Business Management – Business in Action

What is a business?

A business is a particular type of organisation – one which involves people and resources in the making of a good or the providing of a service. All businesses have a name, a set of aims they wish to achieve, an image, resources and rules.

Needs and Wants

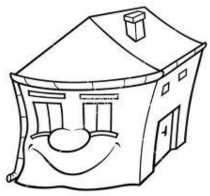
We buy the goods and services provided by a range of businesses – we are called consumers. We buy these goods and services to satisfy needs and wants.

In order to survive we all have basic needs. These include:

Food/Water

Clothing

Shelter



Once these needs have been satisfied individuals always look for and want more in order to make their lives more comfortable and enjoyable. For example we do not NEED a new iPad to survive, we just WANT it. Perhaps we have seen it advertised on TV or a friend has one and so we would want one also.

Holidays

Cars

Ipad

Businesses exist to look after or satisfy these NEEDS and WANTS. They make goods such as food products, shoes, clothes and electrical goods. Some businesses exist to provide services like transport, hairdressing, banking, fast-food take-away and holidays.

Goods	Services
Cars Washing machines CD players Sweets Clothes Seafood Shoes Furniture Books	Hairdressing Car servicing Insurance Banking Entertainment (eg, cinema and theatre) Education Public Transport

Goods are tangible, which means they can be seen and physically touched. Services are intangible, which means that they cannot be seen or physically touched

Goods and services can be durable (long-lasting) or non-durable (used up quickly). A cinema is an example of a non-durable service – it provides entertainment in the form of a film for about 2-3 hours on average. After that, the service is no longer available. A television set is an example of a durable good – it should last for a few years, at least.

Business Resource (Factors of Production)

In order to make a good or provide a service a number of ingredients/resources are required, eg, Land, Labour, Capital and Enterprise. These are also referred to as the FACTORS OF PRODUCTION.

LAND

Land means the natural resources that businesses use –

Plot of land, coal, forests, water, wood, fields, rivers etc

LABOUR

Labour means the workforce of a business and includes –

Joiners, shop assistants, teachers, clerical staff, electricians, cleaners etc

CAPITAL

Capital means the tools, machinery and equipment that a business owns –

Tractors, Lorries, motor vehicles, buildings, factories, tools and equipment etc

ENTERPRISE

Enterprise means the business ideas that an entrepreneur or owner has on how to use land, labour, capital in his or her business to make profit –

Richard Branson & Virgin

Sectors of Industry

Businesses exist to produce different goods and services and as such exist in different sectors of industry. There are 3 main sectors as shown in the diagram below.

SECTORS OF INDUSTRY

PRIMARY | **SECONDARY** | **TERTIARY**

Businesses which exist in the primary sector of industry are those that are concerned with using natural resources such as farming, oil drilling, mining, fishing, and forestry. In other words these businesses are concerned with growing products or extracting resources from the ground.

Businesses which exist in the secondary or manufacturing sector of industry are concerned with the making of products. Manufacturing businesses can take the raw materials from other industries in the primary sector and convert them into different products. For example kellogg's will purchase crops from farmers to manufacture breakfast cereal.

Businesses which exist in the tertiary sector do not produce a product. They are concerned with providing services like banking, tourism, beauticians, hairdressers, fitness centres and entertainment like film and TV.

SECONDARY SECTOR

This sector has declined in the UK. Today there are fewer firms who actually manufacture a product.

TERTIARY SECTOR

This sector has increased in the UK. Today there are more businesses that actually provide a service.

Enterprise and Entrepreneurs

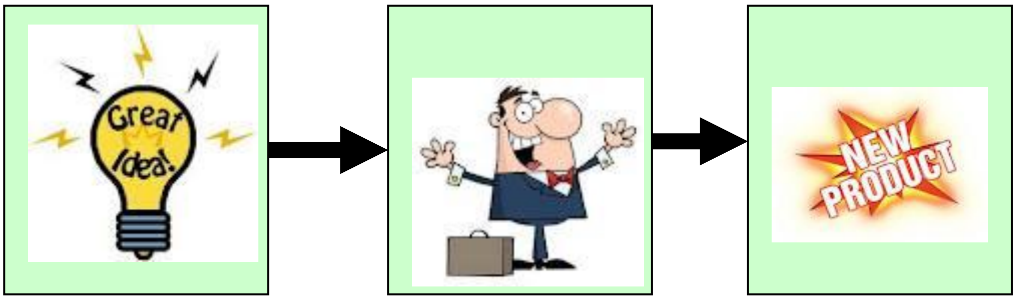
Definition

An entrepreneur is an individual who develops a business idea and combines the factors of production – land, labour and capital – in order to produce a good or provide a service usually with a view to earning profit.

An entrepreneur is someone who has a good BUSINESS idea and is prepared to take the risk of investing their money to develop the idea.

Most entrepreneurs start as a small business and are responsible for all aspects of managing it. However, as the business grows, the role of the entrepreneur may alter as he/she will then have to employ workers and managers and delegate work for them to carry out.

Entrepreneurship



Entrepreneur

Skills of an Entrepreneur

An entrepreneur must:

- take risks – seeing a chance – taking it – risking their own money to invest in the idea;
- have good communication skills – enabling them to communicate with employees, suppliers and of course the customers;
- rise to the challenge – doesn't give up easily – finds solutions to overcome problems;
- have good decision-making skills – deciding which product to produce, best methods of raising finance, what price to charge customers and which staff to hire;
- have good leadership skills – being able to lead and motivate his/her workers to 'achieve the dream'!

Gaps in the Market

Spotting a gap in the market means that you have come up with an idea for a product or service which is not being offered by another company and is not already available in the market place. It may be developing a hobby they enjoy or using a special skill or talent they have to come up with a new business product.

Spotting a GAP in the market is a classic key success factor in business!

If an entrepreneur moves quickly to get a product on the market before anyone else, then the financial rewards can be great as customers have to buy from you as there are no other products available to them.

The gap in the market might be providing a product or service in a completely different way. LoveFilm rents DVDs, but they captured the market by sending them through the post rather than following the videoshop model, adding convenience and a huge list to choose from. Moonpig did exactly the same with greeting cards.

