Business Management

National 5

Understanding Business

Core notes
There are 3 units of study in the National 5 course

**Unit 1 - Understanding Business (2 outcomes)**

This unit introduces the business environment. We will look at the main activities of businesses and organisations. We will explore the issues which relate to the external environment in which businesses operate and their effects on organisational activities

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<th>Outcome 1</th>
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<tr>
<td>Give an account of the key objectives and activities of small and medium-sized business organisations by:</td>
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<tr>
<td>1.1 Outlining the role of business organisations in society</td>
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<td>1.2 Outlining why customer satisfaction is crucial to the success of a business organisation</td>
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<td>1.3 Outlining the objectives of business organisations in different sectors of the economy</td>
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<th>Outcome 2</th>
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<td>Apply knowledge and understanding of factors that impact on the activities of small and medium-sized business organisations by:</td>
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<tr>
<td>2.1 Outlining how internal factors impact on business activity</td>
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<td>2.2 Outlining how external factors impact on business activity</td>
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<td>2.3 Examining the impact stakeholders have on business activity</td>
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THE ROLE OF BUSINESS ORGANISATIONS IN SOCIETY

There are different types of business organisations in the UK today. All of them have one thing in common - they were started by a person who had an idea for a business. This person is called an ENTREPRENEUR.

An entrepreneur has an idea for a new product or service and develops it once they know that people will buy it. This is called ENTERPRISE. An entrepreneur has good ideas. They are enthusiastic, hardworking and determined to succeed. They are risk takers. They get their ideas in a number of ways:

- Developing a hobby
- Listening to people and finding out what they want
- Finding out what firms do badly
- Spotting a gap in the market
- Solving problems for people
- Inventing something

Why do people want to set up in business?

- To be their own boss
- They may have been made redundant – they use this money to set up business
- They have an idea for a new product/service
- They hate their present job
- They are skilled workers who can’t find a job so decide to set up on their own
- They may have a hobby which eventually grows into a business

They bring together all the factors of production to produce goods and services.
FACTORS OF PRODUCTION

The combining of the factors of production is important to the success of any organisation. Remember – the factors of production are limited.

LAND
This represents our natural resources e.g. water, trees, fields, and what is produced from them e.g. oil, diamonds, fish, timber. The return to land is ‘rent’.

LABOUR
This represents all human workers. The return to labour is ‘wages’.

CAPITAL
This includes money, buildings, plant and machinery. The return to capital is ‘interest’.

ENTERPRISE
This is the development and putting in practice of ideas. This uses the other 3 factors of production to get an organisation up and running and then progressing. The return to enterprise is ‘profit’.
Business activity is: “Any activity which provides us with goods and services to satisfy our wants” e.g. people need to buy food to survive, so businesses have been set up to provide us with that food

GOODS

Goods are things we can see and touch such as televisions, chocolate, cars, etc. There are 2 types of goods:

DURABLE GOODS and NON-DURABLE GOODS

Durable goods are long lasting; we can use them again and again like computers, CD Players, etc.

Non-durable goods are things we can normally use only once e.g. food, drink, newspapers, etc.

Goods are further subdivided into consumer and capital goods. Consumer goods are sold to people (consumers) rather than to other businesses. Capital goods are used by businesses to make consumer goods and other capital goods.

SERVICES

Services are things that are done for us. Some of the main service industries are e.g. banking, insurance, travel, education, health, etc.
SATISFACTION OF NEEDS AND WANTS

Businesses exist to meet the needs and wants of people – consumers – you and me! They produce goods and services that are consumed by people.

**NEEDS** are things that everyone has. They are the essentials for survival – food, water, warmth, shelter and clothing.

**WANTS** are things that make our lives better, nicer, easier. After our basic needs are satisfied, people often want more. E.g. A holiday in the Bahamas; new clothes; a new CD; etc. These items give consumer satisfaction. There is no limit to what we want! The more we have, generally, the more we want.

However, due to limited incomes, we have to make choices. This is often called *opportunity cost*. We choose one thing at the expense of the other, e.g. we can have a McDonald’s meal or go to the cinema. We choose the cinema. The opportunity cost of going to the cinema was the meal we might have had instead.

PRODUCTION AND CONSUMPTION

Production is all about producing goods and providing services; consumption is all about using them up! Production is the process of making goods so that they can either be consumed or go on to another stage of production.

Consumption involves purchasing goods and services and in many cases, using them up e.g. eating the bread in the example below

Production Chain
WEALTH CREATION

Wealth is NOT money!!! It can end up that way, but money is obtained from creating wealth. Wealth includes property, shares, antiques, etc., any items of value. At each stage in the production chain, value is added to the cost (price).

