – Long hours of work are needed to become successful
- Risk taker – Entrepreneurs never know if business idea will succeed
- Creative – Business ideas different from competitors
- Self-confident – Necessary to convince banks and investors.
- Effective communicator – Talk clearly to banks, customers, employees about business.
- Independent
- Innovative

Business Plan – A document containing the objectives of a new business, the important details about the capital/finance, operations and the owners- Business idea and help

Business plan is needed to

- Apply for bank loans
- Plan business to reduce risk of failure

Business plan includes

- Products and services that you will sell
- Business costs
- Location of the business
- Resources required

Governments supports new businesses because

- - Reduce unemployment

- - Increase competition
- - Increase output
- - Benefit society
- - Help with new business growth

Government supports new businesses by

- Loans at low interest rates
- Land to set up businesses at low costs
- Grants (money) to train employees
- Use research facilities at public universities
- Business advice from experts

Business plan helps

- Reduce cost

- Increase chance of gaining finance

- Reduce risks

Business size is important to :

- Investors - Governments - Competitors - Workers - Banks

Methods of measuring size of a business

Number of employees – Easy to calculate and compare with competitors. However, some businesses can produce higher output with fewer employees. e.g. Some factories uses machines.

Limitation: **some firms use production methods which employ very few people but which produce high output levels**

Value of output – Easy to calculate and compare with competitors. However, some businesses may be very small but producing very expensive products such as brand name clothing while a very large factory may be producing cheap clothing.

Limitation: **a high level of output does not mean that a business is large when using the other methods of measurement**

Value of sales – Easy to calculate and compare with other businesses. However, value may be different for businesses for example, a sports car dealer may sell 2 cars a day while a normal car dealer e.g. Toyota may sell 20 cars a day.

Limitation: **it could be misleading to use this measure when comparing the size of businesses that sell very different products**

Value of capital employed – Simple to compare with other businesses. However, this method is inaccurate because different factories will use different types of capital e.g. A factory may use expensive machinery and another may depend on employees.

Limitation: **this has a similar problem to that of the "number of employees" measure**

Why do businesses grow?

- Increased chances of higher profit
- Better status and prestige of the owners and employees
- Lower average cost (more negotiating power)
- Larger share of its market

Ways businesses can grow

Internal Growth – Business grows by itself (Business gets larger as profit increases e.g. more customers)

External Growth – Takeover or merger with another business.

External growth:

Horizontal integration – Firms in the same industry at the same stage of production merges. e.g. 2 Bakeries merging to form a larger business

.The merger reduces the number of competitors in the industry
.There are opportunities for economies of scale
.The combined business will have a bigger share of the total market than either firm before the integration

Vertical integration – Business expands by merging with another business in another stage of production. There are 2 types of vertical integration. Backwards and forward.

Backward vertical integration is when a business merges with another business in the previous stage of production for example, Bakery merges with wheat farm.

.The merger gives and assured supply of important components
.The profit margin of the supplier is absorbed by the expanded business

.The supplier could be prevented from supplying other manufactures
.Costs of components and supplies for the manufacturer could be controlled

Forward is when a business merges with a business in the next stage of production e.g. Sugar farm merges with candy factory.

.The merger gives an assured outlet for their product
.The profit margin made by the retailer is absorbed by the expanded business
.The retailer could be prevented from selling competing makes of car
.Information about consumer needs and preferences can now be obtained directly

Conglomerate merger – Two businesses in a completely different industry combine to form a new business. e.g. Insurance company buys an advertising agency.

. The business now has activities in more than one industry. This means that the business has diversified its activities and this will spread the risks taken by the business
.There might be a transfer of ideas between the different sections of the business even though they operate in different industries

Joint Ventures – Two or more business agree to start a new project together.

Problems of business growth

- Large businesses are difficult to control. Solution – Operate in business in small parts.

- Costs of expansion are high. Solution – Expand slowly
- There can be poor communication in large businesses. Solution – use technology to communicate e.g. email. Operate the business in small parts.

Why do some businesses remain small?

- **Type of industry the business is in:** Industries offering personal service or specialized products. They cannot grow bigger because they will lose the personal service demanded by customers. E.g. hairdressers, cleaning, convenience store, etc.
- **Market size:** If the size of the market a business is selling to is too small, the business cannot expand. E.g. luxury cars (Lamborghini), expensive fashion clothing, etc.
- **Owners objectives:** Owners might want to keep a personal touch with staff and customers. They do not want the increased stress and worry of running a bigger business.

Why some businesses fail

- **Poor management –** Many businesses fail due to poor management from lack of experience by the managers.
- **Failure to plan for change –** The business environment is constantly changing, Businesses need to change to keep up with technology.
- **Poor financial management –** Shortage of money means that the businesses cannot be operated. Businesses needs to always make sure they have enough money
- **Over expansion –** Some businesses expand too quickly and not have enough money to operate.
- **Startup risk** – Starting up a new business is always risky, entrepreneurs may lack experience and not be able to compete with larger businesses.

CHAPTER 4 : TYPES OF BUSINESS ORGANISATIONS

Main features of different forms of business organisation

Unincorporated Business – A business that does not have a separate legal identity from its owner(s) e.g. If the business is sued, the owner is responsible and may need to cover the cost with their own personal money.

Incorporated Business – Business that has a separate legal identity from its owner(s) e.g. If the business goes bankrupt, the owners won't be held responsible and only lose the money they invested.

Unlimited Liability – The owner of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they made in the business (If the business goes in debt, the owner needs to pay back with their own money.

Limited Liability – The liability of shareholders in a company is only limited to the amount they invested (Opposite of Unlimited liability, If a business fails, the owners only lose what they invested)

Main forms of business organisations

Unincorporated Businesses

Sole Trader – Owned and operated by one person.

Advantages

- Cheap and easy to startup
- Full control of your own business

Disadvantages

- Unlimited Liability
- If the owner dies, the business no longer exists
- Less money / difficult to expand business

Co-operatives

Cooperatives are a group of people who agree to work together and pool their money together to buy "**bulk**". Their features are:

- All members have equal rights, no matter how much **capital** they invested.
- All workload and decision making is **equally** shared, a manager maybe appointed for bigger cooperatives
- Profits are shared equally.

The most common cooperatives are:

- **producer cooperatives**: just like any other business, but run by workers.
- **retail co-operatives**: provides members with high quality goods or services for a reasonable price.

Other notable business organizations:

Partnership – A form of business in which 2 or more people agree to jointly own a business. They require a **Deed of Partnership** or **Partnership Agreement**, which is a document that states that all partners agree to work with each other, and issues such as who put the most capital into the business or who is entitled to the most profit. Other legal regulations are similar to that of a sole trader.

Advantages

- 2 Owners mean that more money can be invested
- Less work since tasks can be done by 2 owners.
- Losses can be distributed among the 2 owners

Disadvantages

- Unlimited Liability
- If one owner dies/quits, the business no longer legally exists.
- There can be disagreement between the 2 owners.

Incorporated Businesses

Private limited company (LTD) – Owned by shareholders.

Advantages

- Limited Liability to all shareholders
- Capital can be invested by many shareholders
- Cheaper to set up than public limited companies
- Continuity of existence – If the business owner dies, the business still exists.

Disadvantages

- Slower to startup (many legal documents needs to be signed)
- Shares can only be sold to family and friends
- Other shareholders need to agree before shares can be sold

Public limited company (PLC) – Similar to a private limited company but shares can be sold to the public. Great for large companies.

Advantages

- Limited Liability
- Shares can be sold to the general public without permission (Capital (Money) can be raised quickly)
- Continuity of existence
- Company can grow and expand quickly

Disadvantages

- Complicated legal documents (Wastes money and time)
- Expensive to start up
- Company can grow large very quickly which will be difficult to control
- Original owners of the business may lose control of the company
- Shareholders may vote who manages the business in AGM (loss of control)

Annual General Meeting (AGM) – Meeting that must be held every year for shareholders to vote for the company's next directors.

Shareholders – Owners of a limited company, they buy shares which represent the percentage they own of the company.

Franchising

Franchisor – Company that owns the original business, Franchisors sell the franchise to a franchisee

Advantages

- Make money from selling the business' name to franchisee
- Quick growth of the brand
- Operation of the business is the franchisee' responsibility

Disadvantages

- If one franchisee has a bad reputation, the entire franchise will be effected e.g. If one Mcdonalds store serves bad food, all the other Macdonald stores will have a bad reputation.
- Profit from franchised stores are kept by the franchisee

Franchisee – Someone who buys a franchise from the franchisor to use the brand name

Advantages

- Less chances of failure since the business is well known.
- Most of the advertisements are paid by the franchisor
- Less decision making is required from the franchisee e.g. food recipe is already planned from franchisor
- Staff training may be provided from franchisor

Disadvantages

- Franchisee won't be able to make own decisions e.g. come up with own menu
- Franchisee needs to pay the franchisor to use brand name

Joint Ventures – 2 or more businesses start a new project together.

Advantages

- Costs can be shared amongst the companies
- Knowledge and skills from more than one company
- Risks are shared (If the project fails)

Disadvantages

- Profit is shared
- Businesses may disagree with each other.

<u>Public Sector</u>

Public corporations:

A business owned by the government and run by Directors **appointed by the government**. These businesses usually include the water supply, electricity supply, etc. The government give the directors a set of **objectives** that they will have to follow:

- to keep **prices low** so everybody can afford the service.
- to keep people **employed**.
- to offer a service to the public everywhere.

These objectives are expensive to follow, and are paid for by government **subsidies**. However, at one point the government would realise they cannot keep doing this, so they will set different objectives:

- to **reduce costs**, even if it means making a few people redundant.
- to **increase efficiency** like a private company.
- to **close loss-making** services, even if this mean some consumers are no longer provided with the service.