Businesses use the law to protect their business idea/product/service by registering ownership of the invention and patenting it. They may even sue for damages if others try to copy their work through the Copyright Act or they can register a trademark to make their company stand out from the rest. Nike has trademarked their “swoosh” logo and their “just do it” slogan.

Coca Cola have also patented their product to prevent anyone else using their logo.

Sources of Help and Advice

There are many sources of help and advice available for small businesses. A great deal of advice is available on-line. In addition many organisations exist that provide support to new and developing businesses. Here are some examples.

Bank

A bank will give financial advice, eg, on how to manage money coming in and going out of your business.

Enterprise Agency

For example Business Gateway offers free business advice and support service through local advisers. They offer training courses for people wanting to set up a new business and give advice on such things as preparing a business plan.

Lawyer

A lawyer will provide legal advice to keep you on the right side of business law.

Chambers of Commerce

A local chambers of commerce – an organisation set up to help business people network (make contact with other business people who may support them). It will also offer advice on how your business can become more competitive and successful.

Entrepreneurs

Other entrepreneurs may give advice on which suppliers to choose or what mistakes to avoid.

World Wide Web (Internet)

A vast amount of information is available on line which provides advice for people thinking about starting up in business.

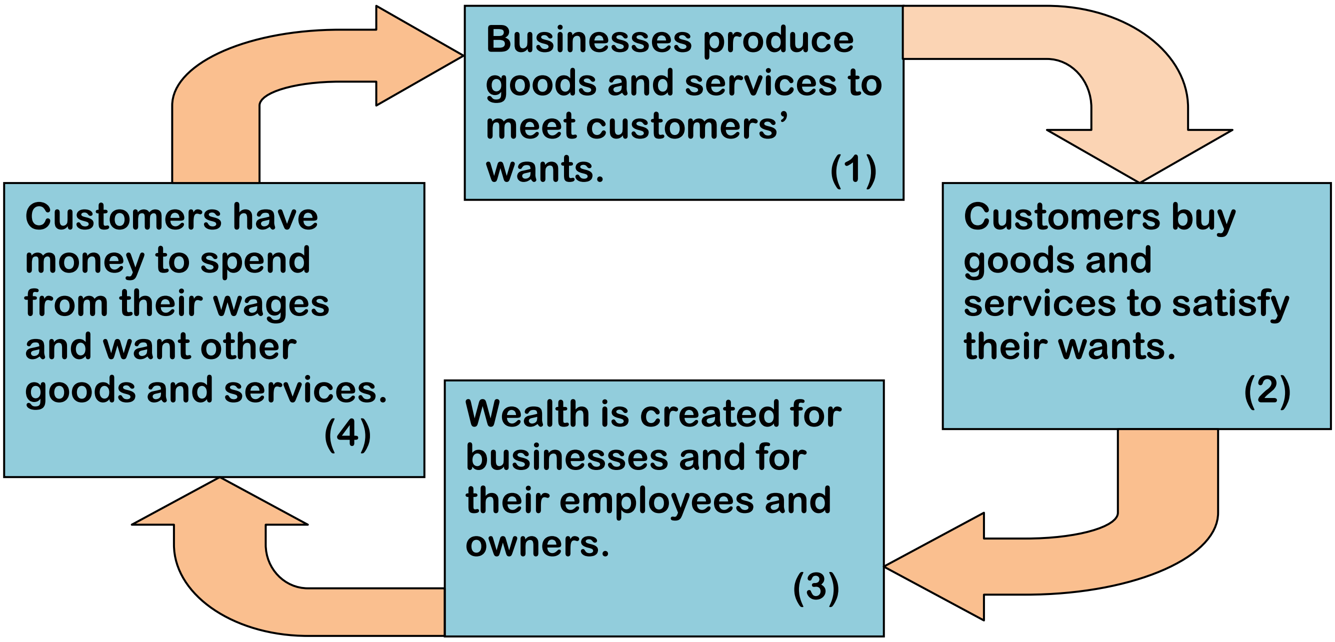
The Princess Trust

The Princess Trust provides practical and financial support for young people (18-30) setting up in business. It will assist them with producing a business plan, give advice on applying for grants and will also provide grants if certain criteria are met.

Cycle of Business

The process of buying and selling goods is an on-going process. This is the reason that enterprise is a long term process and why many shops have been on the 'High Street' for a very long time, for example, Marks and Spencer's, Next and New Look.

Study the diagram below.



STEP 1	**Entrepreneurs set up in business selling goods and services that consumers need and want.**
STEP 2	**Consumers use their income and go out to the shops and buy goods and services in order to satisfy their needs and wants.**
STEP 3	**The businesses supplying the goods and services begin to earn PROFIT and this means they can pay employees wages and the owners also become wealthy.**
STEP 4	**Consumers now have even more income to spend (from their wages) and so want even more goods and services.**
STEP 5	**Businesses are now required to expand and produce more goods and services for consumers - and so the PROCESS goes on.**

The Business Plan

A business plan is a document which outlines the objectives of a business and how it intends to achieve these objectives. These are used mainly when starting out in business. You need to find out if it is financially viable (wise) to actually set the business up in the first place. You will need to work out all your costs and carry out market research on potential customers to find out if sales income will be enough to cover these costs and earn profit.

The entrepreneur can therefore decide whether it is worthwhile going ahead with the business idea or whether the anticipated profit is too low a level to justify financing his/her idea.

It is also likely to be used to convince investors, for example, a Bank Manager to lend the business cash in order to get it started. Banks and other lenders are more likely to lend to entrepreneurs who have been thorough in their planning and research.

To be convincing, it must therefore contain essential information:

- General details – the name of the business, proposed location and what it is going to produce;
- The market – who are the potential customers?
- Human resources – who will be employed and work for the business?
- Finance – what are the expected costs of running the business, what sales income is expected and what is the expected profit? Also where is the start-up cash coming from, ie, all from the owner/s or partially from a loan?

The Business Plan can also be used when planning for expansion. You may want to redo your business plan with the new costs and benefits – this will help you decide if expansion is the right thing for your business.