For example, Tree → Logs → Pulp → Newspaper

Wallpaper

Paperback Book

Writing Paper

Each part has a special price for each customer, or if you prefer at each stage the business takes its cut e.g. the business buys the trees, cuts them into logs and then sells them at a price that covers the cost of the trees, the labour, the equipment used in turning them into logs and then adds on a little bit more as profit; at the next stage that business does the same; until you arrive at the final product where a final selling price is arrived at. They have each changed the original product that arrived on their doorstep, in some way - this is called value added.

You know that in the UK - people are employed; people own businesses and people invest in businesses. Each of these groups expects some kind of return (or wealth) - it can be money, it can be growth, it could be reputation. They get some form of reward for their investment or labour.

Organisations employ more people and buy more raw materials to produce the goods/services that the business will then sell to the consumer.

They may even invest the profit that they have made to increase the size of their business even further .... And employ even more people who will earn money and so it goes on. The creation of wealth.
DIVISIONS OF INDUSTRY

Private, Public and Voluntary as already stated. These divisions are made according to ownership (private or public money) and motive (profit-making or non-profit making).

Divisions are made according to the type of product or service produced i.e. raw materials, manufactured goods or services.

**PRIMARY**

Exploiting natural resources

Extracting industries e.g. farming, fishing, forestry, mining, oil drilling, quarrying

**SECONDARY**

Manufacturing and construction industries e.g. car, shipbuilding, wine production, engineering,

**TERTIARY**

Providing services e.g. hairdressing, hotel and catering, education, leisure, insurance, banking
BUSINESS SIZES AND TYPES

Every organisation in the UK belongs to one of 3 categories. These categories are known as the sectors of economy. They are

**Private** sector organisations are:
- Owned by owners or shareholders
- Controlled by owners or shareholders
- Their aims are to survive, maximise profits, maximise sales, gain

**Public** sector organisations are:
- Owned by Government on behalf of taxpayers
- Controlled by Managers or Board of Directors
- Their aims are to provide a service, use taxpayers

**Voluntary** sector organisations are:
- Owned by the members of the organisation
- Controlled by Committees or paid professionals who act as Managers and Directors
- Their aims are to survive, increase awareness, raise funds, provide assistance

**SMALL**
They are usually owned by a sole trader or by partners (2-20) and they tend to sell goods and services locally. They usually employ less than 50.

**MEDIUM**
Owned and run by a group of people e.g. partnership; private limited company who sell goods and services locally and/or nationally. They employ between 50 and 250 people.

**LARGE**
Owned by a large number of people (shareholders) and run by a Board of Directors voted on by the owners (shareholders). They produce and/or sell goods/services in nationally/internationally. They employ more than 250 people - often thousands!
There are 4 main types of organisations in the private sector. They are

- Sole Trader
- Partnership
- Limited Companies (private - LTD and public - PLC)

### Sole Trader

These are small businesses set up and run by an individual. They trade on a local level usually. They will usually start up the business by using their own personal funds, although they may also be able to borrow money from banks.

These businesses often employ people, but the owner is in charge and takes the risks – all of the profits that the business makes belong to the owner. The business has unlimited liability – the owner (sole trader) will be liable for the debts of the company.

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<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
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<tr>
<td>It is easy and cheap to set up compared to other types of business organisation</td>
<td>It is harder to borrow money – usually charged higher interest rates</td>
</tr>
<tr>
<td>The owner makes all the decisions</td>
<td>Unlimited liability</td>
</tr>
<tr>
<td>The owner keeps all the profits</td>
<td>Have to manage the business – long working hours; few holidays; problems if ill, etc.</td>
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<tr>
<td>The business can run smoothly as there is no-one to argue with over decisions which need to be made</td>
<td>No-one to share decisions with or talk over ideas</td>
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How is a sole trader financed? Normally a sole trader uses personal savings to start in business. He may also borrow money from friends or family or the bank or get a business start-up loan.

**Aims and objectives?** To survive, maximise profits, improve the owner’s personal status, to give the community a good image of the firm.
Partnerships

Two or more people (but less than 20) to form a business. The partners may have a partnership agreement – legal document setting out how profits are to be shared, etc.

Many professional people form partnerships, usually because they have their own areas of expertise e.g. Lawyers, doctors, vets, accountants, etc.

