

Course Companion

# IGCSE Business Studies

Every topic handout in one volume

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## Understanding business activity

IGCSE Business Studies

### What business activity is for



*Shops competing on a high street: businesses make goods and services to meet people's wants.*



*Businesses make goods and services to meet people's needs and wants*

A **business** is an organisation that makes **goods** or provides **services** for **customers**.

- Goods are physical things you can touch — bread, phones, cars.
- Services are useful actions done for you — a haircut, a bus ride, a doctor's visit.

The purpose of business activity is to use **resources** to make goods and services, so that people's **needs** and **wants** are met.

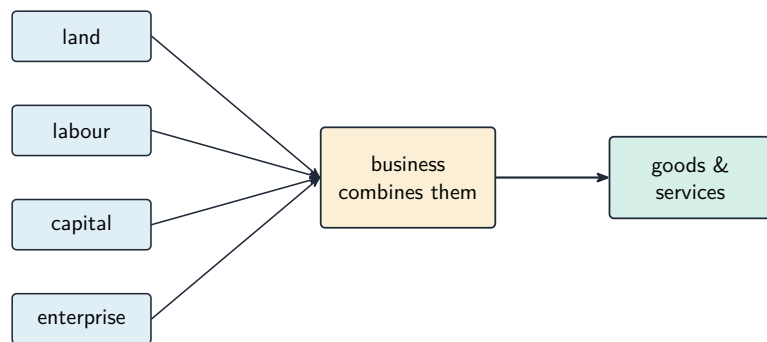
- Needs are things you must have to live: food, water, shelter, clothes.
- Wants are things you would like but can live without: a holiday, a games console.

## Factors of production

To produce anything, a business brings together four **factors of production** — the resources needed to make goods and services.

| Factor     | What it means                                              | Example                        |
|------------|------------------------------------------------------------|--------------------------------|
| land       | natural resources                                          | farmland, water, oil, minerals |
| labour     | the work of people                                         | workers, managers              |
| capital    | money and the man-made tools bought with it                | machines, factories, vehicles  |
| enterprise | the skill to bring the other three together and take risks | the owner's idea and effort    |

factors of production



*The four factors of production are combined to make goods and services*

## The economic problem

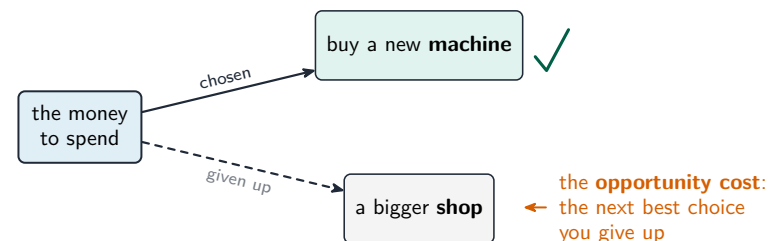
People's needs and wants are unlimited. But resources are **scarce** — there are not enough of them for everything. This is the **economic problem**.

Because resources are scarce, you must always choose. You cannot have everything.

## Opportunity cost

When you choose one thing, you give up the next best thing. The **opportunity cost** is the next best choice you give up.

Example: a business has some money and spends it on a new machine. Now it cannot also spend that money on a bigger shop. The bigger shop is the opportunity cost.

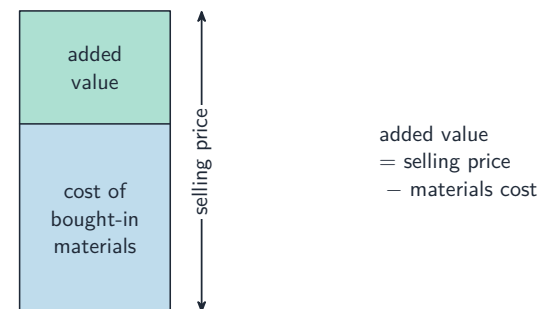


*The opportunity cost is the next best choice you give up*

## Added value

**Added value** is the difference between the price a business sells a product for and the cost of the **raw materials** bought in to make it.

$$\text{added value} = \text{selling price} - \text{cost of bought-in materials}$$



*Added value is the selling price minus the cost of bought-in materials*

A business can increase added value by:

- raising the price, often through a strong **brand** or better design,
- lowering the cost of materials, for example by finding cheaper suppliers,

- improving the product so customers will pay more.

**Worked example.** A furniture maker buys the wood and fabric for a chair for £40 and sells the chair for £110. The factory rent is £6,000 a month. Find the added value per chair.

$$\text{added value} = £110 - £40 = £70$$

The rent is a deliberate distractor. Added value counts **only** the cost of the bought-in materials, so rent, wages and other running costs stay out of it - they matter for **profit**, not for added value. Subtract only what was bought in to make the product, and never treat added value as if it were profit.

### Why businesses succeed or fail

A business is more likely to succeed when it has:

- good **management** — skilled leaders who plan well,
- enough **finance** — money to pay bills while it grows,
- a product customers want, and an edge over the **competition** (the other businesses selling similar things).

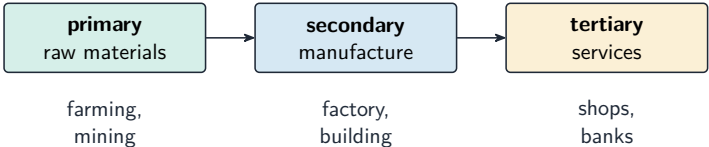
A business may fail and close down when it runs out of cash, manages money badly, or cannot compete. Weak management and poor cash control are the most common causes.

## Classifying businesses

### The three sectors

We sort all business activity into three groups, by how far the work is from the final customer.

| Sector                  | What it does                           | Examples                                         |
|-------------------------|----------------------------------------|--------------------------------------------------|
| <b>primary sector</b>   | takes natural resources from the earth | farming, fishing, mining, oil drilling           |
| <b>secondary sector</b> | makes goods from raw materials         | building, <b>manufacturing</b> , food processing |
| <b>tertiary sector</b>  | provides services                      | shops, banks, transport, tourism                 |



*Business activity runs from the primary sector through to the tertiary sector*

### How the sectors change

The importance of each sector changes as a country grows richer.

- In a **developing economy** (a poorer country building up its industry), the primary sector is often large — many people farm.
- As the country grows, the secondary sector grows too.
- In a **developed economy** (a rich, industrialised country), most people work in the tertiary sector.

**De-industrialisation** is when the secondary sector shrinks and the tertiary sector grows. This has happened in many developed economies as factories move abroad.

Private sector and public sector

The **private sector** is made up of businesses owned by private people and groups. Most aim to make a **profit** . The **public sector** is made up of organisations owned by the government, which aim to provide a service to the public.

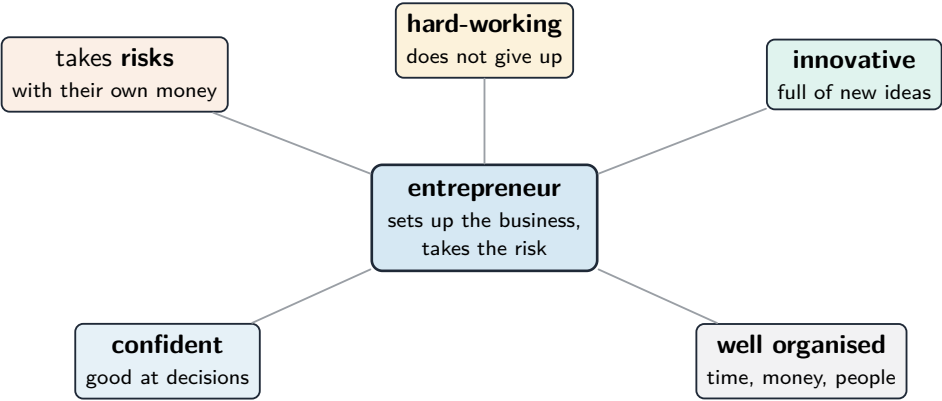
|          | Private sector                  | Public sector                             |
|----------|---------------------------------|-------------------------------------------|
| Owner    | private people and companies    | the government                            |
| Main aim | usually profit                  | provide services to everyone              |
| Examples | shops, factories, private firms | state schools, public hospitals, the army |

Enterprise, business growth and size

The entrepreneur

An **entrepreneur** is a person who sets up a business and takes the risk of running it. Successful entrepreneurs usually:

- are willing to take **risk** — to risk their own money on a new idea,
- work hard and do not give up,
- are **innovative** — full of new ideas,
- are confident and good at making decisions,
- are well organised, able to manage time, money and people.



What successful entrepreneurs are usually like

The business plan

A **business plan** is a document that describes the business and its future. It usually contains the business idea and objectives, the product, the **market** it will sell to, who will run it, and a plan for the money.

A business plan has two main uses:

- it makes the owner think carefully and plan ahead,
- it helps the business **raise finance** — banks and investors want to see a plan before they lend or invest.

Government support for start-ups

A **start-up** is a brand-new business. New businesses create jobs and help the economy grow, so governments often support them with:

- **grants** — money given that does not have to be paid back,
- low-interest **loans** — money lent on easy terms,
- training and advice for new owners,
- lower taxes in the first years.

Measuring the size of a business

You can measure how big a business is in several ways. Each one has a weakness.

| Measure                    | How it works                             | Limitation                                                  |
|----------------------------|------------------------------------------|-------------------------------------------------------------|
| number of <b>employees</b> | count the staff                          | a high-tech firm can have few staff but large <b>output</b> |
| <b>revenue</b> (sales)     | the value of everything sold             | a firm selling cheap goods may sell a lot yet be small      |
| <b>capital employed</b>    | the total money invested in the business | hard to compare between different industries                |

Staying small or growing

Some businesses stay small on purpose: the owner wants to keep control, the market is small, or the product is specialised.

Businesses that want to grow bigger — to achieve **growth** — can do it in two ways.