Sample Business Plan

BUSINESS PLAN OF SP ENTERPRISES		
GENERAL DETAILS	1. Business Name	*Bannerman Enterprise*
	2. Type of Ownership	***Sole Trader***
	3. What does the business do?	*Operate in **private** sector – we sell greetings cards*
THE PRODUCT	Description of goods/USP	*Greetings cards, wrapping paper, balloons, mugs, pens and small gifts*
HUMAN RESOURCES	Key people and experience/skills, can be displayed on an organisation chart	***Marketing** dept, **Human Resources**, **Operations** dept, **Finance** dept*
PREMISES AND EQUIPMENT	Where is the business to be based, what equipment will be required.	*Based in Baillieston Road Glasgow. Equipment required – shop fittings, cash register, motor van.*
THE MARKET	1. Who are the customers?	***Consumers of all ages based in the Baillieston area.***
	2. Price of the goods services.	*25% mark-up on all goods purchased*
	3. Who are the main competitors?	***2 other Card shops located within a 25 mile radius.***
	4. Market research results	*Who would buy our products and what price they were willing to pay*
FINANCE	1. Who are the investors and where is the money coming from?	*Start up capital invested by sole trader and external financing, eg, bank*
	2. Estimated cash budget and trading, profit and loss statements.	*Estimated Cash Budget, T,P and Loss Account and Balance Sheet provided.*
	3. Costs and expected revenue	*Costs – stock, maintenance, wages and general expenses. Revenue shown on Break-even chart provided.*

Areas of a Business Plan

Details under each Area of a Business Plan

Example of what our Business Plan would look like.

Sources of Finance

At some point a business may need to borrow money from banks or other investors for purposes such as paying the staff wages, or buying a piece of machinery or for expanding the business.

Businesses can access many different sources of finance. The source of finance used depends on what the finance is for, and how long it is required for.

BANK OVERDRAFT	
Advantages	Disadvantages
A customer can overdraw from their bank account, ie, spend more than they have in their bank account up to an agreed limit. They could, for example, pay wages from their bank account even though they have no money in their account.	This can work out expensive if used for a long time as interest is charged daily. The facility may be withdrawn immediately if the limit is exceeded.

TRADE CREDIT	
Advantages	Disadvantages
Businesses can buy goods from suppliers and then arrange to pay for them at a later date. This gives the firm time to sell the products at a higher price, earn a profit and then pay their suppliers – hopefully before the bill or invoice arrives.	Sometimes suppliers offer a cash discount (reduction in price) for prompt payment. The firm will lose the cash discount if they take too long to pay. Also suppliers may be reluctant to sell more goods on credit if the business struggles to pay on time.

FACTORING (DEBT COLLECTOR)	
Advantages	**Disadvantages**
When customers who buy on credit fail to pay on time or attempt not to pay at all the business can use a factoring service. The factor will buy the debts of the business and they will then attempt to recover payment from the customers. This saves the business time pursuing customers and ensures the business receives most of the money it is owed.	The factor charges the business a fee for their service and so this reduces the amount of cash they will actually receive. Factors tend only to be interested in pursuing customers who owe large amounts of money to the business.

SHORT-TERM BANK LOAN	
Advantages	**Disadvantages**
The bank may provide a loan to the business for a fixed amount to be paid back over a fixed period of time in fixed monthly instalments. The loan may be used to buy an essential piece of equipment or to obtain extra cash to pay bills. Because it is a short-term loan there will be less interest payments.	When the business tends to be small, or newly formed, they tend to be more of a risk. As such these loans can be more difficult to obtain and the interest rate to be paid tends to be much higher.

HIRE PURCHASE	
Advantages	**Disadvantages**
Higher purchase allows a business to buy an asset such as a delivery van and pay it back over 36 months. A deposit is required followed by payment over a few years. This allows the business to purchase items like machinery and equipment with only a small initial outlay of money.	The business does not legally own the asset (machinery or equipment) until the last payment has been made. Interest is usually charged and so it can be an overall more expensive way of purchasing large items.

LEASING	
Advantages	**Disadvantages**
When a business uses a leasing system it never owns the asset. The business simply 'rents' the asset. For example Arnold Clark now offers a leasing system to allow small businesses to rent motor vehicles and vans. The advantage is that the leasing system will replace the asset every couple of years and they are also responsible for any repairs.	The business will never actually own the asset. Rental charges or leasing costs can build up over a long period of time and so it may actually work out cheaper to actually purchase the asset in the first place.

ADDITIONAL CAPITAL	
Advantages	**Disadvantages**
This is where the amount of money invested in the business by the owner is increased by the owners (they take more of their own personal savings and 'lend' it to the business. Or they may decide to invite a partner to join the business. The business does not need to pay back the money which has been invested and there is no interest to pay or any other costs involved.	The owner/s are now risking more of their own personal money as more of their private savings are 'tied up' in the business. If a partner is now involved in running the business, profits now have to be shared and so each owner gets a smaller share of the profits.