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<td>Partners share the running of the business</td>
<td>Unlimited liability (except for sleeping partners)</td>
</tr>
<tr>
<td>Partners can specialise in certain areas of the business</td>
<td>Share all profits/losses</td>
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<tr>
<td>It is a way of bringing in new money to the business</td>
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How is a partnership financed? Again the partners use their personal savings and bank loans to set up and run the business. After the business has been operating, partnership profits may be reinvested, new partners may bring in money, Government grants may be available.

Aims and objectives? Tend to be the same as a sole trader – to survive; to maximise profits; improve the partner’s personal status; give the community a good image of their organisation.
Limited Companies

Most new businesses prefer to set up as a limited company rather than as a sole trader or partnership. You can now set up a limited company over the Internet. There are two types - Private Limited Company (Ltd) Public Limited Company (Plc.) To become a limited company you must register and complete 2 documents – the Memorandum of Association and Articles of Association. These set out the aims of the business and how they will be run and financed.

Private Limited Company

Shareholders are usually all members of one family or a very small group of associates. They all own SHARES. The number of shares they have will determine how much say they have in running the business. In many of these companies, the owners also run the day-to-day operations and make all of the decisions. The shares in these businesses cannot be sold, without all of the other shareholders agreeing to the sale. Many farms and medium sized manufacturers e.g. Baxters are private limited companies.

Public Limited Companies

These are the largest in the world. Shell, Dutch, BP, British Airways, Ford, Sony etc. are all examples of plcs. The shares in these companies can be bought and sold on the open market (the Stock Exchange). Anyone can buy them. Professional directors and managers run these businesses on behalf of the shareholders.

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<tr>
<td>Limited liability – if the business fails, they only lose the amount of money they have invested and no more</td>
<td>All companies must register with the Registrar of Companies. This means they have to make financial information available which anyone can see</td>
</tr>
<tr>
<td>Private Ltd Companies only</td>
<td>Big organisations can be very difficult to manage properly or well</td>
</tr>
<tr>
<td>Can keep private most of the information about their company including finances</td>
<td>It is more difficult to keep workers happy and well-motivated in a big organisation</td>
</tr>
<tr>
<td>Public Ltd Companies only</td>
<td>They cost a lot more to set up than sole traders, partnerships</td>
</tr>
<tr>
<td>Because shares can be bought and sold openly on the market, people are more willing to invest the businesses can sell more shares to raise money for future projects – they therefore find it easier to plan, develop and expand</td>
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ADVANTAGES

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| Public Ltd Companies only |

Because shares can be bought and sold openly on the market, people are more willing to invest the businesses can sell more shares to raise money for future projects – they therefore find it easier to plan, develop and expand
How is a private limited company financed? Again personal investments are made and after the company is up and running profits from previous years may be reinvested, new shareholders may be invited to join, bank loans, grants, etc.

Aims and Objectives of a private limited company? Maximise profits; to grow; to have a strong status; high sales revenue; etc.

How is a public limited company financed? From the sale of shares, reinvesting company profits, bank loan, debenture issues etc.

Aims and Objectives of a public limited company? To maximise profits; to grow; to increase sales revenue; dominate the market; have a strong public image; etc.
FRANCHISES

These are business arrangements where one firm pays for the right to trade under the name of another, e.g. McDonalds; Sock Shop; Body Shop; etc. are operated as franchises.

The person or firm who owns and runs the business is called the franchisee. The firm that owns the name is called the franchiser.

For McDonalds, the franchisee buys the right to open a restaurant and trade as McDonalds, but has to run the business the way they are told to by McDonalds.

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<td>Franchiser can open more branches and sell more products without having to buy premises or pay staff</td>
<td>Reputation depends on how good the franchisees are</td>
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<tr>
<td>The new business gets the established reputation of the franchiser and will attract a lot of customers immediately</td>
<td>The franchiser tells the franchisee exactly how to run the business and they have to buy all their supplies from them</td>
</tr>
<tr>
<td>The new business will be helped and supported by the franchiser including national advertising</td>
<td>The franchisee has to pay part of his/her profits to McDonalds</td>
</tr>
<tr>
<td>Good ideas can be shared among all franchisees e.g. one McDonalds branch thought up the ‘Egg McMuffin’ – now it is found in all branches</td>
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How is a franchise financed? Treat as per sole trader.

Aims and Objectives? Are the same as those of the parent company plus the aims and objectives of the sole trader?
**PUBLIC SECTOR**

These are owned by the Government - both local and National on behalf of the taxpayers. They mostly supply services. For example, schools, refuse collection, street lighting comes from the Local Government (Local Authorities or Councils) and is funded through the collection of local taxes such as Council Tax and business rates. Each Local Authority is also given a budget from Central Government once they have collected taxes from areas such as PAYE.