Pros:
.Some businesses are considered **too important** to be owned by an individual. (electricity, water, airline)
.Other businesses, considered **natural monopolies**, are controlled by the government. (electricity, water)
.Reduces waste in an industry. (e.g. two railway lines in one city)
.Rescue important businesses when they are failing.
.Provide **essential services** to the people (e.g. the BBC)

Cons:
.Motivation might not be as high because **profit** is not an objective.
.Subsidies lead to **inefficiency**. It is also considered **unfair** for private businesses.
.There is normally **no competition** to public corporations, so there is **no incentive** to improve.
.Businesses could be run for **government popularity.**
.Municipal enterprises

These businesses are **run by local government authorities** which might be **free** to the user and financed by local **taxes**. (e.g, street lighting, schools, local library, rubbish collection). If these businesses make a loss, usually a government **subsidy** is provided. However, to reduce the burden on taxpayers, many municipal enterprises are being **privatised**.

CHAPTER 5: Business objectives and stakeholder objectives

Why are objectives important for a business?

- They act as a motivator as they give managers and workers a target to move towards
- Helps with decision making (managers will know what is better for the business to reach its target)
- Can make the entire business work toward a goal
- Managers can see if the business has achieved its goals or not.

Objectives that businesses set

Businesses often set multiple objectives which can change over time

Business survival – This is common for new businesses and businesses in bad economic times

Profit – Businesses want to maximise profit.

Growth – Businesses may want to grow for various reasons. Common reasons for business growth is to obtain a higher market share, increase jobs etc…

Return to shareholders – incorporated businesses (Private and public limited companies) are owned by shareholders. There are 2 main ways to return to share holders

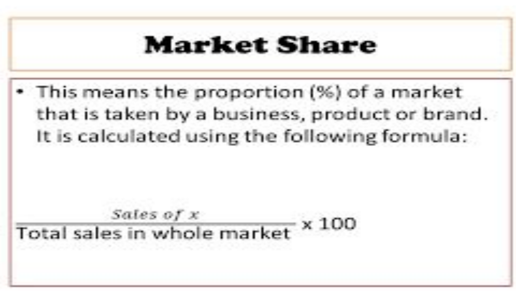
1.Businesses profits can be paid to shareholders as dividends

2. increasing share price will keep the shareholders happy so managers won't be voted out.

Market share – Businesses want to obtain a higher market share. The advantages of this is to make the business more well known. With a higher market share, the businesses may also be able to negotiate lower costs from suppliers (economies of scale)

Providing a service to society – **Social enterprises** are privately owned businesses that focus on providing a service to society such as providing jobs to disabled or homeless people or Protecting the environment.

Business objectives are likely to change over time. For example, A new business has survived a few years so the managers decide to change the objective to maximising profit.



The role of stakeholder groups involved in business activity

Stakeholder – A person or group with a direct interest in the performance and activities of a business.

List of stakeholder groups:

Internal stakeholders

- **Owners –** These are people who invested and set up the business. **Objective =** Profit so they make money from the business.

Workers – Employees of the business. **Objective =** Payment for their work, job promotion (increased salary), job security.

Managers – Employees that control other workers. **Objective =** Higher salary, job security, Successful company means better status.

External

Consumers – Customers who buy goods and services from the business.

Objective = Good products from business, reliable service and maintenance from the company.

Government – Responsible for the economy of the country, laws to protect customers and employees.

Objective = Successful business means more jobs (less unemployment), Tax paid by the business and the business' contribution to the country's output.

Community – Interested in how the business affects the local community, e,g, employment, environment.

Objective = Jobs for people, environmentally friendly business, safe products for the customers.

Bank – Lend money for the business to startup.

Objective = Wants the business to have enough money to pay them back.

These stakeholder objectives may conflict for example,

- Managers of a business want to build a factory in an area however the local community are against this as it may cause pollution and noise in the area.
- Owners want to use cheaper low-quality materials to lower product costs and increase profits however consumers are against this as the quality of the products they are buying will be lowered.

Private sector business objectives

- Business survival
- Profit
- Growth
- Returns to shareholders
- Market share
- Service to society

Public sector business objectives

- Provide service to the public
- Increase living standards of the public e.g. health care, education
- Increase jobs to lower unemployment in the country

What is marketing?

A **market** is where **buyers** and **sellers** come together and **exchange** their **products** for **money**. It can be in the streets, on the internet, in shops around the world, etc… Customers and sellers exchange both **goods** and **services** for money.

Marketing is the **management process** which identifies consumer **wants**, predict **future** wants, **create** wants and find ways to **use** these wants to the fullest (most profitably). In other words, businesses try to **satisfy** wants in the most **profitable** way possible. Marketing covers a wide range of activities such as: advertising, packaging, promotion, etc…

THE ROLE OF MARKETING:

. Identifying customer wants

. Satisfy customer needs

. Maintain customer loyalty

. Gain information about customers

. Anticipate changes in customer needs

Market research - process of gathering, analysing and interpreting information about a market.

Product-orientated and market-orientated businesses

A product orientated business focuses on the quality and price of the product before finding a market for it to sell in. These type of businesses usually produce basic needs. New technology could be developed this way, and customer wants are created by advertising.

Other big companies (usually national and international) cannot afford to produce a product that will not sell, so they have to do **market research** first to find consumer wants **before** developing a product. They are called **market-orientated** businesses. They will need to set up a **marketing budget** for this, which is a **financial plan** for marketing of a product, which contains the amount of money the Marketing department may spend on marketing.

They are better able to survive in the market and be successful because they are usually more adaptable to changes in customer tastes. They are also able to take advantage of new market opportunities. New products can be introduced with more confidence when customer needs have been identified before the product has been introduced.

Outcome of a successful marketing strategy:

- Raise customer awareness
- Increase sales revenue and profitability
- Increase or maintain market share
- Maintain or improve image
- Target a new market or market segment
- Develop new products or improve existing ones.

.

Why do Markets Change?

- Consumer tastes and fashion change
- Changes in technology
- Change in income
- Ageing population

How can a business respond to a changing market?

- Maintain good customer relationships
- Improve existing product
- Bring out new product
- Keep costs low

The Marketing department

Most businesses will have a **Marketing department**, which will have a **Marketing Director**. He will be in charge of things such as R&D, distribution and pricing. Here is an organisational chart showing what departments the marketing director controls:

- **Sales department:** Responsible for sale and distribution of products for each **region**. There may also be an **export department**.
- **Research and Development department:** Responsible for finding out consumer wants and **developing new products**. They also need to find ways to **improve** an existing product.
- **Promotion department:** In charge of advertising and promotion. It will need a **marketing budget** which limits the amount of money it can spend.
- **Distribution department:** It transports products to their markets.

SWOT analysis

This is a method to evaluate the statistics of a product of business. It assess these things:

- **Strengths** (internal)
- **Weaknesses** (internal)
- **Opportunities** (external)
- **Threats** (external)

Strengths and weaknesses of a product are its **internal factors**, while opportunities and threats are **external factors**.

Why is market research needed?

Any business should find out what people want to buy and how many people are going to buy that product before producing a product since the chances of failing are very high. Usually, market research try to answer these questions:

- What feature of the product do they like/dislike?
- Are people willing to buy the product?
- What price are people prepared to pay?
- Location of the selling point of the product.

- Type
  of customer who buys the product.
- Type of promotion that will be effective.
- Competition in the same industry.

Businesses need to know these things as well as consumer wants to be more competitive.

There are two main types of information that can be gathered from market research:

- **Qualitative information:** information where opinion or judgement is necessary.
- **Quantitative information:** information about the quantity of something.

There are two ways to gather any information for market research:

- Primary research or field research.
- Secondary research or desk research.

Primary research

Primary research is gathering original data which may require direct contact with customers.

There are several ways to do primary research:

- **Questionnaires**
- **Interviews**
- **Consumer panels**
- **Observation**

- **Experiments**

Questionnaires, interviews and consumer panels are all types of surveys.

The process of primary research

1. Identify the purpose of the market research.
2. Decide on the best method of research. (primary, secondary or both)
3. Decide on the size and type of sample (group of people who will be asked)
4. Carry out the research.
5. Collate data and analyse results.
6. Produce a report. (may include recommendations of action paths to take)

Methods of primary research

Questionnaires

Questionnaires involve asking people questions. Deciding what questions to ask since sometimes questions may mislead people and make them answer what they don't really think.

Pros:

- Detailed qualitative information can be gathered.
- Customers' opinions can be gathered.

Cons:

- If the questions are bad it could mislead customers.
- Takes time and money to collate the results.

Interviews

Interviews are face-to-face conversations with customers where the interviewer has a set of prepared questions.

Pros:

- The interviewer can explain any questions the interviewee does not understand.
- Detailed information about customers' opinions.

Cons:

- Interviewer bias. The interviewer might unconsciously lead the interviewee to answer in a certain way.
- Time consuming and expensive.

Samples

A group of people who are chosen to do market research on. There could be:

- **Random sample:** A random number of people are selected.
- **Quota sample:** People are selected for some certain characteristics.

Consumer panels

Consumer panels are groups of people who agree to provide information and spending patterns about a product. They may even test it and give feedback on likes and dislikes.

Pros:

- They provide detailed information about a product.

Cons:

- They can be time consuming, expensive, and biased if opinions of some is influenced by others.

<u>Observation</u>

Observation involves:

- **Recording:** e.g. meters can be fitted to a monitor to see what people are watching.
- **Watching:** e.g. see how many people go into a shop and actually buy something.
- **Audits:** e.g. counting inventory to see what has sold well. (inspecting)

Pros:

- It is inexpensive.

Cons:

- Only provide basic figures and not reasons why people do things.

<u>Experiments</u>

Experimenting involves giving products to consumers to see what they think about it.