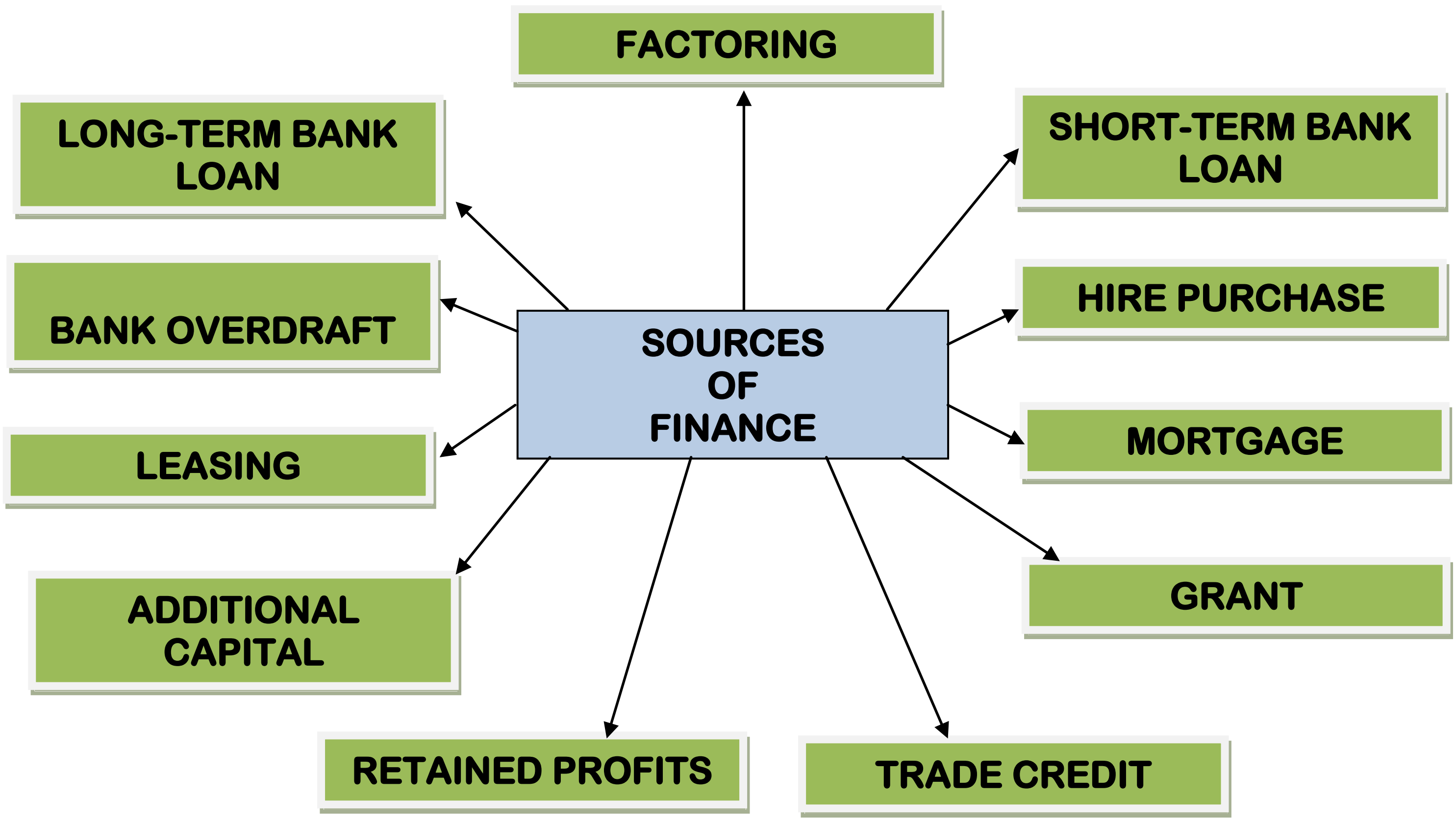
MORTGAGE	
Advantages	**Disadvantages**
A common method of financing land and premises such as shops is to take out a mortgage which is a type of long-term loan secured against the title deeds of a property or piece of land. The business is given a long period of time (25 years) to pay the mortgage back.	Interest has to be paid on top of the initial amount borrowed. If the business does not pay the mortgage back or falls drastically behind with repayments, the lender (bank or building society) can claim ownership of the property or land etc.

LONG-TERM BANK LOAN	
Advantages	**Disadvantages**
The bank may grant a loan for a fixed amount, to be paid back over a fixed period of time in fixed instalments. A long-term loan might be taken out to buy a very expensive piece of machinery and be re-paid over a 5 year period. As such the business is able to purchase machinery now and use it in the business to start generating profit.	The business has now incurred debts and must ensure that all monthly payments are made on time. Interest is usually charged on top of the initial loan amount and so this can be a very expensive way of purchasing equipment and machinery.

GRANT	
Advantages	**Disadvantages**
A Source of finance from central government or local government, Business Gateway or the Princes Trust. In most cases the money does not have to be repaid.	It is usually a one-off payment and certain conditions or criteria must be met before it can be obtained. Usually the business is told what the money must be used for.

RETAINED PROFITS	
Advantages	**Disadvantages**
A business can use its profits to purchase machinery and equipment. The advantage is that there is no interest to be paid and the business is not incurring any debts. The business will own the assets straight away.	When a business spends all of its profits it can run into cash flow problems. They may not be able to pay for any unexpected costs or expenses as all profit has been spent.

SUMMARY – SOURCES OF FINANCE



AIMS OF DIFFERENT KINDS OF ORGANISATIONS

PRIVATE SECTOR

- Sole Traders
- Partnerships
- Private Limited Company (Ltd)
- Public Limited Company (plc)

Main aims are:

- spotting a gap in the market
- turning a new idea into a success
- maximising profits

PUBLIC SECTOR

- Central Government
- Local Government

Main aims are:

- to provide a high quality product/service to all citizens of the country
- to provide essential services such as hospital care, education, defence and police
- provide services which are not entirely profit driven

THIRD/VOLUNTARY SECTOR

- Charities
- Social Clubs, eg bowling clubs

Main aims are:

- fund raising to support causes
- raise awareness, eg, famine in Africa
- clubs provide services and facilities for members

They do not aim to make a profit, though they may achieve a surplus of income over expenditure.

SOLE TRADER

A sole trader is a one-owner business (it is owned and controlled by one person). Most small businesses are sole traders, for example, hairdressers or plumbing businesses.

Finance is available from the owner's own savings, bank loans and government grants.

Sole traders usually aim to survive and maximise profits.

SOLE TRADER	
Advantages	Disadvantages
❑ Easy and cheap to set up ❑ Owner makes all decisions ❑ Requires little money. ❑ Owner keeps profit.	❑ Unlimited liability. ❑ Difficult to raise money. ❑ All responsibility lies with owner. ❑ Failure rate high. ❑ Owner may have to work long hours ❑ Difficult to take holidays/ time off

Unlimited Liability

If the business owes money, then the owner will have to pay the money they owe from their own pocket which may mean that that they may have to sell their home, car and possessions.

PARTNERSHIP

A partnership is a business with two to twenty partners – people who own and control the business together. The partners must produce a Partnership Agreement which outlines all the rules and conditions that each partner must adhere to. It also outlines the procedures to be followed when any partner joins, leaves or dies.

PARTNERSHIP	
Advantages	Disadvantages
❑ Partners can specialise – eg one partner makes and the other partner sells ❑ The work involved in running the business can be shared ❑ More money invested as there are more owners	❑ Unlimited liability. ❑ Risk of arguments with other partners re share of profits, control and responsibilities.

PRIVATE LIMITED COMPANY (Ltd)

This is a company whose shares are owned privately, ie, shares are not available to the public on the Stock Market.