The NHS, Police and Fire Brigade are Central Government funded. The money to run these organisations comes from taxes, such as income tax, road taxes, VAT and excise duties.

These services are run by a Board of Directors and chairperson normally appointed by the Govt.

Local authorities are set up by Central Government and are run on its behalf by elected councillors. The day to day running of services is organised by employees of the council.

Public sector aims to break-even, they are under public ownership. However, now that there are so few nationalised industries they are expected to make a profit. Local authorities aim to break-even.

How is the public sector – Local Government - financed? Finance comes from business rates; council tax and a Government grant. Councils also charge for the use of some of their facilities e.g. leisure centres; car parking.

Aims and Objectives of Local Government? To meet local needs; provide a range of services; stick to agreed budgets; etc.

How is the public sector - Central Government - financed? Comes from taxation.

Aims and Objectives of Central Government? To provide services on a national basis e.g. NHS; to improve society; use funds effectively; etc.
VOLUNTARY ORGANISATIONS

These include clubs, societies, charities and provide services for their members or collect money to help others. All of the money these organisations make is re-invested in the organisation for the benefit of the members.

Examples:

Save the Children Fund; The Red Cross; The Scouts; Riding for the Disabled

Charities collect money in a variety of ways from door to door collections to bequests from wills; many charity shops now have shops.

In all organisations such as these, large numbers of unpaid volunteers who help to run the organisation and collect money. Paid professional employees are normally in charge of the planning and long term decision making used to run these operations. Sometimes a famous figure e.g. HRH Princess Anne for Save the Children Fund, assists the organisation by agreeing to act for or on behalf of them.

They are not in the business of making a profit – their aim is to raise funds to provide a caring service.

How are Voluntary and Charitable organisations financed? Donations from public and companies; Government grants; lottery grants; profits from own shops; sale of mail order goods; raffles; fetes; jumble sales.

Aims and Objectives of Voluntary and Charitable organisations? To provide a service; to relieve poverty; fund research; etc.
The Third Sector

Social enterprises are organisations enterprises, co-operatives and individual volunteers which have the objective of trading for a social and/or environmental purpose.

They aim to make a difference by helping a particular group of people. They have a clear focus which means it will know what difference it is trying to make, who it aims to help, and how it plans to do it.

These organisations are funded through selling goods or services unlike charities which rely on donations and most of the profits are reinvested into the social mission. They appear to be private sector organisations because they try to make a profit BUT they do not distribute profits back to the owners - the profits are put back into the organisation to achieve the social aims.

Some examples are The Big Issue, Jamie Oliver’s Fifteen, Divine Chocolate

Social enterprises are legally set up but there are different structures of social enterprises.

Community interest company (CIC)

A CIC is a legal form created specifically for social enterprises. It generates income from selling products or services and is protected legally as its assets cannot be sold off. A CIC must have a social mission. For example, Stenhousemuir Football Club is a CIC. They have a first team who play in a league but also a massive community football section. Their social aim is to provide football to the young people of the surrounding area and becoming a CIC means that they will not attract investors who only want to sell off the assets i.e. the grounds

Industrial and provident society (IPS)

This is the usual form for co-operatives and community benefit societies, and is democratically controlled by its members in order to ensure their involvement in the decisions of the business. Kinross Golf Club and Milnathort Golf Club are both registered under the Industrial and Provident Societies Act

Companies limited by guarantee or shares

The most common legal structure for standard businesses. Many social enterprises also choose these legal forms because they are very flexible when
it comes to governance, and when it comes to getting investment. To ensure a standard company is a true social enterprise it will need to ensure it has a social mission written into its Memorandum and Articles of Association and is clear about reinvesting its profits.

**Group structures with charitable status**

This is a very common legal form for social enterprises. In part it is common as increasing numbers of charities are moving away from traditional models of fundraising and becoming more businesslike in order to ensure their sustainability. Partly it is a result of the fact that tax is an important consideration for some organisations where the retention of surpluses is essential. In these cases the tax breaks associated with charitable status can be an important factor and mean that having a charitable structure as part of the group is worthwhile.

**What finance is available for social enterprises?**

The most common finance options include:

- **Grants** - Do not need to be repaid, but there are also a number of drawbacks that must be considered, such as flexibility and sustainability issues.

- **Debt finance** - Usually available as a basic loan which will need to be paid back with interest, and these can usually be put to more flexible use than grants.

- **Equity finance** - Involves the exchange of equity for part-ownership of the business (think Dragon’s Den). Two main providers for this are venture capitalists and business angels.