- **Internal growth** (also called organic growth): the business grows by itself, by selling more, opening new branches, or adding new products. It is slower but lower-risk.
- **External growth** : the business joins with another business. This is faster. It happens through a **merger** (two businesses agree to join into one) or a **takeover** (one business buys control of another).

External growth is classified by the kind of business that is joined.

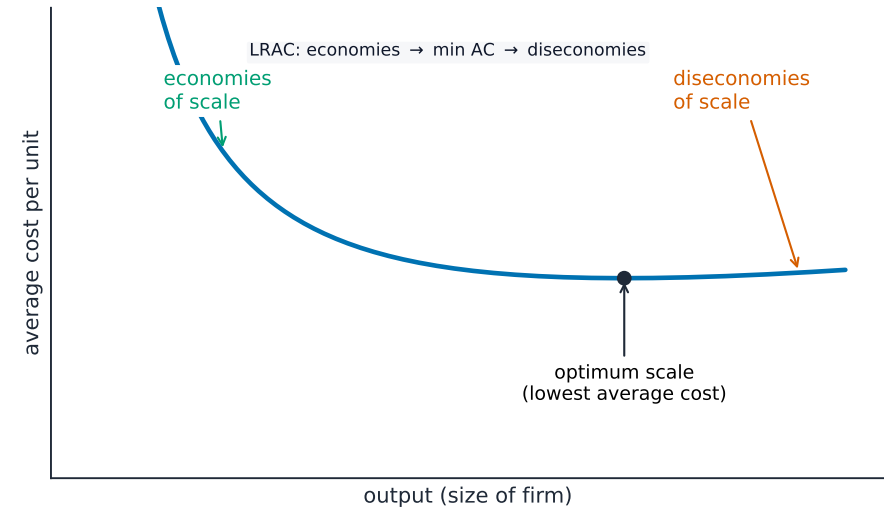
| Type                     | What joins                                         | Example                         |
|--------------------------|----------------------------------------------------|---------------------------------|
| horizontal integration   | two firms at the same stage of the same business   | two car makers join             |
| vertical integration     | two firms at different stages of the same business | a car maker buys a tyre maker   |
| conglomerate integration | two firms in completely different businesses       | a car maker buys a food company |

Economies and diseconomies of scale

As a business grows, its cost per unit can fall. These savings are called **economies of scale**.

| Type       | How the cost per unit falls                              |
|------------|----------------------------------------------------------|
| purchasing | buying large amounts of materials brings a lower price   |
| financial  | large firms can borrow money more cheaply                |
| managerial | the firm can afford expert managers                      |
| technical  | the firm can use large, efficient machines               |
| marketing  | the cost of <b>advertising</b> is spread over more goods |

If a business grows too big, the cost per unit can start to rise again. These are **diseconomies of scale**. They happen because **communication** in a huge firm gets worse, workers feel less important and work less hard, and managers find the firm hard to control.



Average cost per unit falls (economies of scale) then rises (diseconomies of scale) as a firm grows

Types of business organisation



A company headquarters: businesses range from sole traders to giant public limited companies.

Liability

**Liability** means who must pay the **debts** if a business cannot pay them itself.

- With **unlimited liability**, the owner is personally responsible for all the debts. If the business fails, the owner may lose personal things, like a house or car, to pay them.
- With **limited liability**, the owner can only lose the money they put into the business. Their personal things are safe.

Incorporated and unincorporated

- An **incorporated** business has a separate legal identity from its owners. The business itself can own things and be taken to court. Its owners get limited liability. Companies are incorporated.
- An **unincorporated** business is not separate from its owner in law. Sole traders and partnerships are unincorporated.

## The four main types

A **sole trader** is a business owned by one person.

| Advantages                     | Disadvantages                        |
|--------------------------------|--------------------------------------|
| easy and cheap to set up       | unlimited liability                  |
| the owner keeps all the profit | hard to raise finance                |
| the owner makes all decisions  | long hours, no one to share the work |
| private (accounts stay secret) | the business ends if the owner stops |

A **partnership** is owned by two or more people who share the work, the decisions and the profit. They usually sign a written agreement.

| Advantages                     | Disadvantages                          |
|--------------------------------|----------------------------------------|
| more owners bring more capital | unlimited liability (in most cases)    |
| work and ideas are shared      | the profit is shared                   |
| easy to set up                 | partners can disagree                  |
|                                | one partner’s mistake affects everyone |

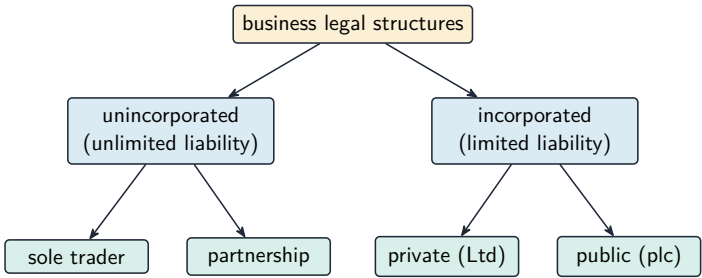
A **private limited company** (often “Ltd”) is owned by **shareholders**, but its shares cannot be sold to the public. The owners are often family and friends.

| Advantages                                 | Disadvantages                               |
|--------------------------------------------|---------------------------------------------|
| limited liability                          | more legal rules and paperwork              |
| easier to raise capital than a sole trader | shares cannot be sold to the public         |
| control stays in a small group             | accounts must be shared with the government |

A **public limited company** (often “plc”) is a large company whose **shares** can be bought by the public on the **stock exchange**.

| Advantages                              | Disadvantages                                         |
|-----------------------------------------|-------------------------------------------------------|
| can raise very large amounts of capital | expensive and complex to set up                       |
| limited liability                       | accounts are fully public                             |
| well known, so easy to borrow           | anyone can buy shares, so there is a risk of takeover |
|                                         | the original owners may lose control                  |

Shareholders may receive a share of the profit, called a **dividend**.



*Business types split by liability: unincorporated (unlimited) and incorporated (limited)*

## Other forms of organisation

- **Franchise** : a person (the **franchisee**) pays to use the name, products and methods of an existing successful business (the **franchisor**). The franchisee gets a known brand, training and lower risk, but must pay fees and a share of the profit and has less freedom. Many fast-food chains work this way.
- **Joint venture** : two businesses agree to share the cost, risk and profit of one project, while staying separate companies.
- **Social enterprise** : a business that trades to help society or the environment, not only to make profit. Most of its profit is put back into its social aims.

## Public sector organisation

A **public corporation** is a business owned and run by the government, such as a national rail or postal service. Its aims include giving an important service to everyone, not only making a profit.

## Business objectives and stakeholder objectives

### Business objectives

An **objective** is a goal that a business aims for. Common objectives are:

- **survival** — staying in business, especially when new or in hard times,
- **profit** — earning more than it spends; the main aim of most private firms,
- **growth** — getting bigger, to be safer and earn more,
- **market share** — the share of total sales in a market that one business holds,
- **customer service** — keeping customers happy so they come back,

- social objectives — helping society or the **environment** .

## Objectives of a social enterprise

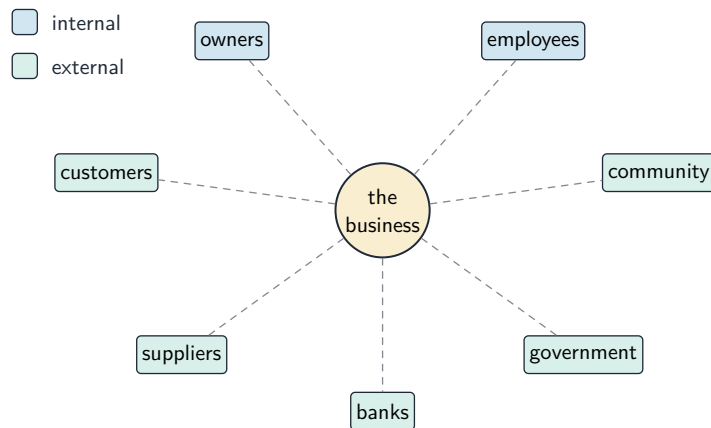
A social enterprise aims for three kinds of objective together:

- economic — earn enough money to survive and grow,
- social — help people, for example by giving jobs to those who find work hard to get,
- environmental — protect the planet, for example by cutting waste.

## Stakeholders

A **stakeholder** is any person or group that is affected by a business or has an interest in it.

| Stakeholder            | What they usually want                     |
|------------------------|--------------------------------------------|
| owners / shareholders  | good profit and a rising dividend          |
| employees              | fair pay, safe work, secure jobs           |
| customers              | good quality at a fair price               |
| <b>suppliers</b>       | to be paid on time, and regular orders     |
| government             | businesses to obey laws and pay <b>tax</b> |
| <b>local community</b> | jobs, but no pollution or noise            |
| banks                  | to be repaid the money they lent           |



*Internal and external stakeholders all have an interest in the business*

## Why stakeholder objectives conflict

Stakeholders often want different things, so their objectives can **conflict** . A business cannot fully please everyone at once.

- Owners want higher profit, but employees want higher pay. Higher pay lowers profit.
- Owners want to cut costs, but the local community wants less **pollution** . Cutting costs may create more pollution.
- Customers want low prices, but suppliers want to be paid more.

Good managers try to balance these different objectives.