Sometimes they are family owned companies where all members of a family are shareholders, for example, Ryanair, Arnold Clark and Baxters Food Group Ltd.

There must be at least one director and a secretary who keeps all company records. Shareholders have limited liability meaning they can only lose the value of their shares and not their private assets or belongings.

PRIVATE LIMITED COMPANY (Ltd)	
Advantages	Disadvantages
❑ Shareholders have limited liability. ❑ It is easier to raise money than sole trader or partnership business. ❑ Risk and responsibility are shared	❑ More difficult to set up than a sole trader or partnership eg legal documents required (Memorandum of Association and Articles of Association) ❑ Company has to follow the rules laid down by the Companies Act

PUBLIC LIMITED COMPANY (plc)

A public limited company (plc) is a company whose shares are available for purchase by the public on the Stock Market.

There must be a minimum of two shareholders and a minimum of £50,000 to start the company. The company is owned by members of the public (shareholders) who appoint a board of directors to manage and control the company on their behalf.

Examples include – BT, Vodafone, Tesco, Stagecoach and Celtic FC.

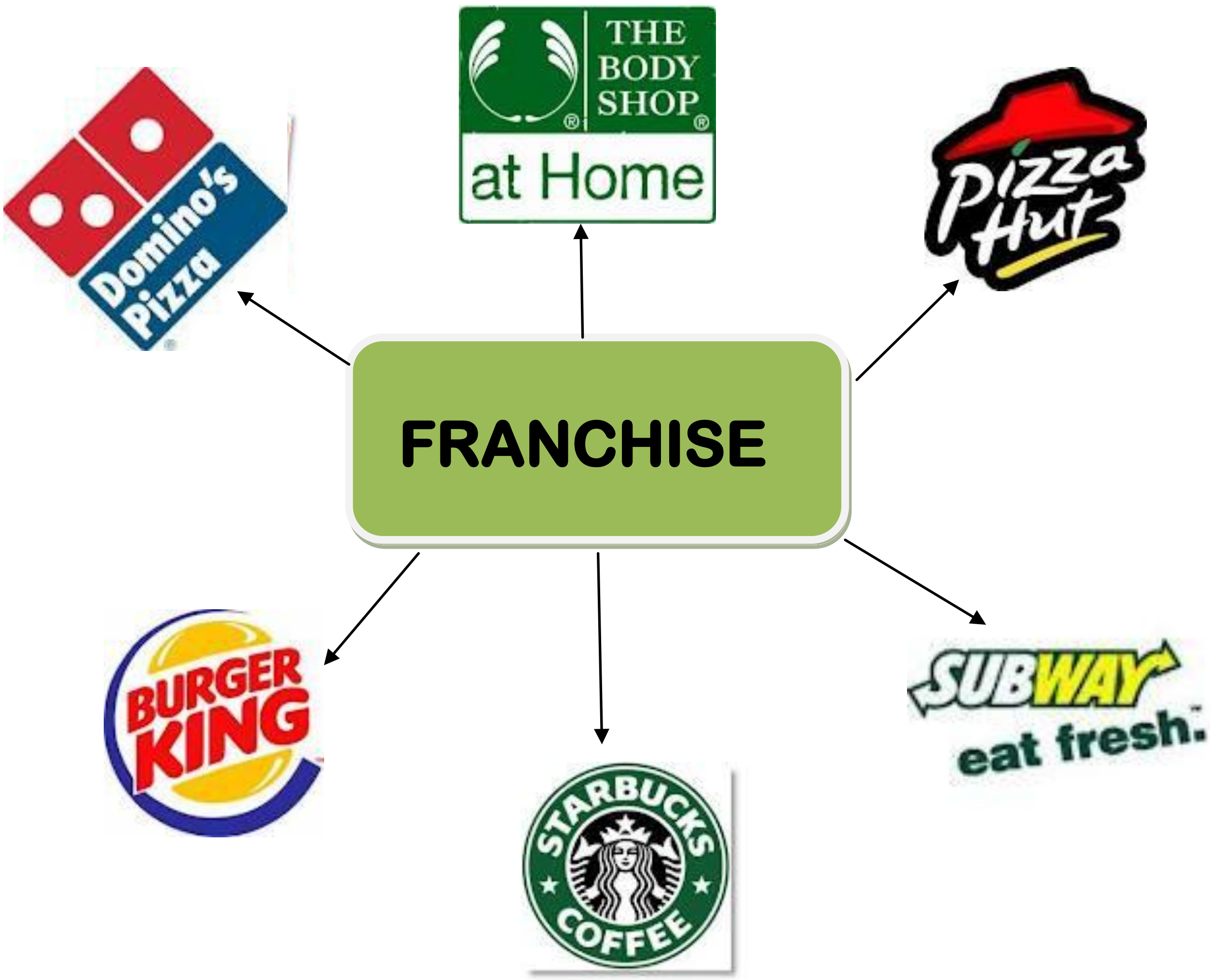
PUBLIC LIMITED COMPANY (plc)	
Advantages	**Disadvantages**
❑ Shareholders have limited liability. ❑ PLCs often dominate the market. ❑ Large amounts of finance can be raised by selling more shares ❑ Operates on a large scale	❑ There is no control over who can buy the shares ❑ Company has to publish financial accounts every year ❑ Employees and shareholders distanced from one another.

Important Definitions

Key Word	Meaning
Stock Market	Where people buy and sell shares in companies – this is now mainly done on-line
Limited Liability	Investors in a business (company) can only lose the value of the shares they own – their private belongings cannot be taken to pay the company's debts.
Companies Act	An act of law which sets out rules and procedures which companies must abide by.
Shareholders	A person who invests (uses his/her own money) to buy a share in a company. Shareholders jointly own the company.
Board of Directors	A group of highly skilled and professional managers who are appointed by the shareholders (owners) to run the company on their behalf.
Annual Accounts	Statements which are produced once per year and shows the value of the businesses assets and how much profit the business has made in the current year.

FRANCHISE

A franchise is a business agreement where one business can operate under the name of another business. The franchisee pays the franchisor a percentage of his/her annual sales or profits or agrees to pay a set fee each year. This then allows the franchisee to operate with the business name (which is usually very well known) and sell the products and services associated with the business name.



Franchisor – this is who owns the original business.