- **Community Finance** - Often provided by Community Development Finance Institutions (CDFIs) and Credit Unions who work to address financial exclusion.
OBJECTIVES – A SUMMARY

Objectives are goals (aims) which an organisation has. They are crucial to the organisation. They are the main motivating factor. Typical objectives are:

SURVIVAL
You have to trade to survive especially when starting up in business; trading during a recession; facing increased competition or reduced demand

GROWTH
Many organisations aim to grow. Growth reduces the risk of failure. A firm can aim to be more competitive; control prices; dominate the market; enjoy economies of scale

SALES REVENUE MAXIMISATION
By achieving as much sales revenue as possible is an aim as this may increase profits and is popular with staff who may earn bonuses depending on sales

PROFIT MAXIMISATION
Businesses in the private sector aim to make us much profit as possible

PROVISION OF A SERVICE
A charity or local authority would try to achieve this aim

IMAGE AND SOCIAL RESPONSIBILITY
Many firms aim to have a good image and act in a responsible manner to both employees and customers e.g. Marks & Spencer

It may be hard to achieve your objectives due to external factors (PESTEC) and the conflicting demands of the various stakeholders
STAKEHOLDERS

These are people who have an interest in or are affected by the organisation. They can be internal or external.

Internal Stakeholders in an Organisation

- **Owners** have invested their time, money and effort and have taken the risk in setting up their businesses so want to succeed. They exert influence on an organisation by making the decisions about how it is run.

- **Managers** receive salaries and bonuses so they will want the organisation to be a success. They like the responsibility and status that goes with the job. They exert influence in that they make decisions regarding hiring staff; the products they make; and so on.

- **Shareholders** want the firm to be profitable so that they get good dividend payments and the value of their shares increase. They can exert influence by voting at AGM for directors and value of dividend payments.

- **Employees** want good wages and salaries; good working conditions; job satisfaction and job security. They can influence the organisation by the standard of their work and industrial relations.

- **Volunteers** donate their time to the organisation. They can influence the organisation by serving on committees; marching in protest; etc.
INFLUENCE OF EXTERNAL STAKEHOLDERS ON BUSINESS

Customers want the best quality product at the lowest possible price. They can choose to buy or not to buy your organisation's product or service.

Bankers/Lenders supply the money in the forms of loans/overdrafts and charge interest. They can obviously decide whether to invest in your business or not or if things are not going well, they can ask for repayment of loan/overdraft and can force businesses to close.

Pressure Groups feel they have to try and get their point of view heard, e.g. environmental issues; safety. They can influence decisions because they are consumers and can boycott products etc.

Suppliers want their customers to succeed to ensure their own successful businesses by repeat custom and increased orders. They can influence proceedings by increasing their prices; offering credit periods; discounts

Local Community is interested in employment because that generates wealth in their community they are also interested environmentally. They can influence by petitioning companies or complaining to local authority.
**Government** want businesses to succeed as they provide jobs, generate wealth and give finance to Government in form of taxation. The Government influences business through legislation and economic policies e.g. Health & Safety Legislation; interest rates.

**Donors** want to raise as much funds for charities and clubs as possible through a variety of means. They give their cash to see it being used to help people, animals, etc. They give time and money. They form committees and influence in that way.

**EXTERNAL FACTORS**

These are often called **PESTEC**

**Political** - these changes relate to legislation which is introduced by the Government, both in the UK and EU. For example the minimum wage legislation brought many changes for firms in terms of who they employ and how much they have to pay. The EU has brought in a number of pieces of legislation, which affect the rights of workers. For businesses this can mean increased costs and changes in their operations to comply with these laws.

**Environmental** - these factors that affect most organisations today as the pressure to be environmentally friendly increases. For example, car manufacturers are producing electronic cars, supermarkets are encouraging shoppers to recycle plastic bags. Organisations are being encouraged to be ethical in their production methods and think about the disposal of industrial waste.

**Social** - these changes relate to changes in lifestyles, fashions, and attitudes. This means that organisations have to constantly adapt by producing new products and offering new and different service to meet customer needs. For example new trends in clothing and ways of using leisure time has seen an increase in sporting activities for all, families who have holidays abroad. More women work and there is an increasing amount of "ready meals" available - supermarkets now deliver groceries to accommodate people who cannot spend the time going to the shop themselves.