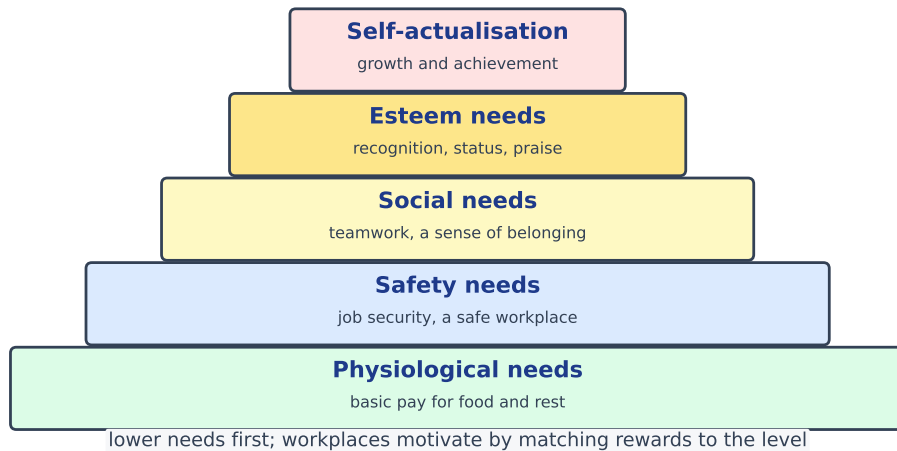
## Exam tips

- **Added value** = selling price – cost of bought-in materials. A business raises it with a strong brand, better design, or cheaper materials.
- Know the three sectors: **primary** (extracts raw materials), **secondary** (makes goods), **tertiary** (services). As a country develops, employment shifts from primary towards tertiary.
- **Unlimited liability** (sole traders, partnerships) puts the owner's personal things at risk; **limited liability** (Ltd, plc) limits any loss to the money invested.
- A **stakeholder** is anyone affected by the business, and their objectives often **conflict** — owners want profit, workers want higher pay, the community wants less pollution.
- **Economies of scale** cut the cost per unit as a firm grows; growing *too* big brings diseconomies of scale (cost per unit rises).

# People in business

## IGCSE Business Studies

### Why motivation matters



*Maslow's hierarchy of needs, with workplace examples at each level.*



*Motivated workers work harder, raising output*

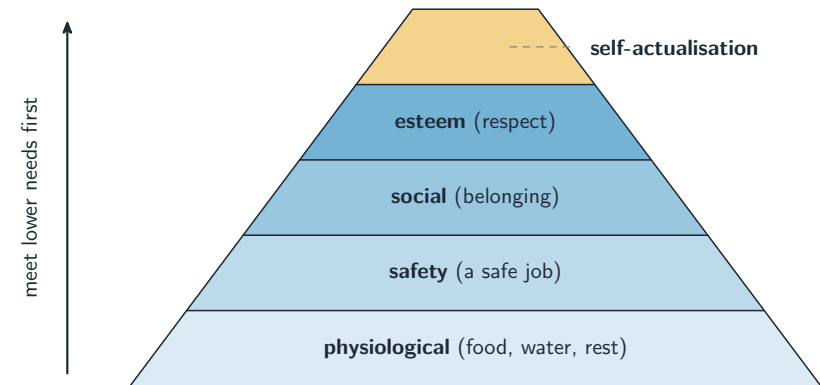
**Motivation** is the drive that makes people want to work hard. A well-motivated workforce — all the **employees** in a business — brings real benefits:

- higher **productivity** — each worker produces more,
- lower **absenteeism** — fewer workers stay away from work,
- lower **labour turnover** — fewer workers leave, so the business spends less time and money hiring and training new staff.

### Motivation theories

Three thinkers explain what makes workers work hard.

| Thinker  | Main idea                                                                                                                                                                                                      |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Taylor   | Workers are mainly motivated by pay. Pay them more for more work (piece rate) and they work harder.                                                                                                            |
| Maslow   | People have a <b>hierarchy of needs</b> : five levels, from basic pay and safety up to respect and reaching your full potential. You must meet the lower needs before the higher ones can motivate.            |
| Herzberg | Two groups of factors. <b>Hygiene factors</b> (pay, conditions, rules) do not motivate, but poor ones cause unhappiness. <b>Motivators</b> (achievement and responsibility) truly drive people to work harder. |



*Maslow's hierarchy: people meet lower needs before higher ones*

### Financial methods of motivation

These reward workers with money.

| Method                 | What it means                                        |
|------------------------|------------------------------------------------------|
| <b>wage</b>            | regular pay, often by the hour or week               |
| <b>time rate</b>       | pay for each hour worked                             |
| <b>piece rate</b>      | pay for each item made                               |
| <b>salary</b>          | a fixed yearly amount, paid monthly                  |
| <b>commission</b>      | pay based on how much you sell                       |
| <b>bonus</b>           | an extra payment for good work                       |
| <b>profit sharing</b>  | workers get a share of the company's profit          |
| <b>fringe benefits</b> | extras like a company car, free meals or health care |

**Worked example.** A factory pays a piece rate of £3 per item. Anya makes 210 items in a week. Ben is on a time rate of £12 per hour for a 40-hour week. Who earns more, and what risk does the piece rate carry? Anya earns  $210 \times £3 = \text{£}630$ . Ben earns  $40 \times £12 = \text{£}480$ , so Anya earns £150 more. But paying for each item made tempts workers to rush, so **quality** may fall and more items are rejected - which is why a piece rate usually has to be paired with quality checks. Show the calculation, then judge it: a question that asks who earns more **and** for an evaluation gives marks for the number and for the drawback.

Non-financial methods of motivation

These motivate without extra money.

- **job rotation** — workers switch between different tasks, so work is less boring.
- **job enlargement** — adding more tasks at the same level.
- **job enrichment** — giving more challenging tasks and more responsibility.
- **autonomy** — letting workers make some of their own decisions.
- **teamworking** — working in small groups.
- **training** and chances for **promotion** — helping workers improve and move up.

Organisation and management



Managers organise and lead the workforce so the business meets its objectives.

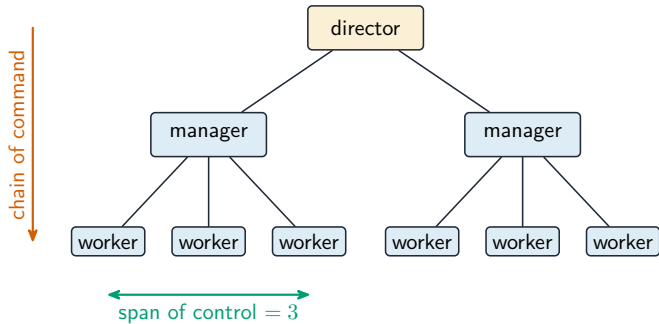
Organisational charts

An **organisational chart** is a diagram that shows how a business is organised — who reports to whom. It shows several ideas:

- **hierarchy** — the levels of staff, from the top down.
- **chain of command** — the line along which orders pass down from managers to workers.

- **span of control** — the number of **subordinates** (people directly below) that one manager controls.
- **delaying** — removing one or more levels to cut costs and speed up messages.

A long chain of command (a “tall” structure) slows messages down. A wide span of control gives one manager many people to watch.



An organisation chart shows the chain of command and each manager’s span of control

Functions of management

The five main jobs (functions) of **management** are:

- **planning** — setting aims and deciding how to reach them,
- **organising** — arranging people and resources,
- **coordinating** — making different parts work together,
- **commanding** — giving instructions and guiding staff,
- **controlling** — checking that targets are met.

Leadership styles

A **leadership style** is the way a manager leads people.

| Style                | How it works                                       | Best when                                 |
|----------------------|----------------------------------------------------|-------------------------------------------|
| <b>autocratic</b>    | the leader decides alone and gives orders          | a crisis, or with new and untrained staff |
| <b>democratic</b>    | the leader asks staff for ideas before deciding    | staff are skilled and want a say          |
| <b>laissez-faire</b> | the leader sets goals, then lets staff work freely | creative, expert teams                    |

Trade unions

A **trade union** is a group of workers who join together to protect their shared interests. A union can bargain for better pay and conditions, support a worker in a dispute, and push for safer work.

Recruitment, selection and training

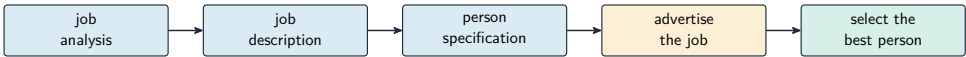


A business must recruit, train and motivate enough people with the right skills.

The recruitment process

**Recruitment** is finding and attracting people to apply for a job. **Selection** is choosing the best person from those who apply. The process starts with three documents:

- **job analysis** — studying what the job involves,
- **job description** — a list of the duties and tasks of the job,
- **person specification** — the skills, qualities and qualifications the right person needs.



The steps of recruitment and selection, from analysing the job to choosing the best person

Internal and external recruitment

- **Internal recruitment** fills the job with someone already in the business. It is cheaper and quicker, and the person is already known, but it brings in no new ideas.
- **External recruitment** fills the job from outside. It brings new ideas and skills, but it costs more and takes longer.

Common selection methods include the **application form**, the **CV** (a short summary of a person’s education and work history), the **interview**, and **skills tests**.

Training

Training improves workers’ skills. There are three main types.

- **induction training** — given to new workers, to learn about the business and their role.
- **on-the-job training** — learning while doing the job, beside an experienced worker.
- **off-the-job training** — learning away from the workplace, for example at a college.

| Type        | Benefits                              | Limitations                                              |
|-------------|---------------------------------------|----------------------------------------------------------|
| on-the-job  | cheap; uses real tasks                | the trainer stops their own work; bad habits can pass on |
| off-the-job | expert teaching; no work distractions | costs more; the skills may not fit the exact job         |

Reducing the workforce

Sometimes a business must cut staff numbers.

- **Redundancy** — the job is no longer needed, for example because a machine now does it. It is not the worker’s fault.
- **Dismissal** — the worker is removed for a good reason, such as breaking rules or poor work.