Franchisee – this is who has bought the right to use the original business name and enter into trade selling its products.

FRANCHISOR	
Advantages	**Disadvantages**
❑ Franchisee provides money (usually a percentage of sales) each year. This is a guaranteed income for the franchisor. ❑ Risk is shared between the franchisor and the franchisee and if the business does not work the cost of failure is shared/ split.	❑ The money received fro the franchisee may be less than the amount the franchisor could have made themselves and is only a share of the profit made by the franchisee. ❑ The franchisor's business name and image could be damaged as a result of a poor franchisee which could cause selling problems for the business as a whole.

FRANCHISEE	
Advantages	**Disadvantages**
❑ They are able to set up business using an already established name and brand that could gain customers and sales quickly compared to setting up a new business from scratch. ❑ Cost of advertising nationally is paid for by the franchisor and therefore this cost does not need to be paid by the franchisee.	❑ The franchisee may have little control over products and price which could result in lost creativity and new ideas. This could be frustrating for the franchise. ❑ It can be expensive to purchase and set up a franchise and a potential franchisee may be unable to afford to do so

PUBLIC SECTOR

The public sector comprises of:

- **Westminster Government**
- **Scottish Parliament**

CENTRAL GOVERNMENT

- **Local Government (Local Councils)**

Central Government

The Westminster (Houses of Parliament) and the Scottish Parliament provide important national services such as

- **Health**
- **Transport**
- **Defence**

Finance – this comes mainly from taxes paid by the public.

Objectives:

- **provide a high quality and efficient service (eg, National Health Service);**
- **to improve society;**
- **to make effective use of taxes.**

Central Government is organised and operated by elected politicians. To help achieve its aims and objectives Central government delegates resources and responsibility to Local government.

Local Government

Local Government (Local councils) are set up by central government (Scottish Parliament) and are run on its behalf by locally elected councillors. The day to day running of services is organised by managers and employees of each council. A local council aims to meet the needs of local people and businesses. Local councils do not aim to make profit – rather they are required to provide the most efficient service possible within allocated budgets.

Local government functions include the organisation of:

- **education and leisure services** - staffing, buildings, museums, pools and sports centres, childcare, psychological services, halls and community facilities, libraries;

- **social work** - community care, children and family services;

- **planning and transport** - roads, public transport, economic development, flood prevention, development of new buildings;

- **environmental services** - refuse collection and disposal, street lighting, food safety, health promotion, animal welfare, maintenance of parks and cemeteries;

- **housing** - allocation and maintenance of public housing, homeless provision, rent collection, building new council houses;

- **finance** - annual budgets for managing income and spending, financial reports, collection of Council Tax and business rates;

- **information technology** – use of ICT across all council services.

It is clear, therefore, that the work of local government has a huge impact on the lives of residents of the area. However, local governments generally have to act within central government policy even if it is something of which they are not particularly in favour. There is constant monitoring of local government activities in an effort to ensure that 'best value' is always being attained.

Finance

Local governments are financed in a variety of ways:

- **government grants** - the main source of local government income. This money comes from the UK government via the Scottish Parliament and accounts for about 40% of total council income;

- **council tax** - an amount of money paid by each household based on the value of the property. Each local authority sets its own council tax rate;

- **non-domestic rates** - paid by businesses. This is set by the central government and is the same across the country charges for services: such as entrance to leisure facilities, housing rents;

- **the sale of assets** - such as council houses.

Public Corporations

These are companies that are owned and controlled by central government. The government appoints a chairperson and board of directors to run the company on the government's behalf. Examples of Public corporations include the BBC and Royal Mail.

VOLUNTARY (THIRD) SECTOR

These organisations have different aims from those of private sector enterprises. They are 'not for profit' organisations and very often their reason for existing is to help a charitable cause in some way.

Charities

The government regulates the activities of charities and keeps a Register of Charities in the UK. Charities are exempt from paying most taxes. Charities are often set up as trusts with no individual owner, and overall management and control is undertaken by unpaid trustees (people who are placed in a position of trust with the responsibility for looking after the interests of others).

FINANCE

- Donations from the public
- Donations from companies
- Government grants
- Lottery Grants
- Profits from charity shops