**Technological** - these have resulted in a huge number of changes in the business environment. In production, changes have included the introduction of robots in the workplace, of computer controlled production, of computer aided design, of increased productivity, of cost savings and of increases standards of quality. This has meant a greater variety and more competitive
pricing in the goods that we buy. In communication changes have given rise to whole new industries. These include the computer, computer software and games, satellite and digital TV, mobile phones, home shopping and banking, 24-hour worldwide communication systems.

**Economical** - these factors greatly influence the wealth of the economy and the organisations within it. Interest rates, inflation, exchange rates, stage of the business cycle e.g. recession can all affect an organisation. If the Government change the levels of taxation and the exemptions for tax each year, this can will increase or decrease the costs of a business. For example, if they increase the rate of VAT then prices will rise meaning people will probably buy less. Recessions mean that people have less money to spend on luxury items which can affect the sales of an organisation which produces luxury goods.

Economic activity is the amount of production taking place. Over time, the level of economic activity in a country tends to move up and down in a business cycle. Economies go through a regular pattern of ups and downs in the value of economic activity (as measured by gross domestic product or GDP. This is known as the “business cycle”.

The business cycle is crucial for businesses of all kinds because it directly affects demand for their products. It has four main phases:

**Boom (or Peak)**: high levels of consumer spending, business confidence, profits and investment. Prices and costs also tend to rise faster. Unemployment tends to be low as growth in the economy creates new jobs.
Recession (or downturn): falling levels of consumer spending and confidence mean lower profits for businesses – which start to cut back on investment. Spare capacity increases + rising unemployment as businesses cut back and reduce inventories

Trough (or depression): a prolonged period of declining GDP - very weak consumer spending and business investment; many business failures; rapidly rising unemployment; prices may start falling (deflation)

Recovery: things start to get better; consumers begin to increase spending; businesses feel a little more confident and start to invest again and build inventories; but it takes time for unemployment to stop growing.

Every business is affected by the stage of the business cycle, but some businesses are more vulnerable to changes in the business cycle than others. For example, a business that relies on consumer spending for its revenues will find that demand is closely related to movements in GDP. During a boom, such businesses should enjoy strong demand for their products, assuming that the products are actually what customers want! But during a slump, the business has to “ride out the storm” – suffering a sharp drop in demand.

EFFECTS OF THE BUSINESS CYCLE ON A BUSINESS

Different businesses are affected in different ways at each stage of the cycle.

DOWNTURNS IN THE ECONOMY (heading to recession)

- Unemployment increases
- People reduce spending - they start to save ‘for a rainy day’ or ‘just in case’
- This in turn means that fewer goods and services are purchases, since demand falls, output drops

WHEN CYCLE TAKES AN UPTURN WHAT HAPPENS?

- Unemployment decreases
- People start spending more and save less
- This means that demand increases, so output rises and the economy starts to grow. Firms employ more workers to meet this increase in demand, so spending power increases
**BOOM**
- Period of fast economic growth
- High productivity
- Low unemployment

**SLUMP**
- Economy slows down
- Slower productivity
- Unemployment increases

**RECESSION:** productivity dramatically decreases
- Unemployment is high
- No business growth

**Competitive** - consumers are spoilt for choice. Businesses have to do something special, or unique, or of high quality or low price, to make sure they attract and keep our custom. If our competitors change something about one of their products or services – price, promotion, product or place – then we have to react to still be able to compete. We might have to change our price, promotion, product or place so that we retain our customers.

**INTERNAL SOURCES OF CHANGE**

These are employees, management, finance and technology

**Employees** - employees can force change on an organisation by their rate of work and the quality of their work. If employees are unhappy in the workplace then they can take part in industrial action to force the organisation to change

Industrial action can take many forms:

*Picketing* – this is where union members stand outside the entrance(s) to their workplace and persuade other workers not to cross the picket line.
Work to rule – this is where the workers carry out their tasks strictly to the letter of the contract e.g. start work dead on the dot, down tools exactly on time, work to set breaks, etc. No extras in any way.

Overtime ban – just as it says, workers refuse to work any extra hours over their contract hours.

Go-slow – the workers deliberately slow down their work rate.

Strike – the workers withdraw their labour for a period of time. May be one day strikes e.g. firemen; it may be ‘all out’ for longer periods. Before strike action can be called a secret ballot of members must take place.

Sit-in – the workers take over the workplace but do not do any work. They stay there night and day.

Finance - changes in costs can result in changes in prices that a company has to charge for the good or services that it is offering for sale. If an organisation is having to pay more for their supplies then they may have to make changes internally to accommodate those costs rather than pass them onto the customer. If savings are made in the factors of production, these can be passed on to the customer by charging lower prices. The availability of finance for the organisation from profits especially in a recession can mean that the organisation has to make changes internally to reduce costs such as reducing the workforce to save on wages. The lack of available credit from Banks and other external sources can make this situation worse.