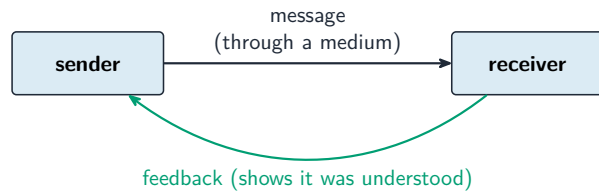
Most countries have **employment laws** that protect workers. They cover a fair **contract of employment**, safe conditions, fair pay, and protection from being sacked unfairly.

# Communication

## Why communication matters

Good **communication** means information is sent, received and understood correctly. It helps workers know what to do, cuts mistakes, and makes people feel valued.

The communication process has five parts: a **sender**, a **message**, a **medium** (the way it is sent), a **receiver**, and **feedback** (the receiver's reply, which shows the message was understood).



*The message flows from sender to receiver, and feedback confirms it was understood*

## Types of communication

- **One-way communication** — information flows in one direction only, with no reply (for example, a public notice).
- **Two-way communication** — the receiver can reply and give feedback. It is usually better, because it checks understanding.
- **Internal communication** — between people inside the business.
- **External communication** — between the business and outside people, like **customers** or **suppliers**.

## Barriers to communication

A **communication barrier** is anything that stops a message getting through clearly. Common barriers include:

- a message that is too long or unclear,
- a poor medium, such as a weak phone line,
- language differences between sender and receiver,
- a receiver who is not paying attention.

To reduce barriers: keep messages short and clear, choose the right medium, and ask for feedback to check the message was understood.

# Exam tips

- Link motivation to its benefits: higher **productivity**, lower **absenteeism**, and lower **labour turnover**.
- Match each theory: **Taylor** (pay / piece rate), **Maslow** (a hierarchy of needs — lower needs before higher), **Herzberg** (hygiene factors stop unhappiness; motivators drive real effort).
- Separate **financial** methods (wage, piece rate, salary, commission, bonus) from **non-financial** ones (job rotation, job enlargement, job enrichment, autonomy).
- On an organisation chart, know the **chain of command** (the line orders travel down) and the **span of control** (how many people report to one manager).
- Distinguish **redundancy** (the job is no longer needed — not the worker's fault) from **dismissal** (the worker is removed for a reason such as breaking rules).

## What marketing does

**Marketing** is the work of finding out what **customers** want, then making, pricing, selling and promoting products to meet those wants at a profit.

Marketing has several roles:

- find out and satisfy what customers want,
- keep and increase **sales** and **market share**,
- build **customer loyalty** so buyers come back again.

## Why customers matter

Customers bring in the money, so keeping them is vital. Losing customers is costly: the business loses their future spending, and it must spend a lot on **advertising** to win new ones. It is usually far cheaper to keep a customer than to find a new one.

## Niche and mass markets

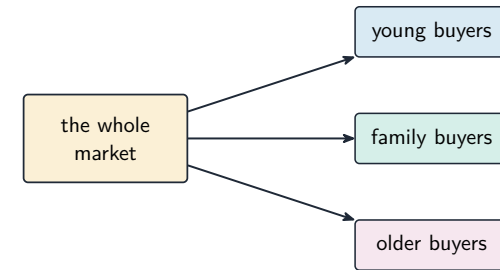
A **market** is all the buyers and sellers of a product.

- A **niche market** is a small part of a market with special needs, for example left-handed tools.
- A **mass market** is a large market with many similar buyers, for example soft drinks.

## Market segmentation

**Market segmentation** means splitting a market into groups of buyers who share something, such as age, income, gender or location. Its benefits:

- the business can design a product to fit each group,
- it can aim its advertising at the right people,
- it can spot gaps in the market.

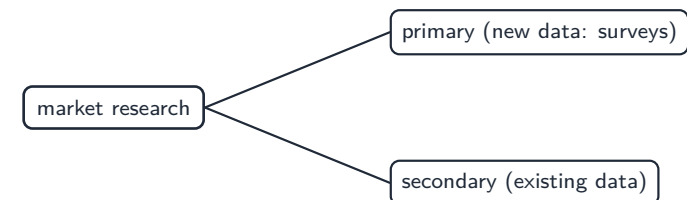


split into segments (here, by age)

*Segmentation splits the whole market into groups of similar buyers*

## Market research

**Market research** is collecting information about customers, rivals and the market, to help make good decisions.



*Primary research collects new data; secondary uses existing data*

## Primary and secondary research

- **Primary research** (also called field research) collects new information directly, for the first time. Methods include **questionnaires**, interviews, surveys and tests. It is up to date and fits the exact need, but costs time and money.
- **Secondary research** (also called desk research) uses information that already exists, such as government reports, websites and past sales records. It is cheap and quick, but may be old or may not fit the need.

## Sampling and reliable data

A business cannot ask everyone, so it asks a small group, called a sample. **Sampling** must be done with care. If the sample is too small or not typical, the **data** will not be reliable, and decisions based on it may be wrong.

## Using research data

Research results are shown in tables, charts and graphs. You should be able to read them — for example, find the most popular product, or see how sales change over time — and use them to support a decision.

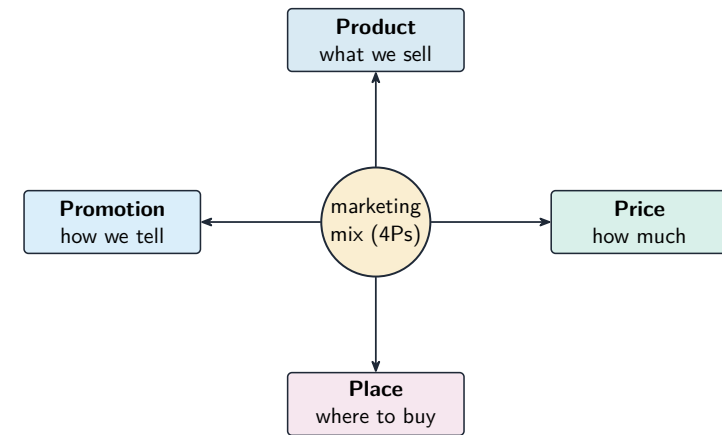
## The marketing mix



*Advertising on giant screens — promotion is one of the four Ps of the marketing mix.*

The **marketing mix** is the four main choices a business makes about a

product. They are often called the **four Ps**: product, price, place and promotion.

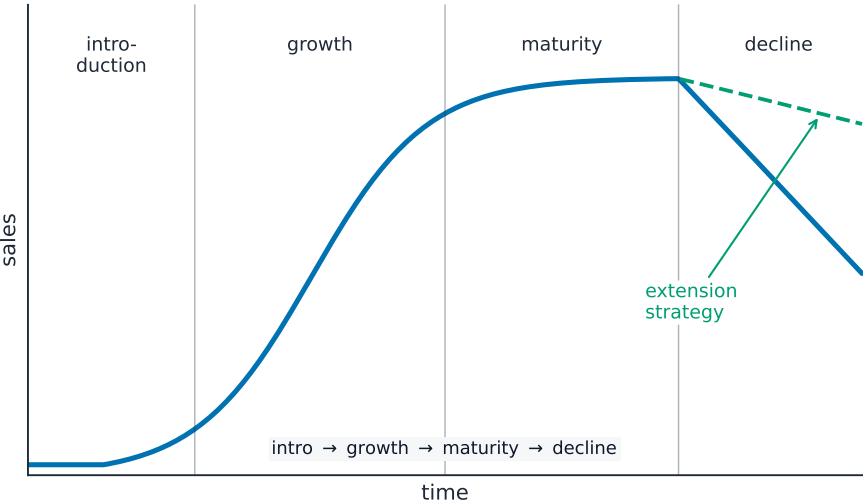


*The marketing mix combines the four Ps*

Product

The **product** must meet customers’ needs. Two ideas matter here.

The **product life cycle** describes the sales of a product over time, in four stages: introduction, growth, maturity and decline. When sales begin to fall, a business can use an **extension strategy** — such as a new design, a new advert, or selling in a new market — to keep the product selling.



Sales of a product over its four life-cycle stages, with an extension strategy in maturity

A strong **brand** (a name, logo and image that customers recognise) and good **packaging** (the wrapping that protects the product and attracts buyers) both help a product sell. Building a brand is called branding.

Price

The **price** is what the customer pays. A business can choose from several pricing methods.

| Method              | How it works                                                      |
|---------------------|-------------------------------------------------------------------|
| cost-plus pricing   | add a fixed share of profit on top of the cost of making the item |
| penetration pricing | set a low price to enter a market and win customers fast          |
| price skimming      | set a high price at first for a new, special product              |
| competitive pricing | set a price close to rivals’ prices                               |
| promotional pricing | cut the price for a short time to lift sales                      |
| dynamic pricing     | change the price automatically as demand changes, as airlines do  |

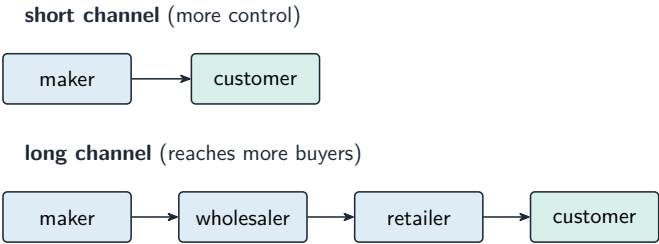
The right price also depends on the cost of making the product, on what customers will pay, on rivals’ prices, and on the product’s stage in its life cycle.

**Worked example.** One firm launches a smartphone using technology no rival has. Another enters a crowded soft-drinks market. Which pricing method suits each, and why? The smartphone is new and special with no direct competition, so use **price skimming**: charge a high price at first to recover the development cost from customers who must have it, then lower it as rivals catch up. The soft drink faces many established rivals, so use **penetration pricing**: a low price wins customers quickly and buys market share, and it can be raised later. Match the method to the **market conditions** - a pricing strategy is only right or wrong relative to the competition and the product’s stage in its life cycle.