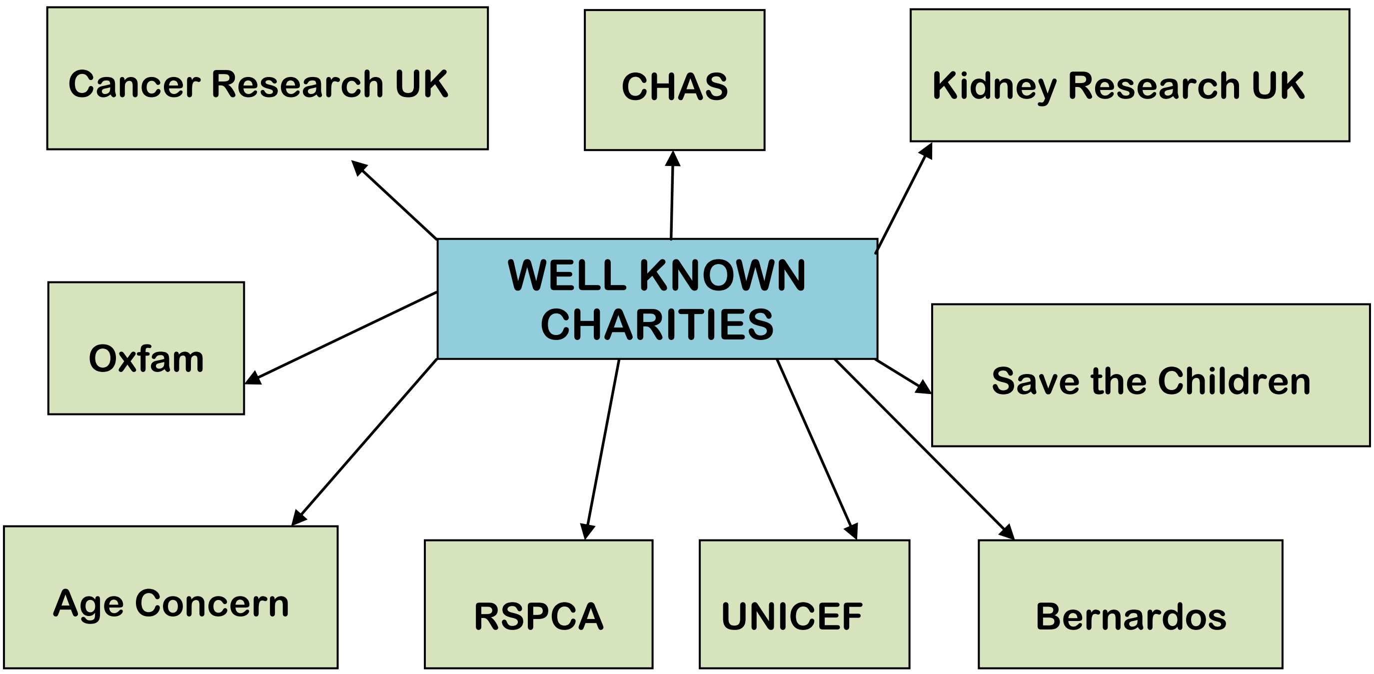
OBJECTIVES

- To provide a service
- To relieve poverty
- To fund medical research
- To provide protection to the vulnerable

Voluntary Organisations

Voluntary organisations are run and staffed by volunteers. Examples include the Scouts, youth clubs, Brownies, sports clubs. They bring together people with similar interests. They are run by a committee of elected volunteers.

These organisations can raise finance by applying for grants from the lottery, Sports Council or local authorities.   They may also charge a fee to become a member of their organisation or to use their facilities.



CUSTOMER SERVICES/CUSTOMER SATISFACTION

Overview

To survive, businesses must meet the needs of customers. So what are the needs of customers? Here are some factors which are important to customers:

- **Good quality products**
- **Attractive packaging**
- **Durability (products that will last)**
- **Up-to-date, fashionable products**
- **Good Prices**
- **Good Image**
- **Easily available**
- **Guarantees with the product**
- **Good after-sales service (refunds if customer is not happy)**

Businesses use market research to identify consumer needs/wants. This could be as simple as asking your restaurant customers to fill in a questionnaire commenting on the quality of the food, or the service they received etc. This will allow the restaurant owner to identify any areas of weakness that can be improved on – and thereby satisfy the customers so that they continue to return to the restaurant.

Market research can also help identify gaps in the market, ie, come up with a new idea for a new product or service to satisfy consumer wants.

If a business wishes to meet the needs of its customers and sell its products successfully it must develop a strategy based on the 4 P's – **Product, Price, Promotion and Place**. How these 4 elements are combined is referred to **the MARKETING MIX** and will determine how well a product will sell.

P

PRODUCT

The good/service that the customer purchases. The product includes the quality, packaging, guarantee and after-sales service – the total product on offer

P

PROMOTION

The way in which the customer is made aware of a product or service and persuaded to buy it. Promotion includes advertising, sales and promotions etc

MARKETING MIX

P

PLACE

Where the customer can purchase the good or service – how easy it is to buy

P

PRICE

The actual amount paid for the product/service by the customer to the seller.

The task for the seller is to: **Promote** the right **Product** at the right **Price** in the right **Place!**

What is Customer Service?

Customer service is the provision of service to customers before, during and after a purchase. In order to ensure that a customer's needs are met, the organisation should try to ensure that customers are dealt with in a fast, constant and effective way. A company may decide to set up a customer care strategy. This will include:

- Ensuring the quality of customer service – staff are always happy to help;
- Measuring whether customer's needs are being satisfied – ensuring a wide range of products;
- How customer complaints are dealt with – all complaints are treated seriously and resolved to full customer satisfaction.

Many organisations now also make customer service a high priority on their web-sites. Many businesses believe that it is actually a lot cheaper to encourage existing customers to keep coming back rather than having to continually advertise to attract new customers.

Factors which affect whether Goods or Services Meet a Customer's Needs:

- Reliability/quality of the product/service;
- Consistency over a period of time – how does it match up to the last good/service purchased?
- The speed and flexibility of delivery – can the organisation accommodate the customer's needs, for example, can they deliver within 24 hours?
- Courtesy and attitude of staff – from those on the shop floor to the delivery drivers;
- The information given about the product – was it accurate? Did it do all the business claimed it would do?
- How did the organisation react if help was needed? Were staff happy to assist the shopper?

What Makes Good Customer Service?

- Keeping customers well informed of progress and changes.
- Under-promise and over-deliver – do not set expectations too high so that customers will not be upset if they are not met, however, if you can deliver more than what they are expecting customers will be pleased.

- Go the extra mile to ensure customer's needs/expectations are always met.

Why is Customer Service So Important?

- It is important to treat the customer well as it will have longer term benefits for the organisation.

- Good customer relations mean that the organisation's reputation is enhanced – customers see the way they were treated by an employee and the organisation as the same thing.

- All organisations benefit from good publicity from happy customers. A person with a bad experience is five times more likely to pass on a story of a bad experience than a happy experience.

- Good customer relations are likely to mean regular repeat orders. Customers happy with the service they received are likely to become loyal customers.

- Increased loyalty results in more sales and a bigger market share.

- Good publicity received from an enhanced reputation means that the company is likely to attract a better calibre of employees – members of the public looking for employment always seek out those businesses with a good reputation.

Impact of Poor Customer Service

- Customer care is important at all levels of the organisation. Many people will form an opinion of an organisation from the way they are dealt with from their first point of contact with the organisation.

- Bad publicity results from poor customer service as people always tell others about their experiences.

- A poor reputation is difficult for an organisation to turn around and a poor reputation has implications for falling market share.

- Customers who are not happy will not come back. Many people do not complain about the poor service, they just simply do not give repeat custom – resulting in falling sales.

How can you measure customer satisfaction?

Market Research

Often organisations survey customers or ask for feedback to ensure that high standards of customer service are being met or to find out if there is any way things can be made better.

Some methods of checking customer satisfaction are:

- a written survey or questionnaire is posted out to customers;
- telephoning customers to ask pre-set questions;
- e-mailing customer questionnaires;
- holding a meeting of invited customers to answer questions/give opinions;
- face to face interviews given at point of sale or on entry and exit from the store;
- mystery shoppers – who act as customers to experience the service given by the organisation.
- suggestion boxes/schemes for customers to leave anonymous suggestions/opinions.