Pros:

- Easy to set up, carry out, and gather consumer opinions.

Cons:

- People might give wrong feelings to avoid offence.
- Representatives of samples may not be asked, just people who shop in an area.
- Many potential customers may not be asked.

Secondary research

Secondary research means taking information that has been already collected by others.

Internal sources of information

Data collected from past researches could easily be used again if it is needed. Examples of internal sources of information include:

- **Sales department: sales records, pricing data, customer records, sales records.**
- **Distribution and PR personnel.**
- **Finance department.**
- **Customer service department.**

External sources of information

Data collected from sources outside the business. The data may still be useful but there are many limitations since it has been gathered for other purposes. Sources include:

- **Internet: gives all sorts of information, but the info must be validated.**
- **Trade and employer associations: gives info about things in an industry.**
- **Specialist journals.**
- **Research reports.**
- **Newspapers: about the economy and disposable income of workers.**

- **Government reports and statistics: contains things such as age groups and culture.**
- **Media reports.**
- **Market research agencies' reports: detailed reports on the economy. Expensive to buy.**

Secondary research is often a much cheaper way of obtaining information. It also gains access to data which cannot be gathered by primary research such as government issues or the economy.

Who carries out market research?

Normally, research is done by any business who needs it. In smaller businesses, owners use secondary research since they cannot afford to conduct primary research. However, if a business has enough money, it can afford to have a specialist market research agency to do the research for it.

Accuracy of market research information

The accuracy of market research depends on how the research was conducted and how carefully samples have been selected.

Here are some ways to make information from market research more accurate:

- **A sample needs to be truly representative of the total population, hence a quota sample is normally used.**
- **The larger the sample, the more accurate the results.**
- **Questionnaires need to be tested on a small group of people to see if there are misinterpretations. The questionnaires will be modified to be as clear as possible.**

Concerning secondary research, there are a few problems with it:

- Data collected by others may not be accurate since it was used for other purposes.
- Data can be out of date.

All in all, it must never be assumed that information collected from market research is completely correct.

How to design and use a questionnaire

Firstly, you need to ask yourself some questions:

- **What do I need to find out?**
- **Who do I need to ask?**
- **Where will I carry out my questionnaire?**

Writing the questions

- **Ask no more than 12 questions. (impatience)**
- **Make the questions simple. The answers should be simple enough to collate. (e.g. Yes/No answers)**
- **Use choice of age groups.**
- **Avoid open-ended questions.**
- **Avoid misleading the interviewee with questions. (don't want to cause offence)**
- **The order of the questions should be logical.**

Carrying out the questionnaire

First you need to figure out:

- **How you will ask the questions.**

- **How you will collate the results.**

Then:

- **Where are you going to ask the questions.**
- **Who are you going to ask?**

And finally:

- **How many people will be asked?**
- **When will you ask the questions? (time)**

Market segments

Market segments are parts of a market which contains people which have similar **preferences** for their products. The Marketing department should know which segment their product fits the most, so that they can advertise and sell their products to it.

There are two ways to **segment** markets. By the **type of product** or the attributes of the **customers** buying it. Here are two types of markets which are segmented based on the product:

- **Mass market:** Where there is a **large** number of sales of a product. (e.g. Pepsi can be bought anywhere)

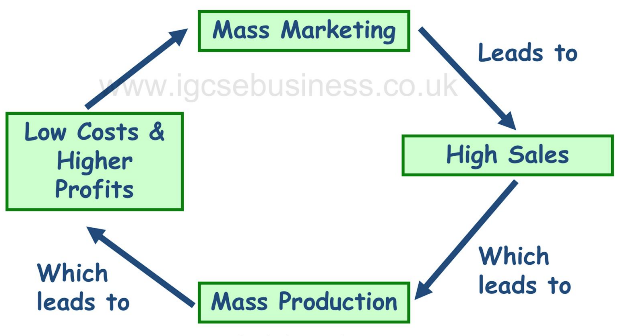
ADVANTAGES:

. Total sales are high

. business can benefit from economies of scale

. risks can be spread (more than one product)

. opportunities for growth due to large potential sales



DISADVANTAGES:

. Higher levels of competition

. High costs of advertising

. standardardised products or services produced so may not meet the specific needs of all customers or potential customers, therefore leading to lost sales.

- **Niche market:** A **small** market for **specialised** products. (e.g. Ferrari cars)

ADVANTAGES:

A premium price can be charged for highly differentiated products which are valued by the target niche market

If first company to exploit a niche market then a loyal customer base can be established

A niche market may grow to become a mass market e.g. Body Shop

Little or no competition (safe haven)

Products are not very price sensitive

DISADVANTAGES:

- The market may remain small

- Successful niche firms may attract larger firms which will take market share

- Dependence on one product

Here is how a market can be segmented regarding people buying the product:

- **Income**
- **Age**
- **Region**
- **Gender**
- **Use of product**
- **Lifestyle**
- **Religion**
- **Socio-economic group**

Why would organisations segment the market?

- **Enhanced profits for business -** Customers have different disposable income.
- **Better opportunities for growth** - "trade-up"
- **Retain more customers** - Customer circumstances change
- **Target marketing communications** – relevant to customer
- **Gain share of the market segment** - become the preferred choice of customers

What are the possible issues with doing this?

- Lack of information and data
- Difficulty in measuring and predicting consumer behaviour
- Hard to reach customer segments once identified

It is very important to **target** the right market segment since it can **increase sales** by a lot. If a business can analyse all of these market segments, they may find a market segment whose **needs** are **not** being **met**. This is when the business finds a **gap in the market**, and it could produce goods to take advantage of this gap and again increase sales.

The marketing mix

The **marketing mix** is a term that describes how products are **marketed**. You must remember that before marketing can be achieved, **market research** is needed. The rest is summarized into the **four P's**. Let's look at them briefly first, since they will be covered in other chapters:

- **Product:** Design and quality, competitiveness, **packaging**, etc…

- **Price:** There are different pricing strategies. Businesses need to use them so that they increase sales.
- **Promotion:** Advertising and promotion. Discounts, TV adverts, sales, **packaging**, etc…
- **Place:** The location of the **point of sale** (the shop). **Channels of distribution**. Type of shop (wholesaler or retailer?)

A successful product require effective use of the four P's. However, businesses must be careful to not let each of these factors **counteract each other** (e.g. expensive but low quality goods), else the product will fail.

The role of product in the marketing mix

The **product** itself is the most important element in the marketing mix. Without it, the other three wouldn't exist. Most companies today are market oriented, and will identify a suitable product for the market before moving on to determine the other 3 elements. Large companies have **R&D** departments which spends all its time developing new product and analysing the pros and cons of competitors' products.

Types of products:

- **Consumer goods:** Goods that are used up by consumers. (e.g. food, cake)
- **Consumer services:** Services that are produced for people. (e.g. education)
- **Producer goods:** Goods produced for businesses. (e.g. machinery)
- **Producer services:** Services for businesses. (e.g. accounting, insurance)

Each type of product **determines** the price, promotion and place to sell the product. Here are what make products successful.

- Products need to **satisfy** consumer **wants/needs** to be successful.
- The product must be at the right **quality** so that customers are willing to pay for it.
- Costs should be low enough to make a **profit**.
- **Design** of a product is important. This means that its **quality** and **durability** should meet expectations and match the **price** of the product. The design should also enhance the products **brand image**.
- Products are **novelties** (newly introduced to the market).
- Products can **stimulate new wants**.

Product development

Most businesses use a general process to develop any product:

1. **Generate ideas:** Ideas can be generated by:
    1. Employees.
    2. Customers.
    3. Competitor's products.
    4. R&D department.
    5. Sales department.
2. **Further research:** The best ideas are selected and further research is done to see their pros and cons.
3. **Will there be enough sales?:** To see whether there will be enough sales of the product to break-even (development costs included).
4. **Develop a prototype:** To see how a product could be manufactured and identify its problems.
5. **Test launch:** To see if the product can sell or not.
6. **Full launch.**

The importance of branding

Traditionally, a product's unique features and quality were explained by the sellers who made the product. However, since products are usually sold in private retail shops nowadays, these points need to be projected differently. Products therefore need to be **branded** with an **unique brand name** and the products features and quality will be projected with advertisement. The price of branded goods are usually higher, since customers are more confident to buy them. Here are things that are involved with branding:

- **Unique** name.
- **Unique packaging**.
- Needs **advertising** to enforce the brand's qualities.
- **Higher price** than unbranded products.
- **Higher quality** than unbranded products.
- Creates a **brand image** (**unique** image associated with using the product)
- Creates **brand loyalty**.
- **Consistent quality**.

Packaging

Getting the packaging right is very important. Packaging performs several tasks:

- **Protecting** the product (also includes preserving foods)
- Making it **easy** to **transport**.
- Allow the product to be **used easily**. Container must be able to be **opened easily**. (e.g. juice in a can)
- Suitable for the product to **fit in**.