Place

**Place** is about how and where the product is sold, so it reaches the customer at the right time. The route a product takes from maker to customer is called a **channel of distribution**.

Many channels use a **wholesaler** (buys large amounts from makers and sells smaller amounts to shops) and a **retailer** (a shop that sells to the final customer). A business can also sell **directly** to customers, or online through **e-commerce**.



A short channel gives more control; a longer channel reaches more buyers

Promotion

**Promotion** means telling customers about a product and persuading them to buy it. It includes:

- **advertising** — paid messages on TV, online, on posters and so on,
- **sales promotion** — short-term offers like discounts, free gifts, or “buy one get one free”.

Technology now plays a big part. The **internet** and **social media** let a business reach many people cheaply, target the right customers, and sell all over the world.

## Marketing strategy



*A branded shop window: branding helps a product stand out from rivals.*

A **marketing strategy** is a plan that uses the four Ps together to reach the business's **objectives**. The four Ps must fit each other and fit the target customers. For example, a high-price luxury product needs high-quality packaging, expensive shops and image-based adverts.

## Legal controls on marketing

Many countries have **legal controls** that protect buyers:

- **consumer protection** laws stop the sale of unsafe or faulty goods,
- rules ban **misleading** promotion — adverts that lie about what a product can do.

## Selling in other countries

A business can grow by entering an **international market** in another country.

- Opportunities: many more customers, higher sales, and spreading risk across markets.

- Problems: different languages and tastes, higher transport costs, foreign laws and **tariffs** (taxes on imports), and strong local **competition**.

## Exam tips

- Learn the **four Ps** of the marketing mix — product, price, place, promotion — and remember they must fit each other and the target customer.
- **Primary** research collects new data (surveys, questionnaires; up to date but costly); **secondary** research uses existing data (cheap and quick but may be out of date).
- Know the **product life cycle** (introduction, growth, maturity, decline) and that an **extension strategy** revives falling sales.
- Match the pricing methods: **penetration** (low, to enter a market), **skimming** (high, for a new product), plus cost-plus, competitive, promotional and dynamic pricing.
- A **niche market** is small and specialised; a **mass market** is large, with many similar buyers.

# Operations management

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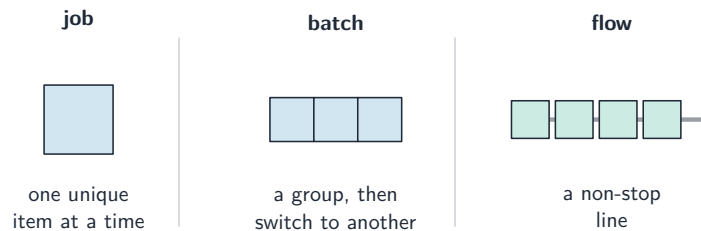
## Methods of production

**Production and services** means turning materials and **labour** into finished goods. There are three main methods.



*A car assembly line: making many identical products on a moving line*

| Method           | What it is                                                       | Good for                                       | Drawback                             |
|------------------|------------------------------------------------------------------|------------------------------------------------|--------------------------------------|
| job production   | making one item at a time, to order                              | special, one-off items: a wedding cake, a ship | slow and costly per item             |
| batch production | making a group of the same item, then switching to another group | bakeries, clothes in different sizes           | machines stand idle while switching  |
| flow production  | making goods non-stop on a moving line                           | mass-made goods: cars, drinks                  | costly to set up; work can be boring |

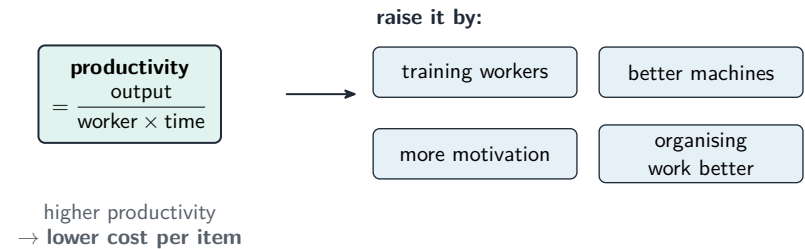


*The three methods of production*

## Productivity

**Productivity** measures how much each worker or machine produces in a set time. Higher productivity lowers the cost per item. A business can raise productivity by:

- training workers,
- using better machines and **technology**,
- improving **motivation**,
- organising the work better.

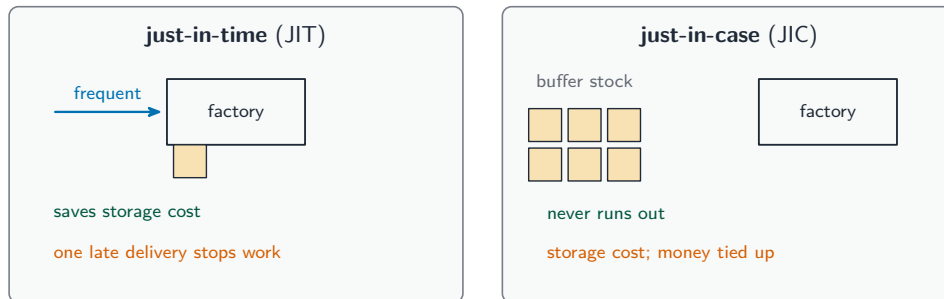


*Productivity is output per worker in a set time; raising it lowers the cost per item*

## Lean production and just-in-time

**Lean production** means cutting all waste — wasted time, materials, space and effort — while keeping quality.

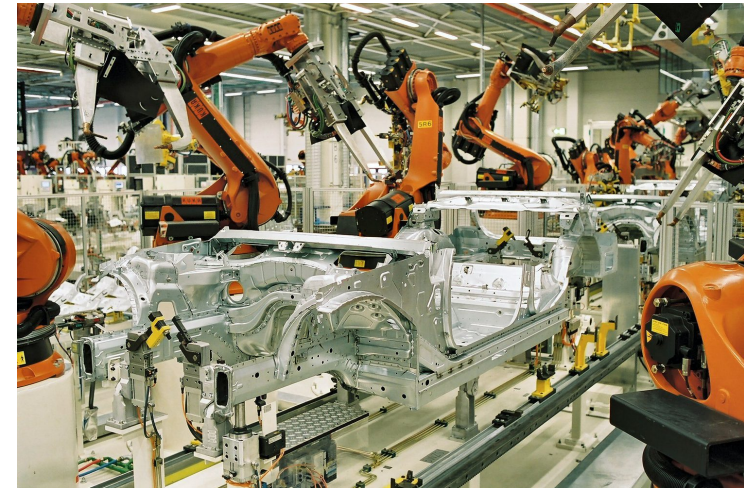
One key method is **just-in-time** (JIT). With JIT, materials arrive just as they are needed, and finished goods are sold quickly, so the business holds very little **inventory** (its stock of materials and goods). This saves storage cost, but one late delivery can stop production. Good management of inventory keeps enough stock to meet demand, but not so much that money is tied up or goods go out of date.



*Just-in-time holds little stock with frequent deliveries; just-in-case holds a buffer of stock*

## Technology in production

Technology has changed production. **Automation** (machines and robots doing tasks), computer design and online ordering all make production faster, cheaper and more exact. But machines cost a lot to buy and can replace workers' jobs.



*Automation: industrial robots weld and assemble car bodies — faster and more exact than by hand, but they cost a lot and replace some workers*

## Costs, scale and break-even

### Types of cost

A business has different kinds of **cost** .

- **fixed costs** do not change with output — rent, salaries, insurance. You pay them even if you make nothing.
- **variable costs** change with **output** — materials, and pay for each item made. More output means more variable cost.
- **total cost** is fixed costs plus variable costs.
- **average cost** is the total cost divided by the number of items made.

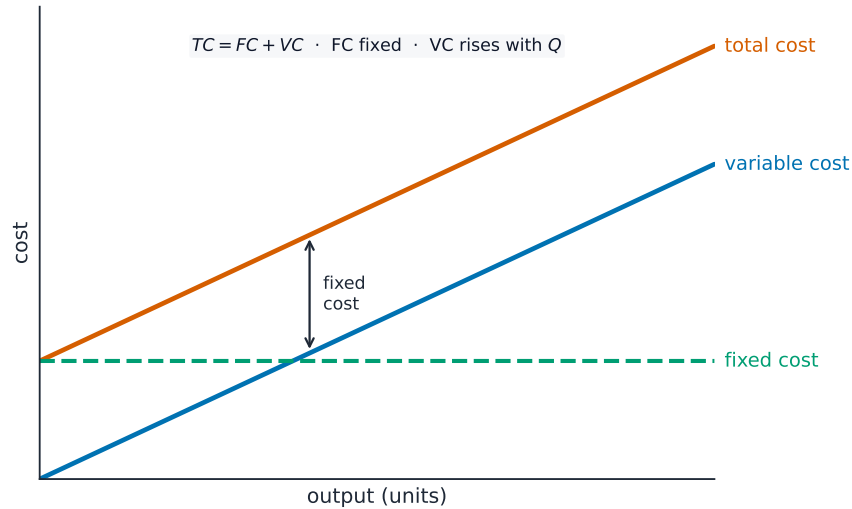
total cost = fixed costs + variable costs

$$\text{average cost} = \frac{\text{total cost}}{\text{output}}$$

**Worked example.** A factory has fixed costs of £8,000 and variable costs of £2 per unit, and makes 1,000 units. Find the total cost and the average cost per unit.