Technology - organisations must make the best use of the technology which they have. This may mean that they introduce new working patterns to ensure that they are receiving the highest amount of productivity from their employees. Shift patterns may be introduced to allow work to continue 24/7, or workers may be encouraged to work from home using ICT to communicate with the office. This would allow the office to restructure and reduce the physical office space required.

Management - they are the biggest source of internal change as they are the decision makers. The relationship between employers and employees can be affected by the way management behaves towards employees. Successful management encourages employee participation and effective communication
There are different styles of management.

**Authoritarian (Autocratic) Style:** In some organisations e.g. army, police, this style of management is vital, in moments of stress or under pressure workers i.e. armed forces are expected to follow their leadership without question. They are trained to respond positively to this management style and clear leadership in this case would increase motivation and morale. However, use this style in other businesses and it may lead to feelings of frustration, being unable to use their own initiative.

**Consensual (Democratic) Style:** This style makes workers feel part of the decision-making process. The workers feel their ideas are important and they are acknowledged. Managers must be careful however to make out that they are asking workers for ideas not because they don't have any themselves or this will lead to lack of respect and a perception of poor leadership and a serious dip in morale.

**Laissez-faire Style:** This relaxed style of management style works in very few industries because most employees need clear guidance and leadership. Creative industries are probably the most likely to use laissez-faire e.g. advertising, film making, where creativity cannot be stifled.

**ROLES OF A MANAGER**

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| PLANNING        | COMMANDING
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PLANNING: This means looking ahead, setting goals making decisions on policy and methods of achieving set objectives or targets.
e.g. what product(s) should the business make?

e.g. what price do we charge for our product(s)?

ORGANISING: A plan on its own is useless. Nothing will happen until the plan is turned into action. Organising that action is what that is all about. The manager makes sure that people, materials and machinery are available in the right place at the right time.

MOTIVATING: The manager needs to have the help of everyone so that the objectives can be achieved. He/she will try to make the job as satisfying to the worker as possible. The manager will build teams and keep them working effectively. The ability to delegate is a key skill used by successful motivators. Money is not always the main motivator either!!!

DELEGATING - this is where task or goals are assigned to subordinates, while at the same time giving them the necessary authority to carry out those tasks. When a manager encourages staff to share in taking the decisions that affect them at work, people involved will give greater commitment to their work. Although the manager may have delegated authority for a specific task to a supervisor, he/she is still accountable for the outcome. The manager cannot blame the supervisor if things don't work out as planned. However, if things go well, the manager will be rewarded!

COMMANDING (LEADING): This involves the manager in ensuring that duties are done properly and on time. Lead by example. Give clear instructions and directions, e.g. Finance supervisor will ensure finance clerks pay suppliers on time.

COORDINATING: This means ensuring the work of many different people in the organisation is brought together to achieve agreed objectives, e.g. The manager must ensure that the operations department staff pass on details to enable other departments to meet agreed deadlines.

CONTROLLING: This involves supervising and checking the activities and performance of subordinates to ensure that the instructions are being carried out properly and plans are being followed, e.g. checking that operations staff are keeping inventory at appropriate levels for production.

BUDGETING: This is a form of financial planning. Managers must be able to forecast the financial needs of an organisation, and show how these needs will be met.
CUSTOMER SERVICE

One of the most important factors for an organisation to consider is customer service. A happy customer is more likely to return to the organisation to purchase more goods or services and they are likely to recommend them to other people.

There are Four Aspects of Good Customer Service

Service Level Agreements

What Standards have can your customers expect?

The business has to decide which of the following are acceptable:

- Number of complaints about your products – damaged or faulty
- Number of complaints about your staff
- Average time to fulfil an order
- Telephone manner
- Sales person’s conduct
Customer Contact

There are 2 main aspects to this:

Customer Feedback

- Information about what Customers think about you
- Chance to listen to customers
- Find out what customers like
- Find out what you can change
- Postal Questionnaire
- Telephone Questionnaire
- Website Questionnaire - like Survey Monkey.

Contact Programmes or Loyalty Schemes

- Deliver specific information to customers
- Special offers relevant to previous purchase (such as supermarkets sending discount vouchers for items that you usually buy)
- Reminder sent about a particular anniversary
- Re-activate lapsed contacts

Customer Complaints

A Complaint is a Business Opportunity! Most customers will not complain but may tell up to 20 others!! The way you deal with complaints may:

- increase loyalty
- identify problem areas which you can then change.