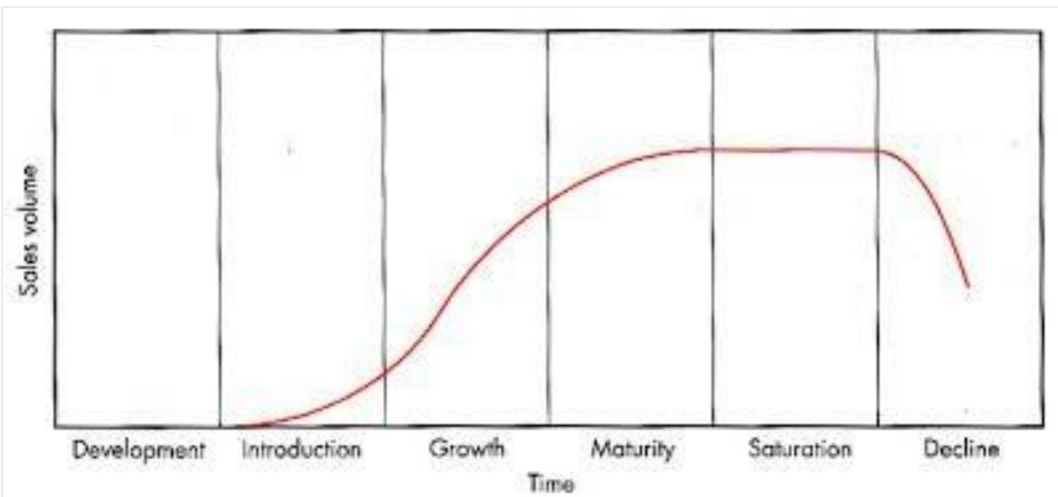
Packaging also helps **promote** the product:

- Make it **eye-catching**.

- Carries **information** about the product.
- **Promotes** the **brand image**.

The product life cycle

Product life cycles show the stages that a product goes through from its introduction, to its growth, and then to its decline. Here is a graph to show the product life cycle:



1. **Development:** The product is under development.
2. **Introduction:** The product is introduced. Sales grow slowly and **informative** advertising start to attract customers. Price skimming could be used if the product is new to the market. The main aim of sales is to breakeven.
3. **Growth:** Prices rise rapidly. **Persuasive** advertising is used to encourage brand loyalty. Prices may be reduced a little. Sales start to generate profits since costs have been covered.
4. **Maturity:** Sales rise more slowly. Competition forces prices to be lowered and the firm uses competitive pricing. Advertising is used to maintain sales. Profits are at their **highest**.
5. **Saturation:** Sales reach their **limit**. There are no new competitors. Sales and advertising becomes stable but profits fall because of lowered prices to be competitive.

6. **Decline:** Product go out of fashion and sales and profits decline. Advertising eventually stops. It is no longer profitable to produce the product.

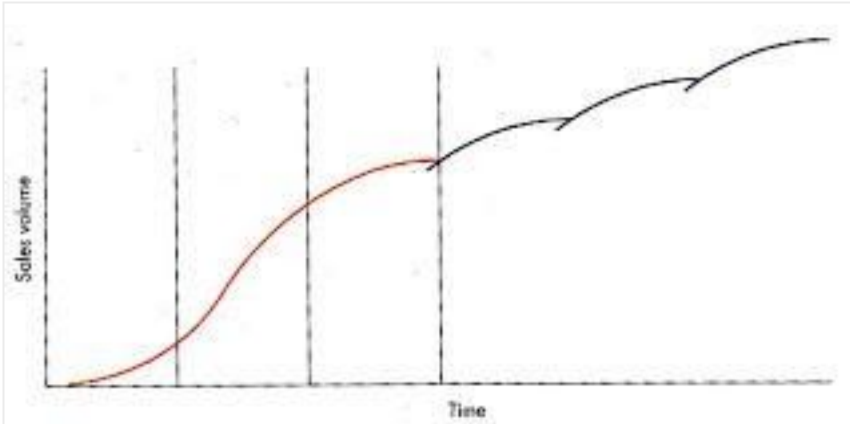
The length of each stage varies with products. The business needs to identify which stage their products are in so that they can use a suitable marketing strategy for it.

Extending the product life cycle

When a product has reached its maturity or saturation stage a business may adopt **extension strategies** to stop sales from falling which **extends** the product life cycle. Sales are given a **boost** by these strategies.

- Introducing **new variations** of the product.
- Sell into **new markets**.
- Make small **changes** to the products **design** and **packaging**.
- Sell through **additional**, **different** retail outlets.
- **Update** the product (make it better)
- Use a new **advertising campaign**.

Extension strategies aim to prolong the **maturity** stage of a product. Successful extension strategies may result in something like this:



Nevertheless, it must be noted that businesses manufacture more than one product. They should have a product in **growth** stage to **counteract** an older one which is declining.

The role of price in the marketing mix

When pricing a product, a business needs to choose one that fits with the rest of the elements in the marketing mix. E.g. high price so that consumers thinks they are buying high quality goods, low price for low quality goods, or competitive prices in a market with a lot of competition.

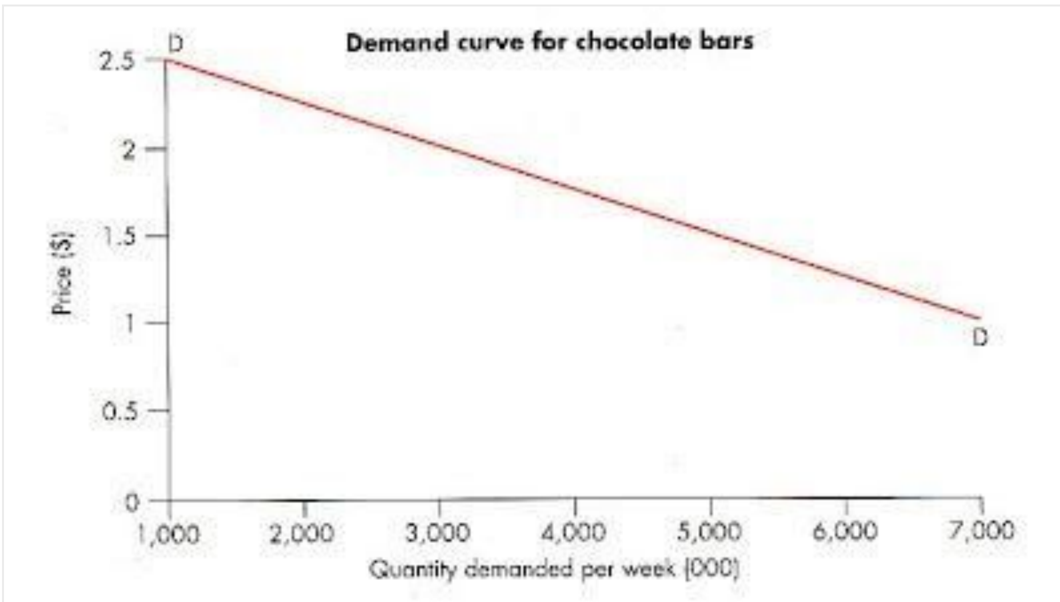
Price determination in a free market

People think that prices are determined by the seller of the product, but that is not quite so. Prices are driven by market forces called **demand** and **supply**.

Demand

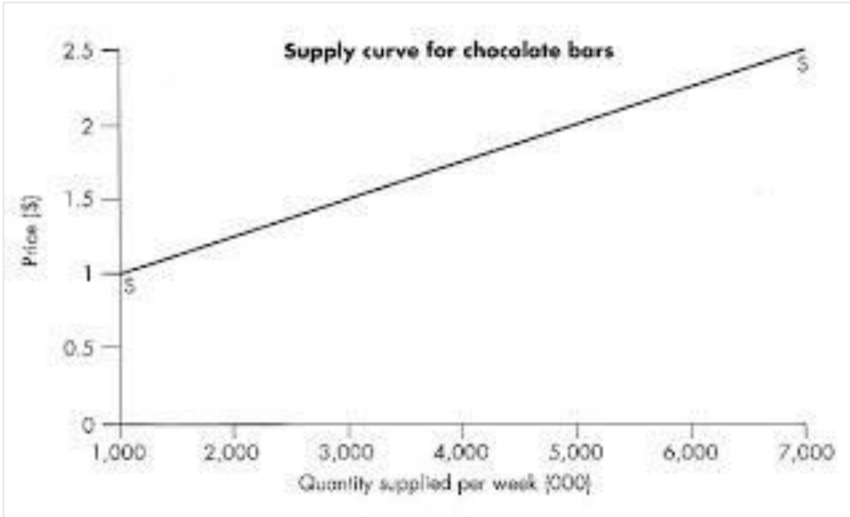
Demand is not only that people want to buy a product, but that they want it can are **willing to pay** for it. Prices can affect how much demand there is for a product.

Normally, if the **price** goes **up**, **demand** goes **down**, and vice versa. This can be shown on the graph below:



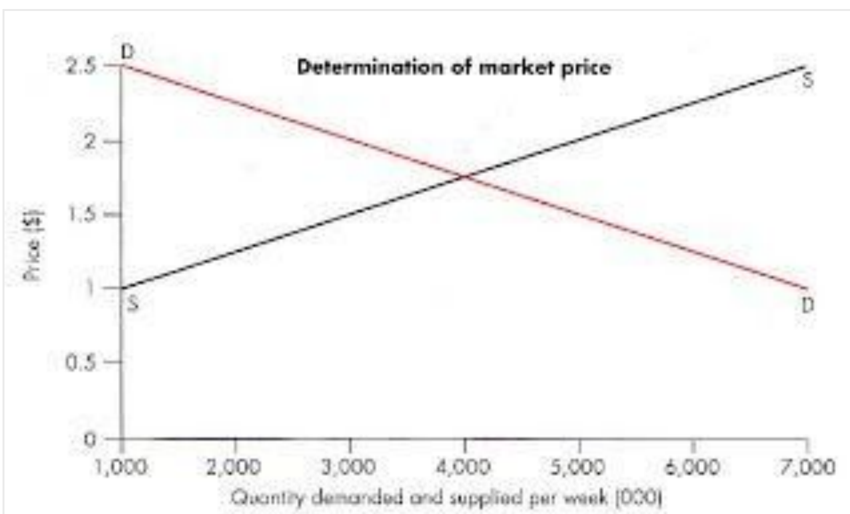
Supply

Supply also varies with price. However, it is different. If the **price** goes **up**, then the owners would want to be supplied with more products to take advantage of the high price, thus the **supply** goes **up** (and vice versa). This can be demonstrated on the graph below:



The market price

For the market price to be determined, demand and supply must all be put onto the same graph. The place where the two lines (called **curves**) cross is called the **equilibrium**, where the same number of goods are demanded and in supply resulting in **no leftovers**. All the products are demanded and all of them are sold.