$$\text{total cost} = £8\,000 + (1\,000 \times £2) = £10\,000$$

$$\text{average cost} = \frac{£10\,000}{1\,000} = £10 \text{ per unit}$$



*Total cost = fixed cost + variable cost; only variable cost rises with output*

## Revenue and profit

**Revenue** is the money a business gets from selling its products.

$$\text{total revenue} = \text{price} \times \text{quantity sold}$$

**Profit** is what is left after all costs are paid.

$$\text{profit} = \text{total revenue} - \text{total cost}$$

**Worked example.** The same factory sells all 1,000 units at £15 each. Find its total revenue and its profit.

$$\text{total revenue} = £15 \times 1\,000 = £15\,000$$

$$\text{profit} = £15\,000 - £10\,000 = £5\,000$$

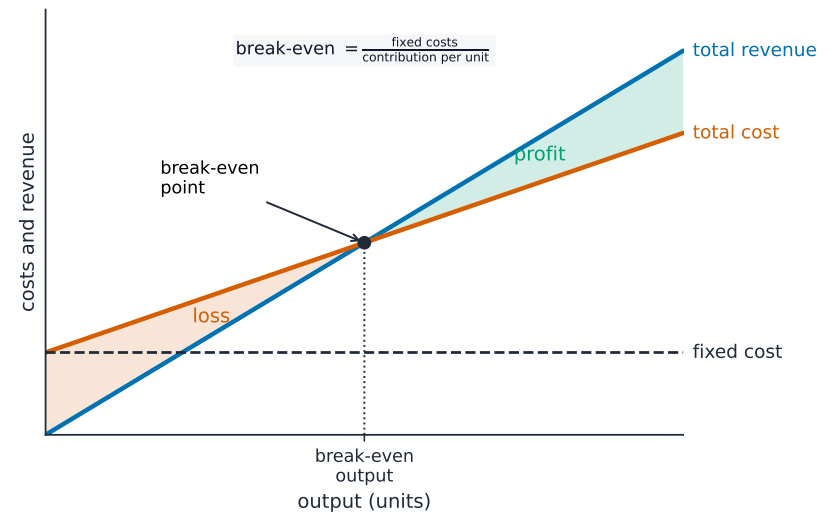
## Break-even

The **break-even** point is the level of output where total revenue exactly equals total cost: the business makes no profit and no loss. Below it the business makes a loss; above it, a profit.

Each item sold gives an amount towards covering the fixed costs. This amount is the selling price minus the variable cost of one item (sometimes called the **contribution** per unit).

$$\text{break-even output} = \frac{\text{fixed costs}}{\text{selling price per unit} - \text{variable cost per unit}}$$

A **break-even chart** plots total cost and total revenue against output. The two lines cross at the **break-even point**.



*The break-even point is where total revenue equals total cost — left of it is loss, right of it is profit*

The **margin of safety** is how far the actual output is above the break-even output.

$$\text{margin of safety} = \text{actual output} - \text{break-even output}$$

**Worked example.** A product sells for £15 with a variable cost of £5 per unit, and the firm’s fixed costs are £8,000. Find the break-even output, and the margin of safety if the firm actually makes 1,200 units.

The contribution per unit is £15 – £5 = £10, so

$$\text{break-even output} = \frac{\text{£8 000}}{\text{£10}} = 800 \text{ units}$$

$$\text{margin of safety} = 1\,200 - 800 = 400 \text{ units}$$

A large margin of safety is safer, because sales can fall a long way before the business makes a loss.

**Limits of break-even analysis.** It assumes that all output is sold, and that the selling price and the costs stay the same at every level of output. In real life these often change, so break-even is only a guide.

## Achieving quality

### Why quality matters

**Quality** means a product is good enough for what **customers** need. Good quality:

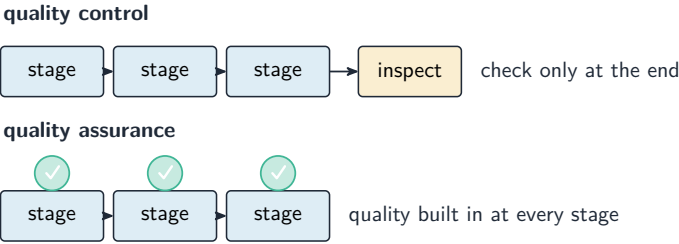
- builds a strong **brand** and **customer loyalty**,
- means fewer returns, complaints and wasted materials,
- lets a business charge a higher price.

Poor quality loses customers and damages the brand.

### Quality control and quality assurance

There are two main ways to manage quality: **quality control** and **quality assurance**.

|      | Quality control                 | Quality assurance                 |
|------|---------------------------------|-----------------------------------|
| When | check at the end                | build in quality at every stage   |
| Who  | inspectors check finished goods | every worker is responsible       |
| Idea | find and remove faulty goods    | stop faults from happening at all |



*Quality control checks at the end; quality assurance builds quality into every stage*

## Location decisions



*Where a business locates — like this distribution centre — affects its costs and service.*

### Locating a business

Where a business sits affects its costs and its sales. A **manufacturing** business (one that makes goods) looks at:

- nearness to **raw materials**, because heavy or bulky materials cost a lot to move,
- nearness to customers and the **market**,
- the cost and size of the land,
- a supply of suitable labour,

- good transport links,
- government grants offered in some areas.

A **service** business (one that sells services, such as a shop or a hair salon) looks more at being close to customers, passing foot traffic, nearby shops, and the rent.

### Locating in another country

A business may produce or sell abroad in order to reach new customers and bigger markets, pay lower wages or rent, get nearer to raw materials, or avoid **tariffs** (taxes on imports) by making goods inside the country. But it must then deal with different laws, languages and customs, and follow the **legal controls** of both countries.

### Exam tips

- Match the production methods: **job** (one-off items to order), **batch** (a group, then switch to another), **flow** (non-stop mass production on a line).
- Learn the formulas: total cost = fixed + variable; average cost = total cost ÷ output; total revenue = price × quantity; profit = total revenue – total cost.
- **Break-even output** = fixed costs ÷ (selling price – variable cost per unit). How far actual output is above break-even is the **margin of safety**.
- Break-even analysis assumes everything made is sold at one fixed price and cost, so it is only a guide.
- **Quality control** checks finished goods at the end; **quality assurance** builds quality in at every stage.

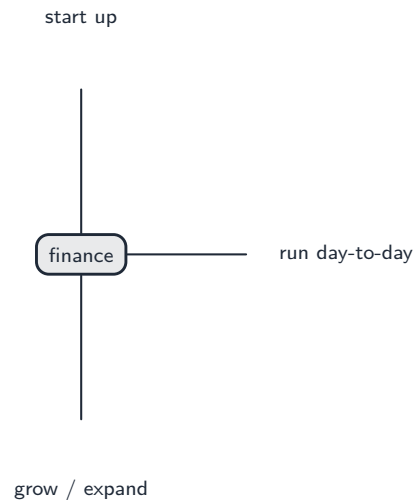
# Financial information and decisions

## IGCSE Business Studies

### Why businesses need finance



*Banks are a key external source of business finance, through loans and overdrafts.*



*Finance is needed to start up, to run day-to-day, and to grow*

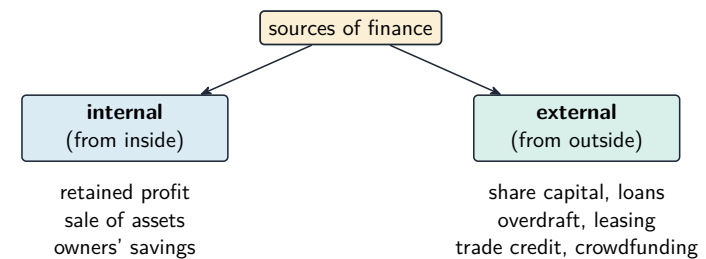
**Finance** means the money a business needs. A business needs finance to:

- start up — **start-up capital** to buy equipment and stock before it earns anything,
- grow — money for **expansion**, such as new shops or machines,
- run day to day — **working capital** to pay wages and suppliers while waiting for customers to pay,
- survive a **cash-flow** problem, when more money is going out than is coming in.

## Sources of finance

Finance can be **short-term** (paid back within a year) or **long-term** (over several years). It can come from inside the business (internal) or from outside (external).

| Source                    | Internal / external | Notes                                                           |
|---------------------------|---------------------|-----------------------------------------------------------------|
| <b>retained profit</b>    | internal            | profit kept in the business, not paid out                       |
| <b>sale of assets</b>     | internal            | selling things the business no longer needs                     |
| <b>owners' savings</b>    | internal            | the owners' own money                                           |
| <b>bank loan</b>          | external            | borrowed money, repaid with <b>interest</b> over time           |
| <b>bank overdraft</b>     | external            | the bank lets the account go below zero, for short-term needs   |
| <b>issuing new shares</b> | external            | only for limited companies; raises money but shares out control |
| <b>debentures</b>         | external            | long-term loans to a company that pay interest                  |
| <b>leasing</b>            | external            | renting equipment instead of buying it                          |
| <b>hire purchase</b>      | external            | buy now and pay in monthly parts                                |
| <b>trade credit</b>       | external            | pay suppliers later, for example after 30 days                  |
| <b>microfinance</b>       | external            | small loans for tiny businesses in poorer areas                 |
| <b>crowdfunding</b>       | external            | many people each give a small amount, often online              |
| <b>government grants</b>  | external            | money from the government that need not be repaid               |



*Sources of finance come from inside the business (internal) or outside it (external)*

## Choosing a source

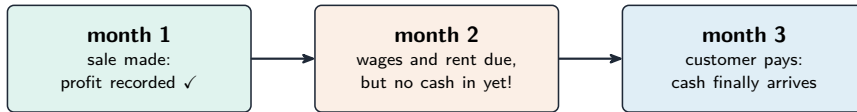
The best source depends on how much money is needed and for how long, the cost (interest and fees), the size and legal type of the business (only companies can sell shares), and how much risk and control the owners will accept.