Good Customer Service means than an organisation will:

😊 retain existing customers (loyalty)
😊 gain new customers as the organisation's good reputation grows
😊 have fewer complaints to deal with
😊 keep ahead of the competition
😊 survive

If an organisation does not consider customer service to be important and fails to provide good customer service then it can have drastic consequences for the organisation such as:

😊 decline in market share/loss of customers
decrease in profits
low staff morale
bad reputation – word of mouth, reports in the media
high number of complaints to deal with
ultimately could lead to closure of the business

To try to ensure customer satisfaction businesses can carry out a number of measures including:

- market research – to find out what their customers want and/or find out what their customers think of their existing products
- considering the 4Ps and getting the right mix for price, product, place and promotion
- ensuring that the product/service they are providing is of the best possible quality – businesses should have effective quality assurance procedures in place
- employing excellent staff – staff should be well trained and well informed about the business and the product or service it provides; staff play a key role in ensuring good customer service and satisfaction
- ensuring that they maintain a customer-focused/market led approach to their business

How do you know if your organisation is providing good customer service?

Do you have:

- good-quality product/services available for sale
- do you offer value for money
- do you have well-trained/well-informed helpful staff
- do you provide good after-sales service
- do you offer guarantees
- do you deal with complaints efficiently and effectively (have a complaints procedure)
- do you 'take the extra step', e.g. if a customer asks where to find a product, rather than just telling them, lead them to the product
- do you offer added extras, e.g. discounts on future purchases
If you provide goods and services then you will have to be aware of 2 important aspects for your business:

- Consumer Law
- Good Customer Service

The Consumer Law provides a MINIMUM standard that you MUST follow when providing goods and services whereas Good Customer Service will help you attract and keep customers. Customer Service will often offer more to customers than the minimum legal requirements.

**THE BASIC CONSUMER LAW**

**Sale of Goods Act 1979** or its updates

Any goods a business sells must meet these 3 basic criteria:

- Of Satisfactory Quality – no defects – safe – durable
- Fit For Purpose – do the job they are designed for
- As Described – the packaging says or seller says what it does

If these 3 basic criteria are not met you must receive either:

Repair, Replacement or Refund

- Full Refund – if you return them quickly (3 – 4 weeks)
- If you delay – (up to 6 months) – repair or replacement
- More than 6 years – lose all right to refund, repair or replacement

Customer Care Policy may encourage you to:

- get a replacement
- get a Repair
- give a Credit Note
- accept Goods but get a refund of (some) money

If goods are faulty then it is up to THE RETAILER and not the MANUFACTURER to sort it out.

**You are allowed to return goods if:**

- the good you buy is broken when you get it home
- the good breaks shortly after you buy it
- there is a defect which makes it dangerous
- it does not do what it says it does on its packaging
- the packet says it is one size and it is in fat a different size
it does not work well enough to do what it is supposed to do

**You are not allowed to return goods if:**

- you get home and don’t like the colour
- you buy the wrong size
- a fault was pointed out to you but you decided to buy it anyway
- you damaged the goods
- you see a fault in them but wait a long time to take them back (What a long time is depends on the type of goods you buy – clothing is likely to be a lot shorter than a new TV)

**TAKING GOODS BACK**

- Do this quickly – within a REASONABLE TIME
- Take a receipt as proof but you can still take goods back without one – just may be a bit more difficult to prove you bought them from that business.
- If you can’t take them back – get business to pick them up or pay for their return by post.
- Don’t try and fix them – you will lose your right to a refund

**The Sale and Supply of Goods to Consumers Regulations 2002**

This law gives you protection within the European Union

For first 6 months you can return goods if they are defective. The business has to prove they were not defective when you bought them – not you

**BUYING GOODS AT YOUR HOUSE**

If you buy goods from your home such as a salesman at the door you have right to cancel within 7 days. This is called a **COOLING OFF PERIOD**.

Exemptions to this are:

- if the cost was less than £35
- you asked business to send a salesperson
- you bought them with a Credit Agreement

**BUYING REMOTELY**

This may be done by Phone, Mail Order, and Online. You get additional protection with The Consumer Protection (Distance Selling) Regulations 2000
This act applies when you buy goods but not on a face to face basis, such as buying over the Internet. It applies to purchases within the EU.

Business has to:

- provide written confirmation of order
- give you 7 days to change your mind if Mail Order; and up to 7 days after you receive the goods if Online
- deliver within 30 days unless you agree to longer
- refund money taken if you return goods
- offer you the opportunity to decline the receipt of advertising emails etc