Factors that affect demand and supply

The graphs assume that the demand and supply of goods are fixed. But these things can change, which shifts the demand or supply curve to the left or the right in the graph. Changes in the **price** affects where you are on the **curves**. But changes in **other factors** affect the **position** of the **curve** on the graph.

Factors affecting demand

- The popularity of **substitute products**. (products that can be used **instead of** the product)
- The popularity of **complementary products**. (products that require each other or are **used together**)
- Changes in **income**.
- Changes in **taste** and **fashion**.
- Changes in **advertising**.

Factors affecting supply

- **Costs in supplying goods to the market:**
  - Price of raw materials.
  - Wage rates.
- **Improvements in technology:**
  - Makes it cheaper to produce goods.
- **Taxes and subsidies:**
  - Higher taxes mean higher costs.
- **Climate (for agricultural products):**
  - Supply of crops depend on weather

Pricing strategies

If a product is easily recognizable from other products, it would probably have a **brand name**. And if it has one, it would need a suitable **pricing strategy** to **complement** the brand name that should improve its **brand image**. Here are the strategies that are used:

Cost-plus pricing

Cost-plus pricing involves **covering all costs** and adding a percentage **mark-up** for profit.

- + **Easy** to apply.
- **-** You **lose** sales if your price is **higher** than your competitors price.

Penetration pricing

Penetration pricing is used to **enter** a **new market**. It should be lower than competitors' prices.

- + Ensures that **sales** are **made** when a product enters a market.
- - Prices will be low. Sales revenue will be **low**.

Pricing skimming

High prices are used when a **new product** is introduced into a market, partly because it has a **novelty factor**, and because of the high **development costs**. High prices could be charged because a product is **high quality**. One last use of it is to **improve** the **brand image** of a product, since people usually associate high price with good products.

- + Skimming can help **establish** a product as being **good quality**.
- **-** It may **lose potential customers** because of high price.

Competitive pricing

Competitive pricing means setting your price to a **similar** or **lower level** than your **competitors prices**.

- + Sales will be high because your price is at a **realistic level** (not under/over-priced).
- - You have to **research** on your competitors prices which costs **time** and **money**.

Promotional pricing

Promotional pricing means that you **lower** the prices of goods for a short time.

- + Help **get rid** of **unwanted** stock.
- + Can **renew interest** in a product.
- - Sales revenue will be **lower**.

Psychological pricing

Psychological pricing involves setting the price that **changes consumers perception** of a product. This may be by:

- Using high price to make using the product give the user a **status symbol**.
- Pricing a product at just below a **whole number** (e.g. $99) which gives it an **impression** that it is **cheaper**.
- Supermarkets charge low prices for products that are bought on a **daily basis** to give consumers an **impression** that they are being given **good value for money**.

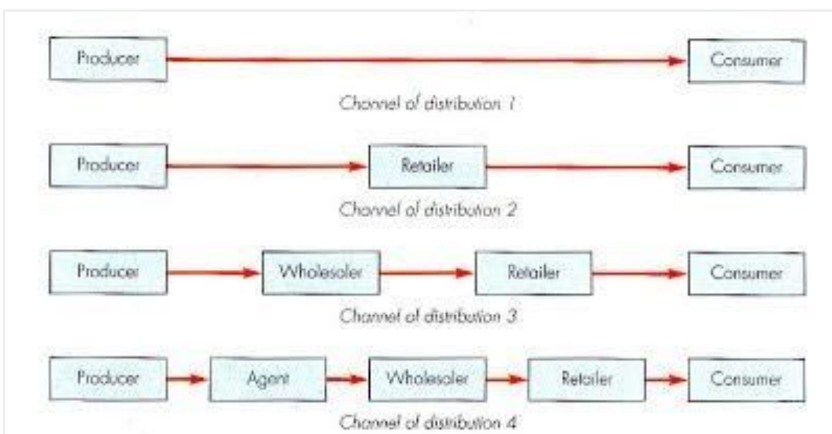
The role of place in the marketing mix

After the product, price, and promotion has been decided, the product/service has to be available to the consumer **where and when they want to buy**. Consumers should be able to get to the product easily, and the product has to be in the right place (e.g. expensive chocolate shouldn't be in a small grocery store) to sell well.

Channels of distribution

Businesses need to know how to get the product to the consumer. They may use a variety of channels of distribution:

- **Channel 1:** The manufacturer sells **directly** to the **customer**. e.g. agricultural goods are sold straight from the farm, businesses buy raw materials from another…
- **Channel 2:** Involves selling to **retailers**. Common when the retailer is large or the product is expensive.
- **Channel 3:** Involves the product going through **wholesalers** as well. Wholesalers **break bulk** so that retailers can buy them in smaller quantities. This is common for perishable items such as foods.
- **Channel 4:** Involve selling the product overseas through an **agent**, who sells them to wholesalers on behalf of the company. This may be because he/she has better knowledge of the local conditions.



Methods of distribution

Methods of distribution for different channels of distribution can include:

- **Department stores**: Usually in the centre of town that sells a wide range of goods from many producers.
- **Chain stores**: Two or more which has the same name/characteristics.
- **Discount stores**: Offers a wide range of products, including branded products, at discount prices. Often all the products are similar.
- **Superstores**: Very large out-of-town stores.
- **Supermarkets**: Very large retail stores with all kinds of goods. (usually daily needs, foods)
- **Direct sales**: Goods are sold directly to the consumer.
- **Mail order**: Customers order via the post by looking at the catalogue
- **Internet/e-commerce**: Customers order via the internet by looking at the website.

E-commerce

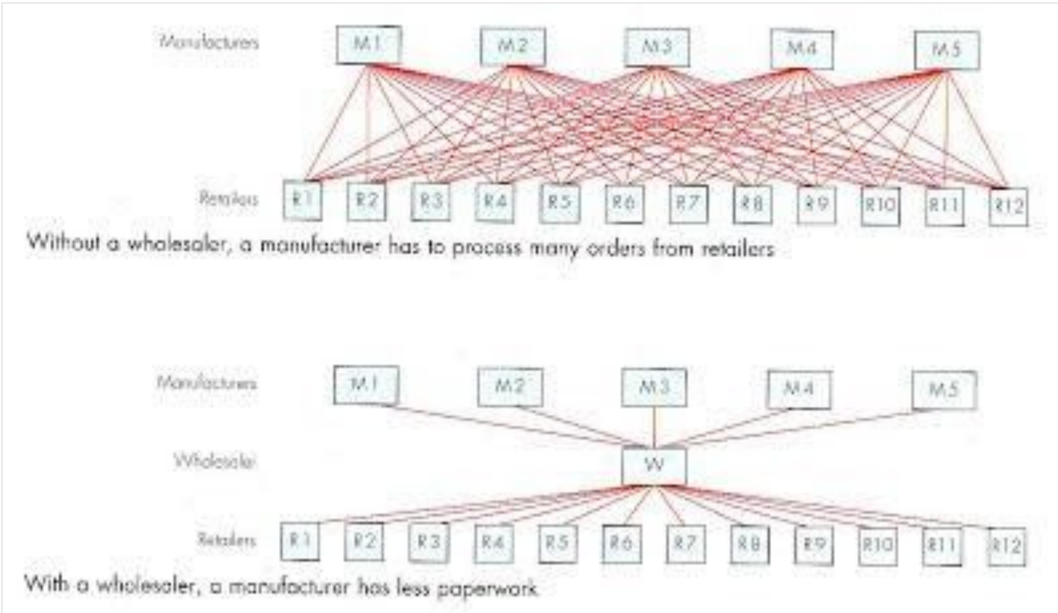
The use of the **internet** to carry out business transactions. Businesses could communicate via **email** as well. Producers as well as retailers can use the internet to sell to customers.

Advantages and disadvantages of a wholesaler

<u>Pros</u>

- Breaks **bulk**.
- Reduces **storage costs** for retailers and producers.
- Fewer **transactions** are needed for the producers. (only a few wholesalers) they no longer need to do as many **deliveries**.
- Gives **credit** to small retailers.
- May deliver to small retailers reducing their **transport costs**.
- **Promotion** carried out by wholesaler instead of producer.

- They give **advice** to retailers/producers on what is selling well.



<u>Cons</u>

- More **expensive** for small retailers.
- May not have the **full range** of products to sell.
- **Takes longer** for perishable products to reach the retailer.
- Wholesaler may be **far** from small shops.

Selecting the channel of distribution to use

When selecting the channel of distribution to use producers need to consider a few things:

- **Type of product?**: Is it sold to other **producers** or **customers**?
- **Is the product very technical?**: Will you need to explain how to use the product? If yes, Channel 1 should be selected (e.g. airplanes)
- **How often is the product purchased?**: If it is bought every day, it should be available in many retail outlets, otherwise people might not bother to buy it at all.

- **How expensive is the product?**: If it is expensive and has an image of being expensive, then it will be sold in a **limited** number of retail outlets.
- **How perishable is it?**: If it is very perishable, it should reach the customers quickly or be available in many outlets so it can be sold quickly.
- **Location of customers?**: Channel 4 might be used for customers overseas. E-commerce would be viable anywhere apart from the countryside.
- **Where do competitors sell their products?**: Usually producers will sell their product in retail stores where their competitors sell too so that they can compete directly for consumers.

Methods for transporting goods

This is what kind of vehicles are used to transport the products. They should be **fast** enough for the product to reach its destination in time. However, they must also be **cost efficient** and **safe**. These factors a taken into account when deciding which method of transportation is used.