UNDERSTANDING BUSINESS OBJECTIVES

PROVISION OF A SERVICE

A charity or local authority (Council) would have this objective.

SALES MAXIMISATION

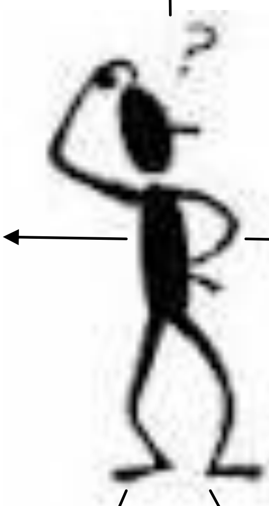
To achieve as much sales revenue as possible. This is popular with sales staff who may receive bonuses or salaries according to the number of sales made.

PROFIT MAXIMISATION

Most private sector organisations, eg, sole trader, partnership, limited company or public limited company aim to make as much profit as possible.

GROWTH

Many organisations aim to grow from a small business into a large business. A large firm can be more competitive, earn more profit and may also reduce the risk of failure.



SURVIVAL

Continuing to stay in business is vital, especially for a new business, and particularly in hard times, for example, when the country is in recession and consumers have little money to spend.

MANAGERIAL OBJECTIVES

Sometimes managers have their own objectives, for example, to increase their own salaries or a preference to enter into business contracts with particular customers or clients.

SOCIAL RESPONSIBILITY

Many organisations aim to have a good image and take responsibility for the environment, for example, reducing pollution and investing in recycling and other environmentally friendly issues.

STAKEHOLDERS

Definition

"A person or group of people who have an interest in a business or organisation and in the way in which it is managed and run."

Think about your school. There are many people that have a 'stake' in it and have a genuine concern with how well it is performing. Quite clearly, there are many people or stakeholders that are concerned with the welfare of your school.

Similarly, in every business organisation, from large companies like British Airways to your local corner shop, there will be a number of people or stakeholders that will look for that business to produce results which suit their own personal needs.

Some stakeholders are actually in the business, eg, staff (Internal Stakeholders) others are outwith the business, eg, customers (External Stakeholders). The following are all stakeholders in a business:

- Shareholders
- Local Community
- Owner
- Managers
- Employees
- Support Agencies
- Suppliers
- Customers
- UK Government

For stakeholders to have power and influence, their <u>desire</u> to exert influence must be combined with their <u>ability</u> to exert influence on the business. The power a stakeholder can exert will reflect the extent to which:

- the stakeholder can disrupt the business' plans
- the stakeholder causes uncertainty in the plans
- the business needs and relies on the stakeholder

Disagreements between stakeholders

Due to the demands placed on businesses by so many different stakeholders, it is no surprise that there are often disagreements and conflict between the different groups. Some of the more common areas of conflict are:

- **Shareholders and management**
  Profit maximisation is often the most important objective of shareholders – resulting in large dividend payments for them. However, it is far more likely that the Sales Manager, for example, will aim to maximise sales rather than profit in order to earn high bonuses.

- **Customers and the business**
  Customers are unlikely to remain loyal and repeat purchase from the business if the product that they have purchased is of poor quality and/or is poor value for money. However owners of the business may attempt to cut costs in order to maximise profits resulting in poorer quality products.

- **Suppliers and the business**
  Suppliers are often complaining that businesses take too long to pay for supplies of raw materials that have been delivered to them and so may refuse to sell on credit. On the other hand, many businesses have been known to complain about the late deliveries of raw materials and that stock from suppliers is of poor quality.

- **The community and the business**
  The local community can often suffer at the hands of a large company through the effects of pollution, noise, congestion and the building of new factories in areas of outstanding beauty. However, if the business faces strong protests from residents and from pressure groups concerned about its actions, then it may decide to relocate to another area, causing much unemployment in the community it leaves behind.

INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT

External Environment

There are a number of key factors in the external environment of a business. All businesses must react efficiently to changes in its external environment – failure to do so could be fatal for the future of the business. External factors (PESTEC) can be summarised as follows:

P	Political Factors
E	Economic Factors
S	Social Factors
T	Technological Factors
E	Environmental Factors
C	Competitive Factors

P

Political

The government can introduce laws which can affect every business in the UK. For example the government have set laws which ban advertising tobacco on television. Business must comply with laws or face heavy legal penalties. The government can also affect businesses by changing the amount of corporation tax charged on business profits. They have also introduced a minimum wage which employers must pay – this will affect their costs and profits.

E

Economic

If there is a recession and unemployment is high, consumers will have less income, which will result in a loss of sales for businesses. In order to survive and encourage consumers to buy from them, businesses may have to 'slash' prices and accept a cut in profits just to survive.

S

Social

In the UK there have been changes in the structure of the UK. More people are living longer and so the elderly are now making up a larger percentage of the total population. Business must take note of this and produce goods and services relevant to the needs of the population.

T

Technological

Put simply, businesses must keep up with changes in technology. For example they must get involved in e-commerce, ie, selling goods and services using the Internet. They must also use technology and robots in production lines when making their products. Failure to keep up with technology could lead to a fall in sales and profits.

E

Environmental

There is now increasing pressure for firms to be environmentally friendly, eg, bags for life and to minimise pollution.

Business can also be seriously disrupted with extreme weather conditions like storms, floods and snow.

C

Competitive

All businesses face competition from other firms both in the UK and from foreign firms. For example, when the National Lottery was launched, Littlewoods Pools had to change the way they advertised to compete with the Lottery.

INTERNAL FACTORS WHICH AFFECT A BUSINESS

The following internal factors could have an impact on the success of a business organisation.

Internal Factor	Example of how it can affect a business
Finance available	A lack of finance may mean that a business has to consider cost cutting measures such as staff redundancies or closing branches of the business.
Ability of staff	Expert and capable staff will be more productive in their work and help the business achieve a lot more.
Information	If a business carries out thorough market research then they will have good information which will help them meet the customer's needs.
ICT/Technology	The use of ICT and robots may mean that goods or services can be produced more efficiently and cheaper.
Good Management	A strong and capable management team will mean good decisions are made which will lead the business to success.
Changes in costs	Wage rises, increases in the cost of stock may mean that the business has to take a cut in profits.