## Cash flow and working capital

### Cash is not the same as profit

**Cash** is the money a business can use right now. **Profit** is **revenue** minus costs over a period. A business can be making a profit yet still run out of cash — for example, if customers have not paid yet. Running out of cash can force even a profitable business to close.

sell goods for \$1000 **on credit** - the customer will pay in month 3



**profitable on paper, but out of cash** - this can close a business

*A credit sale earns profit on paper now - the cash arrives much later*

## The cash-flow forecast

A **cash-flow forecast** predicts the money coming in and going out each month. It uses:

- **inflows** — money coming in (sales, loans),
- **outflows** — money going out (wages, rent, materials),
- **net cash flow** — inflows minus outflows,
- **opening balance** — the cash held at the start of the month,
- **closing balance** — the cash held at the end of the month.

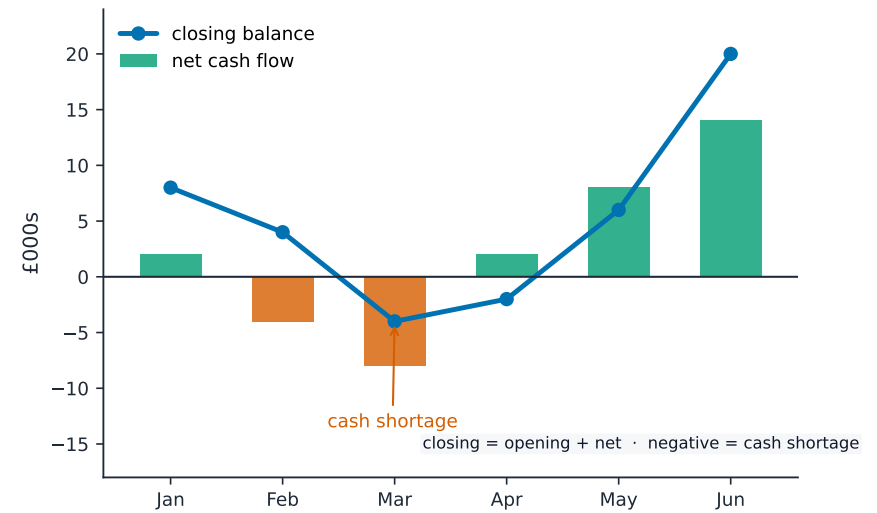
$$\text{net cash flow} = \text{inflows} - \text{outflows}$$

$$\text{closing balance} = \text{opening balance} + \text{net cash flow}$$

**Worked example.** A shop expects inflows of £12,000 and outflows of £9,000 next month, and starts the month with £2,000 in the bank. Find the net cash flow and the closing balance.

$$\text{net cash flow} = £12\,000 - £9\,000 = £3\,000$$

$$\text{closing balance} = £2\,000 + £3\,000 = £5\,000$$



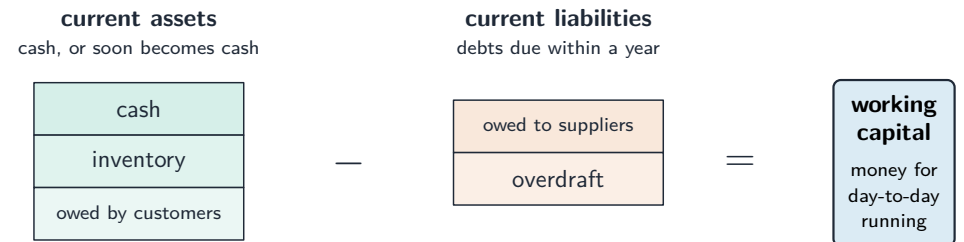
*A cash-flow forecast tracks the closing balance each month, warning of a shortage early*

## Working capital

Working capital is the money available for day-to-day running. It is the **current assets** (cash and things soon turned into cash) minus the **current liabilities** (debts due within a year).

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

To overcome cash-flow problems, a business can arrange an overdraft, delay paying suppliers, ask customers to pay sooner, sell spare assets, or cut spending.



*Working capital: current assets minus current liabilities*

# Income statement

An **income statement** shows how much profit a business made over a period, usually a year.

| Line                | Meaning                                               |
|---------------------|-------------------------------------------------------|
| revenue             | money from sales                                      |
| cost of sales       | the cost of making or buying the goods that were sold |
| gross profit        | revenue minus cost of sales                           |
| expenses            | other running costs: rent, wages, advertising         |
| profit for the year | gross profit minus expenses                           |

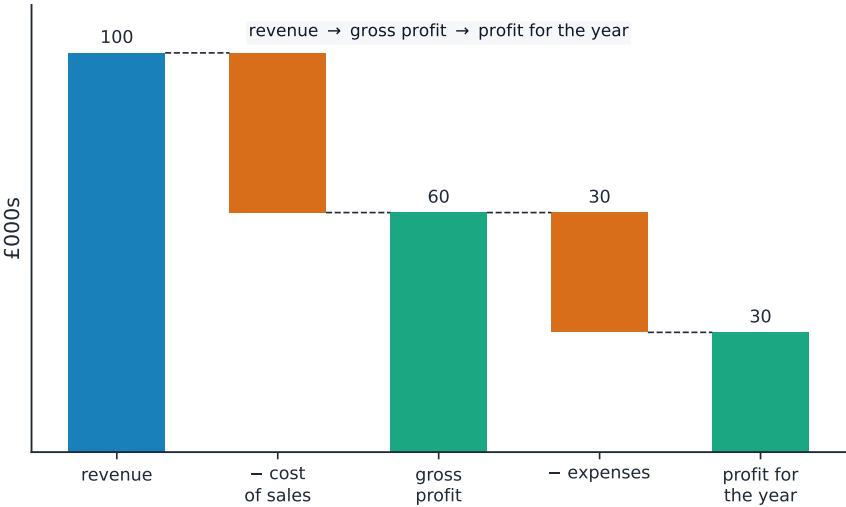
gross profit = revenue – cost of sales

profit for the year = gross profit – expenses

**Worked example.** A business has revenue of £200,000, cost of sales of £120,000 and expenses of £50,000. Find its gross profit and its profit for the year.

gross profit = £200 000 – £120 000 = £80 000

profit for the year = £80 000 – £50 000 = £30 000



The income statement steps down from revenue to the profit for the year

Income statements are used by **stakeholders** : owners check the profit, lenders check whether their loans are safe, and managers look for problems.

# Statement of financial position

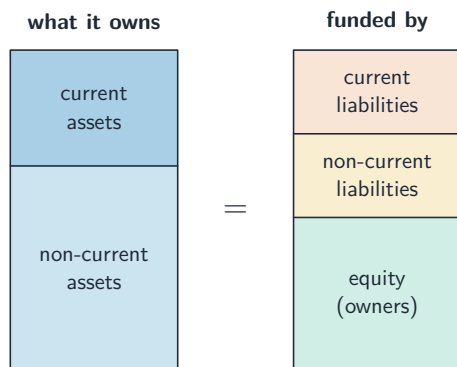


A stock exchange: public limited companies raise finance by selling shares to investors.

A **statement of financial position** (also called a balance sheet) shows what a business owns and what it owes (its **liabilities** ) on one day.

- **non-current assets** — things kept for the long term: buildings, machines.
- **current assets** — short-term items: **inventory** , money owed by customers, and cash.
- **current liabilities** — debts due within a year: an overdraft, money owed to suppliers.
- **non-current liabilities** — debts due after more than a year: a long-term loan.
- **owners' equity** — the money the owners put in, plus profit kept in the business.

It is used to check what the business is worth, how much it owes, and whether it can pay its debts.



*The two sides always balance: assets equal liabilities plus equity*

## Analysis of accounts

You can judge a business by working out **ratios** from its accounts. A ratio compares two figures.

### Profitability ratios

**Profitability** ratios show how good a business is at making profit.

$$\text{gross profit margin} = \frac{\text{gross profit}}{\text{revenue}} \times 100\%$$

$$\text{profit margin} = \frac{\text{profit for the year}}{\text{revenue}} \times 100\%$$

$$\text{ROCE} = \frac{\text{profit}}{\text{capital employed}} \times 100\%$$

- **gross profit margin** — gross profit as a percentage of revenue.
- **profit margin** — profit for the year as a percentage of revenue.
- **return on capital employed** (ROCE) — profit as a percentage of the capital employed (money invested). It shows how well the investment is used.

A higher percentage is better for all three.

**Worked example.** The same business (revenue £200,000, gross profit £80,000, profit for the year £30,000) has capital employed of £150,000. Find its three profitability ratios.

$$\text{gross profit margin} = \frac{80\,000}{200\,000} \times 100\% = 40\%$$

$$\text{profit margin} = \frac{30\,000}{200\,000} \times 100\% = 15\%$$

$$\text{ROCE} = \frac{30\,000}{150\,000} \times 100\% = 20\%$$

### Liquidity ratios

**Liquidity** ratios show whether a business can pay its short-term debts.

$$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{acid test ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$$

- the **current ratio** compares current assets with current liabilities. Around 1.5 to 2 is healthy.
- the **acid test ratio** is stricter: it leaves out inventory, because inventory is not yet sold.

**Worked example.** A business has current assets of £40,000 (including £10,000 of inventory) and current liabilities of £20,000. Find its current ratio and acid test ratio.

$$\text{current ratio} = \frac{40\,000}{20\,000} = 2.0$$

$$\text{acid test ratio} = \frac{40\,000 - 10\,000}{20\,000} = 1.5$$

## Who uses account analysis

- **internal users** (owners and managers) use it to control the business and to plan.
- **external users** (banks, suppliers, the government and investors) use it to decide whether to lend, supply or invest.



*Markets and accounts: ratios from the income statement and balance sheet show if a firm is healthy*

## Exam tips

- **Cash is not profit:** a profitable business can still run out of cash if customers pay late. Watch the closing balance on a cash-flow forecast.
- Separate **internal** sources (retained profit, sale of assets, owners' savings) from **external** ones (bank loan, overdraft, shares, leasing, trade credit).
- Key formulas:  $\text{net cash flow} = \text{inflows} - \text{outflows}$ ;  $\text{closing balance} = \text{opening balance} + \text{net cash flow}$ ;  $\text{working capital} = \text{current assets} - \text{current liabilities}$ .
- Profitability ratios (gross margin, profit margin, ROCE) — higher is better. Liquidity: the current ratio (healthy  $\approx 1.5-2$ ) and the stricter acid test (which leaves out inventory).
- Only limited **companies** can raise money by issuing **shares**; a sole trader or partnership cannot.