- **Road haulage**:
  - Cheap and fast.
  - Require no rail links.
  - Can advertise on side of lorries.
  - Not cost effective if lorries are not used often, may need to hire a specialist transport business instead.
- **Railways**:
  - Even cheaper and faster than road haulage.
  - Useful for long distances.
  - Goods need to be transported to retail stores by road haulage at the end of the destination.
- **Canal and river**:
  - Slow but cheap.
  - Good for products far too big/heavy to be transported by road/train.

    - Need canals and rivers.
- **Sea freight**:
    - Used mainly for international trade.
    - Can carry a lot of products.
    - Products are stored in containers, which can be easily loaded onto lorries. Makes it cheap to load and unload the ships.
- **Air freight**:
    - Extremely fast but expensive.
    - Used for small, expensive, or perishable products.
- **Pipelines**:
    - Used to transport liquids or gases over long distances.
    - Cheaper than using road haulage for liquids. Roads are not always available.

The role of promotion in the marketing mix

Promotion **informs** consumers about the rest of the marketing mix. Without it, consumers do not know about the product, the price, or the place. Promotion is more than just advertising, and it includes several activities. It is crucial when you are selling in a mass market or you have a brand name. Promotion includes:

- **Advertisements:** They can take different forms, e.g. on TV, in newspapers.
- **Promotion:** e.g. Money off coupons.
- **Personal selling:** Sending out sales representatives to talk directly to the consumers.
- **Public relations:** Involves making the public aware of the company, e.g. creating publicity in the media.

The aims of promotion

- To inform people about particular issues.

- To introduce new products to the market.
- To compete with competitors products.
- To improve the company/brand image.
- To increase sales.

Advertising

The advertising process

1. **Set objectives**: A business needs to determine the purpose of advertising.
2. **Decide**
3. **the**
4. **advertising budget**: Set a limit on how much the business can spend on advertising. It can be decided based on:
    1. A percentage of predicted sales revenue.
    2. How much competitors are spending.
    3. How much the business can afford.
5. **Create an advertising campaign**: Decide on what advertising campaign to run. Can be determined based on:
    1. Target audience.
    2. Objectives.
6. **Select the media**: Using the suitable media for advertising that is the most **cost effective**. E.g. TV, newspaper.
7. **Evaluate the effectiveness of the campaign**: Has the advertising met objectives?

Different types of advertising

- **Informative advertising**: Involves giving as much information about the product as possible. (e.g. computer)
- **Persuasive advertising**: Involves persuading consumers that they **need** the product and should buy it. (e.g. perfume)

Different media of advertising

Media	**Advantages**	**Disadvantages**	**Examples**
Television	· Millions of people will see it. · The product can be presented in a very attractive way.	· Expensive	· Food · Cars · Household tools

	· Easy to reach target audiences.		
Radio	· Cheaper than TV. · Uses song or tune which makes ads memorable.	· Cannot use visual message. · Expensive compared to others. · The advert has to be remembered. · Not as wide audience as TV	· Local services · Shops
Newspaper	· Can reach many people. · Cheap for local newspapers. · A lot of info can be put into the ad. · Adverts are permanent*.	· Not eye-catching if they are in black and white. · Does not grab reader's attention.	· Local products · Cars · Banks

Magazines	· Can use specialist magazines to reach **only** target audience. · Magazine ads are in colour and are more attractive.	· They are only published once per month/week. · More expensive then newspapers.	· Perfume · Golf equipment · Fashion clothes
Posters/billboards	· Permanent* · Cheap · Potentially seen by anyone who passes by them.	· Can easily be missed. · No detailed info can be included.	· Events · Products bought by a large section of the population
Cinemas	· Visual image shows product in a positive way. · Fairly cheap. · Effective if target audience goes to see particular films.	· Only seen by people who go to watch films.	· Toys for a children's film.

Leaflets	· Cheap · Given to a wide range of people. · Delivered to people's houses. · May contain vouchers to encourage readers to keep the advert. · Permanent*	· May not be read.	· Local events. · Retail stores like Seven-Eleven
Internet	· Can be seen by anybody around the world. · Can store lots of info. · Orders can instantly be made.	· Internet searches may not highlight the website and it could be missed. · Internet access is limited in some countries. · Competition from other websites. · Security issues may	· Virtual goods. · Services such as banking or insurance. · Virtually anything that is not too small.

		discourage people from buying online.	
Others (delivery vehicles or sides of bags)	· Cheap	· May not be seen by everyone.	· Shops put their names on plastic bags. · Coca cola use neon signs.

***Permanent:** adverts can be kept for future references.

Design of adverts

Businesses usually use the **AIDA** model:

- **Attention:** Informs consumers that the product exists.
- **Interest:** Consumers need to become interested in the product.
- **Desire:** Makes consumers want the product.
- **Action:** Prompts consumers into buying the product.

The AIDA model is most effective on products that are not used regularly. It is less effective on products that are bought on a daily basis because people will know how good the quality really is.

Promotion

<u>Different types of promotion</u>

Promotion is usually used to **support** advertising and to encourage new or existing customers to buy the product. Its main function is to **boost sales** in the **short-term**, but not in the long term. It is used to attract **new customers** so that they can **try** out items with the hope that they will like it and continue to buy it after the promotion has ended. Here are some ways in which promotion is used:

- **Price reductions:** Involves sales or price reduction coupons.
- **Gifts:** Gifts are placed in the packaging of the product to encourage consumers to buy it. (e.g. toys in McDonald's happy meal).
- **Competitions:** A card may be put in the packaging allowing the consumer to enter contests such as the lottery.
- **Point-of sale displays and demonstrations:** Can be put near the window and displayed attractively. It could also encourage people to buy it if they can see how it works (demonstrated by sales staff)
- **After sales service:** e.g. warranty services. It reassures the customers that if the product has a problem then they can go and fix it for free. This make the product more attractive than others without warranty.
- **Free samples:** Encourages people to **try** the product. It can be included in other products as well. E.g. washing machine comes with free washing powder.

The advantages of promotion

- Can boost sales during the year when sales are traditionally low (encourage **off-season** purchases)
- Encourages people to **try** a product.
- Encourages people to try or buy a product or the product in **greater quantities**.
- Encourages people to buy a product instead of **competitors'** products.

Which type of promotion should be used?

When deciding on what type of promotion should be used, these points should be considered:

- **The stage of the product life cycle**: e.g. use informative advertisement in the introduction stage of the life cycle.
- **The nature of the product itself**: e.g. consumer goods use coupons but producer goods use discounts on bulk buying.
- **The advertising budget**: obviously the type of promotion depends on how much you can spend.
- **The cultural issues involved in international marketing**: businesses need to consider whether their type of advertising might offend the local people. They should also take into account things such as how many people own TV, literacy level, etc…
- **The nature of the target market**: Different markets require different media for advertising.

Personal selling

- Used when the **nature** of the product **varies**. e.g. housing
    - Price varies.
    - Quality varies.
    - Customer requirements vary.
- When customers need **advice** on what type of product is the most appropriate for their situation.
- When selling **expensive** products such as cars.
- When **negotiation** about price or products is needed. This is common for businesses that sell to other businesses. (e.g. discounts on bulk buying)
- When a business has a stand at a **trade fair**.

Public relations

- Good for improving the brand/company's **image**.
- These activities raise **public awareness** of the company.
- Includes:
  - Sponsoring events such as football matches.
  - Giving products to charity.
  - Employees take part in an activity for a good cause.

Customer service

- It is far more expensive to attract customers than to keep old customers, so one key objective for any business is to retain their old ones. In the international business environment, there are many competitors, so businesses need to raise the **value** of their products with **customer service**.

Good customer service is not only producing a good product but also means:

- **Giving advice about the product**: It is always good to give as much information about a product as possible so that the customers can be sure that they have purchased the product that meets their requirements.
- **Delivering goods for customers**: It becomes convenient for the customer which encourages the customer to buy products from the business since they do not have to go anywhere.
- **Providing credit facilities**: This means letting customers pay later or in monthly installments. This make products look cheaper and more affordable encouraging customers to buy them. Credit facilities are usually offered when people buy expensive products. You usually get interest as a result, but you could charge no interest for promotional purposes.

- **Providing product information**: This means giving information on how to use the product and offering help on customer service helplines.
- **After-sales service**: The aim is to show that you care about customers' **satisfaction**. Examples of after-sales service include:
    - Warranties.
    - Regular product checks.
    - Giving refunds for faulty products.
    - Exchanging unsatisfactory goods.

TECHNOLOGY AND THE MARKETING MIX

Advantages of businesses advertising on social networking sites

- Can target specific types of consumers
- Advertisements and information can be edited/updated quickly
- Quite cheap

Disadvantages

- Customers may find online ads annoying
- Pop up advertisements cost money

- Advertisement can be edited by audience in a bad way (e.g. internet memes xD)

Advantages of business advertising on their own website

- Don’t need to pay for ads if website already hosted
- Ads can be changed/updated anytime
- Can provide more information on their own website

Disadvantages

- Fewer viewers
- May not be seen by most people

Marketing strategy – Plan to combine the 4 P’s of marketing (Product, Price, Place, Promotion) in the right combination to achieve a marketing objective.

Examples of Marketing objectives

- Increase sales
- Increase market share
- Entering a new market

Legal controls on marketing

Here are a few examples

- **Misleading promotion –** Falsely advertise a product.

- **Weights & measures –** Businesses can’t sell underweight goods (e.g. chocolate bar containing less chocolate than advertised)
- **Sale of goods –** Businesses can’t sell products that are faulty or doesn’t work like it is advertised.

Why businesses enter new markets abroad?

- **Low trade barriers** – low trade barrier allows businesses to easily and profitably trade between countries.
- **Home markets are saturated** – demand for the product are no longer growing the country.
- **Other countries developing –** New markets opens up abroad as other countries become more developed.

Problems businesses face when entering a new market

- **High transport costs** – increased costs as businesses have to pay to ship products abroad.
- **Lack of knowledge** – Company X may not know consumer habits in the country they are expanding to. (e.g. where consumers like to shop)
- **Trade barriers** – Countries may have trade barriers to protect local businesses, this may make importing products less profitable for the business.
- **Exchange rate changes** – Exchange rates can change which may mean cost of importing products may become more expensive.

Ways for businesses to overcome these problems

- **Joint ventures** – A joint venture can be created between a business in country X and another business in country Y, this means that business X can gain information from business Y.

- **International franchising** – An example of this is McDonald’s a US company can sell its franchise to a franchisor in China with local knowledge.
- **Licensing –** Business in country X can sell the license of their product to a business in country Y, This can avoid transport costs and trade barriers

---

Economic Objectives

Low inflation

inflation is the increase in average prices of goods and services over time. (Note that, inflation, in the real world, always exists. It is natural for prices to increase as the years go by. In the case there is a fall in the price level, it is called a deflation) Maintaining a low inflation will help the economy to develop and grow better.

<u>Effects of high inflation:</u>
. As cost of living will have risen and peoples’ real incomes (the value of income) will have fallen (when prices increase and incomes haven’t, the income will buy lesser goods and services- the purchasing power will fall).

. Prices of domestic goods will rise as opposed to foreign goods in the market. The country’s exports will become less competitive in the international market. Domestic workers may lose their jobs if their products and firms don’t do well.

. When prices rise, demand will fall and all costs will rise (as wages, material costs, overheads will all rise)- causing profits to fall. Thus, they will be unwilling to expand and produce more in the future.

. The living standards (quality of life) in the country may fall when costs of living rise

Low unemployment

unemployment exists when people who are willing and able to work cannot find a job. A low unemployment means high output, incomes, living standards etc.

Effects of high unemployment:
.Unemployed people do not produce anything and so, the total output/GDP in the country will fall. This will in turn, lead to a fall in economic growth.

.Unemployed people receive no incomes, thus income inequality can rise in the economy and living standards will fall. It also means that businesses will face low demand due to low incomes.

.The government pays out unemployment benefits to the unemployed and this will rise during high unemployment and government will not enough money left over to spend on other services like education and health.

Economic growth

economic growth occurs when a country's Gross Domestic Product (GDP) increase i.e. more goods and services are produced than in the previous year. This will increase the country's incomes and achieve greater living standards.

Effects of reducing GDP (recession):
. As output falls, fewer workers will be needed by firms, so unemployment will rise

. As goods and services that can be consumed by the people falls, the standard of living in the economy will also fall

Balance of payments between imports and exports

this records the difference between a country's exports (goods and services sold from the country to another) and imports (goods and services bought in by the country from another country). The exports and imports needs to equal each other, thus balanced.

Effect of a disequilibrium in the balance of payments:

if the imports of a country exceed its exports, it will cause depreciation in the exchange rate– the value of the country's currency will fall against other foreign currencies

If the exports exceed the imports it indicates that the country is selling more goods than it is consuming- the country itself doesn't benefit from any high output consumption.

The Business/ Trade Cycle
An economy will not always go through an economic growth; there is usually a cycle, as shown below.

Growth – when GDP is rising, unemployment is falling and there are higher living standards in the country. Businesses will look to expand and produce more and will earn high profits.

Boom – when GDP is at its highest and there is too much spending, causing inflation to rapidly rise. Business costs will rise and firms will become worried about how they are going to stay profitable in the near future.

Recession– when GDP starts to fall due of high prices, as demand and spending falls. Firms will cut back production to stay profitable and unemployment may rise as a result.

Slump– when GDP is so low that prices start to fall (deflation) and unemployment will reach very high levels. Many businesses will close down as they cannot survive the very low demand level. The economy will suffer.

Government economic policies

Governments want to influence the national economy so that it would achieve their aforementioned objectives.

They have a lot of power over business activity and can pass laws to try to achieve their goals. The main ways in which governments can influence business activity are called economic policies.

They are:

Fiscal Policy: taxes and public spending.

Monetary policy: controlling the amount of money in the economy through interest rates.

Supply side policies: aimed at increasing efficiency.

Fiscal policy

Government spending could benefit some firms such as:
Construction firms (road building), Defense industries (Afghan war), Bus manufacturers (public transport)

Governments raise money from taxes. There are Direct taxes on income and Indirect taxes on spending.

<u>There are four common taxes:</u>

Tariffs are used to restrict imports by increasing the price of goods and services purchased from overseas and making them less attractive to consumers. ... Governments may impose tariffs to raise revenue or to protect domestic industries

Income tax

Income tax is based on a percentage of your income. Income tax is usually progressive, meaning that the percentage of tax you have to pay rises with your income.

Effects on business and individuals if there was a rise of income tax:

. People will have less disposable income.
. Sales fall because people have less money to spend.
. Managers will cut costs for more profit. Workers might be made redundant.(no longer in employment because there is no more work available)
. Businesses producing luxury goods will lose the most, while others producing everyday needs will get less affected.

Profits tax or corporation tax
This is a percentage of the profit a business makes. A rise in it would mean:

. Managers will have less retained profit, making it harder for the business to expand.
. Owners will get less return on capital employed.
. Potential owners will be reluctant to start their own business if the profit margin is too low.

Indirect taxes

These taxes are a percentage on the price of goods, making them more expensive. Governments want to avoid putting them on essential goods such as foods. A rise it would mean:

The effect would be almost the same as that of an increase in income tax. People would buy less but they would still spend money on essential goods.

Again, real incomes fall. Costs will rise when workers demand higher wages.

Import tariffs and quotas

Governments put tariffs on imports to make local goods look more competitive and also to reduce imports.

When governments put import tariffs on imports:

. Sales of local goods become cheaper than imports, leading to increased sales.
. Businesses who import raw materials will suffer higher costs.
. Other countries will retaliate by putting tariffs on the country's exports, making it less competitive.
. Quotas may be used to limit the amount of imports coming in.

Monetary policy and interest rates

Governments usually have to power to change interest rates through the central bank. Interest rates affect people who borrow from the bank.

When interest rates rise:

. Businesses who owe to bank will have to pay more, resulting in less retained profit.
. People are more reluctant to start new businesses or expand.
. Consumers who took out loans such as mortgages will now have less disposable income. They will spend less on other goods.
. Demand will fall for businesses who produces luxury or expensive goods such as cars because people are less willing to borrow.
. Higher interest rates will encourage other countries to deposit money into local banks and earn higher profits. They will change their money into the local currency, increasing its demand and causing exchange rate appreciation.

Supply side policies

These policies aim to make the countries economy more efficient so that they can produce more goods and compete in the international economy. In doing so their GDP will rise. Here are some policies:

Privatization: Its aim is to use profit as an incentive to increase efficiency.

Improve training and education: This obviously increases efficiency. This is crucial to countries with a big computer software industry.

Increase competition: Competition causes companies to be more efficient to survive. Governments need to remove any monopolies.

Government controls over business activity

Government also influence major areas of business activity:
. what goods can be produced
. responsibilities to employees and working conditions
. responsibilities to consumers
. responsibilities to the natural environment
. location decisions

Undesirable effects created by business activity make governments want to control business activity:

. Business might be cheap but ruin beautiful areas.
. Monopolies.
. Advertising can mislead customers.

Why government control business activity?
Production of certain goods and services:

Governments can pass laws to restrict and ban certain dangerous goods such as:

. Weapons like guns and explosives.
. Drugs
. Goods that harm the environment

Consumer protection:

. Consumers are easily misled by advertising. It is because consumers lack the technical knowledge and advertising can be very persuasive. In the UK, these laws are passed to protect customers from being exploited by businesses:
. Weights and Measures Act: to stop underweight goods being sold to customers.
. Trade Descriptions Act: all advertisements must be truthful.
. Consumer Credit Act: makes it illegal to not give customers their copy of the credit agreement to check how much money they really have.
. Sale of Goods Act: Makes it illegal to sell:

. Goods which have serious flaws or problems.
. Products that are not fit for the purpose intended by the consumer.
. Products that do not function as described on their label or by the retailer.
. Consumer Protection Act: Make false pricing claims illegal.
. Consumers can now sue producers or retailers if their products cause harm to them.

Competition policy: Control of monopolies

Monopolies could cause a lot of harm to an economy because there are nobody to compete against them:

. They exploit consumers with high prices.
. They prevent new firms from starting up.
. Monopolies are not encouraged to be efficient because there are no competitors.

This government body reports two main types of problems:

. Business decisions that are against consumer interests, such as trying to eliminate all competitors.
. Proposed mergers or takeovers that will result in a monopoly.

Protecting employees:
. Employees need protection in the following areas:
. Unfair discrimination
. Health and safety at work
. Unfair dismissal
. Wage protection

Protection against unfair discrimination:

Often workers are discriminated in a job because of various reasons.

There are laws that protect the employee from such reasons to be discriminated against:

. Sex Discrimination Act: people of different genders must have equal opportunities.
. Race Relations Act: people of all races and religions mushhave equal opportunities.
. Disability Discrimination Act: it must be made suitable for
disabled people to work in businesses.
. Equal Opportunities Policy: That is what everything is allabout. The UK is currently working on an age discrimination act.

<u>Health and Safety at work</u>

Laws protect workers from:
. protect workers from dangerous machinery.
. provide safety equipment and clothing.
. maintain reasonable workplace temperatures.
. provide hygienic conditions and washing facilities.
. do not insist on excessively long shifts and provide breaks
in the work timetable.

Managers not only provide safety for their employees only because laws say so. Some believe that keeping employees safe and happy improves their motivation and keeps them in the business. Others do it because it is present in their moral code. They are then considered making an ethical decision. However, in many countries, workers are still exploited by employers.

Protection against unfair dismissal

Employees need protection from being dismissed unfairly. The following
reasons for the employee to be dismissed is unreasonable:

. for joining a trade union.
. for being pregnant.
. when no warnings were given beforehand.

Workers who thing they have been dismissed unfairly can take their case to the Industrial Tribunal to be judged and he/she might receive compensation if the case is in his/her favour.

Wage Protection

Employers must pay employees the same amount that has been
stated on the contract of employment, which states:

. Hours of work.

. Nature of the job.
. The wage rate to be paid.
. How frequently wages will be paid.
. What deduction will be made from wages, e.g. income tax.

There are Advantages and cons of the minimum wage:

Advantages:
.Prevents strong employees to exploit unskilled workers who could not easily find work.
. Encourages employers to train unskilled employees to increase efficiency.
. Encourages more people to seek work.
. Low-paid workers can now spend more.

Disadvantages:
. Increases costs, increases prices.
. Owners who cannot afford these wages might make employees redundant instead.
. Higher paid workers want higher wages to keep on the same level difference as the lower paid workers. Costs will rise.

Location of Industry

How governments want to locate businesses:
They encourage businesses to move to areas with a high level of unemployment, or called development areas.

They discourage firms from locating in overcrowded cities or sites noted for their natural beauty.

How governments will influence the decisions of firms to locate:

Businesses will be refused planning permission (permit to build in a place) if they wish to locate in overcrowded cities or beautiful areas.Building in these areas might be banned altogether.

Governments can provide regional assistance, such as grants andsubsidies to encourage firms to locate in undeveloped areas. Governments can help businesses too

Governments can help businesses to:

. to encourage businesses to locate in poorer regions.
. to encourage enterprise by helping small businesses set up
and survive.
. to encourage businesses to export.

Regional Assistance:

Governments want development to be spread evenly over the whole country.
Grants and subsidies can be used to attract firms to an area.

Small firms

Small firms are important for and economy because:

They provide most of the employment because they are usually labour intensive.
Small firms operate in rural areas where unemployment tends to be high.
They can grow into very important businesses employing thousands of workers and producing output worth millions of dollars.
Provides more choice for customers. They compete against bigger companies.
They are often managed in a very flexible way, and is quicker to adapt to changing demands.

Governments help them by:
. Lower rates of profits tax, so they can have more retained profit.
. Giving grants and cheap loans.
. Providing advice and information centers to small firms.
. Exporting goods and services

. Why governments want businesses to export:
. Exports earn foreign currency, which can be use to buy imports.
. More exports means more people needed to produce them, increasing employment and standards of living.
. Successful exporters earn more money and have to pay more profits tax.

Governments can support exporters by:
. Encourage banks to lend to exporting businesses at lower interest rates.
. Offering subsidies or lower taxes to firms. However, other countries would retaliate and there would be no overall advantage.
. Trying to keep the local currency as stable as possible to make it easier for businesses to know how much they are going to make from exports.
. Organising trade fairs abroad to encourage foreign businesses to buy the country's exports.
. Offering credit facilities. This means that if a foreign customers refuses to pay for goods, the company could be compensated by the government.

Businesses in the economic and legal environment

Businesses could not ignore the power of the government in controlling business activity.
Multinationals are an exception although normally businesses cannot afford to move to other

countries. Government decisions create the environment in which businesses will have to operate and adapt to. The environment created by legal and economic controls are one of the constraints to managers when making decisions.

Environment and ethical issues

SOCIAL COSTS AND BENEFITS

External Costs and Benefits

External costs (negative externalities) are the negative impacts on the society (third-parties) due to production or consumption of goods and services. Example: the pollution from a factory, reduces satisfaction and lowers economic welfare.

External benefits (positive externalities) are the positive impacts on the society due to production or consumption of goods and services. Example:better roads for the society due to the opening of a new business, increase satisfaction and improve economic welfare.

Private Costs and Benefits:

Private costs are the costs to the producer and consumer due to production and consumption respectively. Example: the cost of production.

Private benefits are the benefits to the producer or consumer due to production and consumption respectively. Example: the better immunity received by a consumer when he receives a vaccine.

Social Costs and Benefits

Social Costs = External costs + Private Costs

Social Benefits = External benefits + Private benefits

A use of a resource is **uneconomic** if its **total social cost exceeds its total social benefit** and vice versa.

Market Failure

Market failure occurs when resources are allocated inefficiently. This is the most disadvantageous aspect to the Market Economy. Causes of market failure are:

1. **When social costs exceed social benefits**. (Especially where negative externalities (external costs)are high).
2. **Overprovision of demerit goods** (alcohol, tobacco).
3. **Under-provision of merit goods** (schools, hospitals, public transport).
4. **Lack of public goods** (roads, bus terminals, street lights).
5. **Immobility of resources.** When resources are not used to the maximum.
6. **Information failure:** When information between consumers, producers and the government are not efficiently and correctly communicated. Example: wrong information about a product is given to consumers.
7. **Abuse of monopoly* powers**: Monopolistic businesses may use their powers to charge consumers a high price and only produce products they wish to, since they know consumers have no choice but to buy from them.

How can the Government intervene?

. Laws and regulations
. Taxation (to reduce production of goods and services that have greater external costs)
. Subsidies (to increase production of goods and services that have greater external benefits)

Business in the international community

Exchange rates

Exchange rates is the **value** of one currency **compared** to another.

How are exchange rates determined?

There are two type so currencies:

- **Floating rates:** The exchange rate of the currency is allowed to change freely depending on market forces, i.e supply and demand of the currency.
- **Fixed rates:** The exchange rate of the currency is set by the country's central bank.

When the exchange rate rises, it is called **appreciation**. When it falls, it is called **depreciation**.

How are businesses affected by changing exchange rates?

- **Appreciation:**
    - Import prices fall.
    - Export prices rise.
- **Depreciation:**
    - Import prices rise.
    - Export prices fall.

These **exchange rate movements** can cause serious damage to businesses, making business endeavours that would have been profitable make losses because of changes in the currencies. The EU, for example, wants to limit these bad effects, and hence established a **common currency**, the Euro.

International economic organisations

- **Economic** and **political unions**. (e.g. the EU)
- **Free trade** agreements. (e.g. NAFTA)
- Organisations **working for free trade** between countries. (WTO)

<u>The European Union</u>

- Consists of 25 European countries.
- Creates a **single market** in the EU.
    - To tariffs, quotas or any **trade boundaries**.
    - This results in:
        - A huge market benefiting from **economies of scale.**
        - Increased **competition** resulting in better products.
- **Common currency**.
    - Issue of Euros are controlled by the European Central Bank.
    - **Interest rates** for the Euro become the same.
- The **social charter**:
    - The EU wants to improve **working conditions** and make **finding jobs** equal in the EU.
    - The main conditions include:
        - Workers can look for work **anywhere** in the EU.
        - Workers must be **consulted** on important issues.
        - **Equal** treatment of **full**/**half** time workers.
        - Limits on **maximum** working **hours**.

            - Improved **health** and **safety** rules at work.

Advantages for the UK to join the EU

- Lower costs because:
    - One **price list** throughout Europe can be used.
    - No more **charge** through currency **conversion**.
- Easier to:
    - **Trade** with EU countries.
    - **Compare** costs of supplies with EU countries.
- No risk of **losing out** on exchange rate changes.

Disadvantages for the UK to join the EU

- More **competition** from non-UK firms.
- Consumers might buy **cheaper** products from other EU countries.
- The rate of **interest** might no longer suit UK firms.

<u>Free trade unions</u>

Eliminates **all trade barriers**. Businesses within the free trade union are affected in the following ways:

- More **competition** from foreign firms.

    - Consumers have **more choice** and **prices** are **lower**.
- No '**protection**' by governments.
- More **opportunities** for **exporting**.

    - **Efficient** firms will be more successful.

The long-term aim of the free trade union is to **encourage**

trade between the member countries, ultimately improving **living conditions** for the people.

Globalisation

Globalisation is the word used to describe the increased **worldwide competition** and **business**

activity. Goods and services that once can only be found in one country has spread all around the world. There are several reasons for this:

- **Free trade agreements** encourage **international trade**.
- Improved **travel links** and **communication**.
- Countries that have been undeveloped before start to develop and **export** their own goods, leading to more **international competition**.

Globalisation results in:

- **More choices** and **lower prices** for the consumer.
- Businesses look into more ways to become more **efficient**.

    - Why many businesses merge to become **multinationals**.
- **Inefficient** businesses **go out of business**.
- **Free trade** results in:

    - More workers losing jobs, since governments can no longer **protect** them from foreign competition.

Multinational businesses

Multinationals are businesses that have **factories**, **services**, or **operations** in **more than one country**. It is important to note that, for a business to become multinationals, they must **produce goods** in more than one country.

Why do firms become multinationals

- **To cut costs:**
    - Labour costs.
    - Raw material costs.
- **To extract raw materials not found elsewhere.**
- **To produce goods nearer to the market.**
- **To bypass trade barriers.**
- **To expand and spread risks.**

Advantages of multinationals operating in a country

- **Jobs** are created.
- New investment increases **national output**.
- **Imports** are **reduced** since there are more goods in the country. More **exports**.
- More **taxes** are paid to the government.

Disadvantages of multinationals operating in a country

- Jobs created are usually **unskilled jobs**.
- **Local firms** are forced **out of business** since they can't compete with multinationals.
- **Profits** flow **out** of the country.
- Multinationals use up **scarce resources**.
- May **influence** the **government**.