# External influences on business activity

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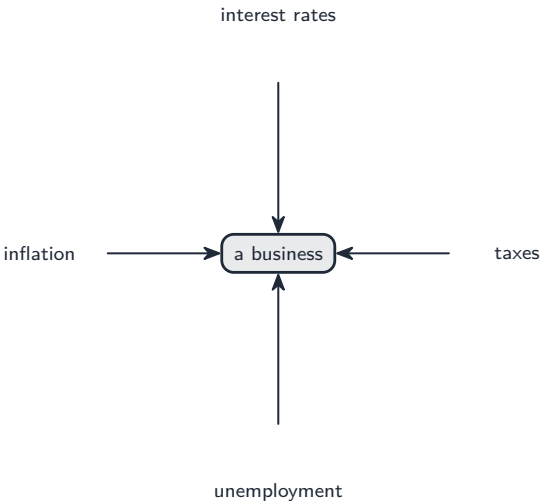
## External influences

Every business is affected by **external influences** — things outside the business that it cannot control, such as the economy, the law and the environment. A good business watches these and plans for them.



*Government and laws shape every firm: tax, interest rates and regulation are external influences*

# Economic issues

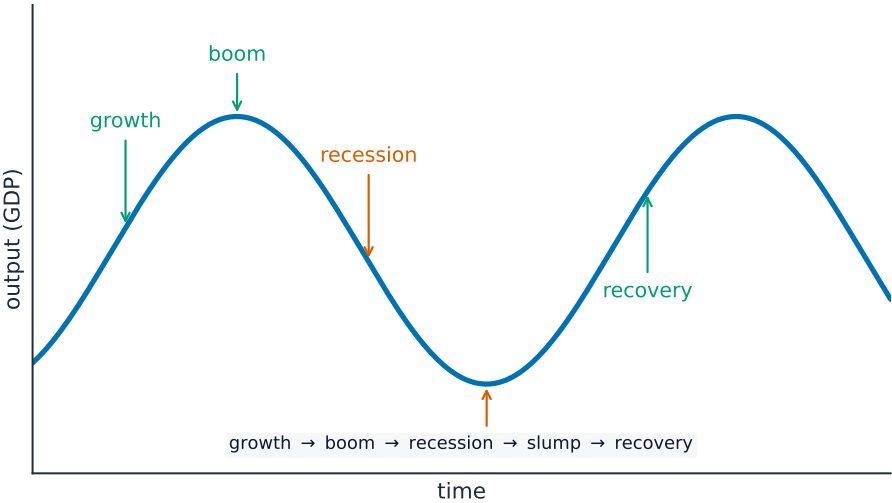


Interest rates, taxes, unemployment and inflation all affect business

# The business cycle

The economy does not grow at a steady pace. It moves in a repeating pattern called the **business cycle** , with these stages.

| Stage            | What happens                             | Effect on business                           |
|------------------|------------------------------------------|----------------------------------------------|
| <b>growth</b>    | the economy is rising; people spend more | sales and profit rise; firms expand and hire |
| <b>boom</b>      | spending is very high                    | prices and wages rise; shortages appear      |
| <b>recession</b> | spending falls; the economy shrinks      | sales and profit fall; firms cut jobs        |
| <b>slump</b>     | a deep, long recession                   | many firms close; high <b>unemployment</b>   |
| <b>recovery</b>  | spending starts to rise again            | sales slowly improve                         |



The business cycle moves through growth, boom, recession, slump and recovery

In hard times a business may cut costs, lower prices, or sell cheaper products.

# Government economic aims and how they affect business

Governments try to keep the economy healthy. Their main aims are stable prices, plenty of jobs, steady growth, and a stable currency. To manage the economy, a government uses or watches several economic factors. Each one affects every business.

| Economic factor       | What it is                                        | Effect on business                                                                        |
|-----------------------|---------------------------------------------------|-------------------------------------------------------------------------------------------|
| <b>taxation</b>       | money the government takes from incomes and sales | higher tax leaves people with less to spend, and cuts business profit                     |
| <b>interest rates</b> | the cost of borrowing money                       | higher rates make loans dearer, so firms borrow and invest less, and customers spend less |
| <b>inflation</b>      | a general rise in prices                          | costs rise; if wages chase prices, the country's goods can become too dear                |
| <b>unemployment</b>   | the number of people without work                 | high unemployment lowers sales, but workers are easier to hire                            |
| <b>exchange rates</b> | the price of one currency in another              | a change makes imports and exports cheaper or dearer (see below)                          |

## Environmental and ethical issues

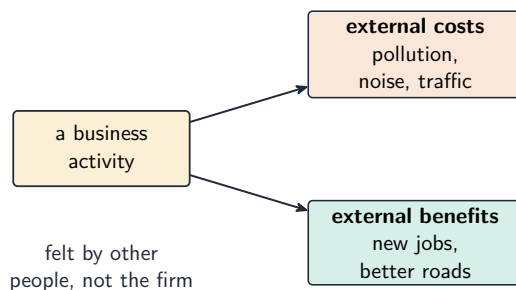


*Business activity can harm the environment, raising ethical questions for firms and governments.*

### External costs and external benefits

When a business acts, other people can gain or lose.

- **external costs** are costs paid by other people or by society, not by the business — for example **pollution**, noise and heavy traffic.
- **external benefits** are gains for others — for example new jobs and better roads.



*A business activity can create external costs and external benefits felt by other people*

## Sustainable development

**Sustainable development** means meeting today's needs without harming the ability of future people to meet their own needs. A business can harm the **environment** — through waste, pollution, and using up resources — or protect it, through recycling, clean energy and less packaging.

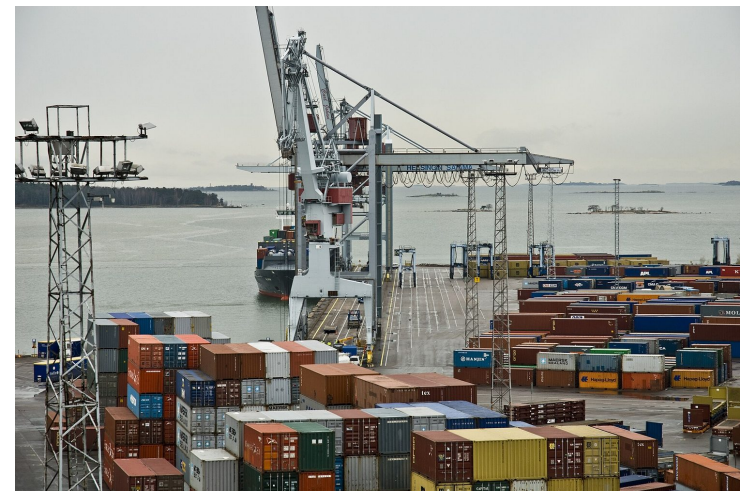
### Pressure groups

A **pressure group** is a group that tries to influence businesses and governments, for example to cut pollution. Pressure groups use the media, protests and boycotts. A business may change its behaviour to avoid bad publicity.

### Ethics and profit

**Ethical behaviour** means doing what is morally right, even when no law forces it — for example fair pay, safe products, and no child labour. Acting ethically can cost more in the short term, so it may **conflict** with profit. But it can also win loyal customers and a good name, which raise profit in the long term.

## Business and the international economy



*Shipping containers: businesses trade with the wider international economy.*

# Globalisation

**Globalisation** is the growing trade and movement of goods, money and people between countries, so the world acts more and more like one single market. It has grown because of cheaper transport, better communication, the internet, and fewer trade barriers such as **tariffs** (taxes on imports).

## Multinational companies

A **multinational company** has operations — factories, branches, or offices — in more than one country. (Simply exporting to other countries is not enough; the firm must actually operate there.)

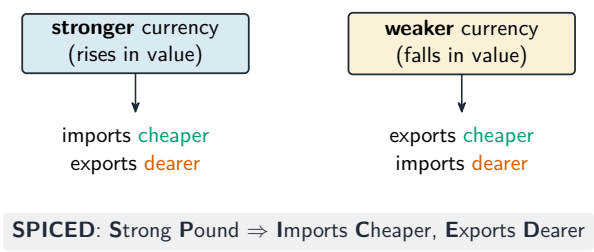
| Benefits to a country           | Drawbacks to a country                         |
|---------------------------------|------------------------------------------------|
| new jobs and training           | profits may be sent out of the country         |
| investment and new technology   | local firms may be forced out of business      |
| more choice and lower prices    | resources may be used up, or the area polluted |
| more tax paid to the government | a large firm can have too much power           |

## Exchange rates and trade

An exchange rate is the price of one currency in another. A change affects businesses that **import** (buy from abroad) and those that **export** (sell abroad).

- If the currency gets **stronger** (rises), exports become dearer for foreign buyers, so they sell less, while imports become cheaper.
- If the currency gets **weaker** (falls), exports become cheaper and sell more, while imports become dearer.

A useful memory aid is SPICED: **S**trong **P**ound → **I**mports **C**heaper, **E**xports **D**earer.



*How a stronger or weaker currency changes the price of imports and exports*

**Worked example.** A UK firm exports a machine priced at £20,000. The exchange rate moves from £1 = 1.50 USD to £1 = 1.20 USD. What happens to the price a US

buyer pays, and is that good for the exporter? Convert the UK price at each rate: at the old rate  $20,000 \times 1.50 = \mathbf{30,000 \text{ USD}}$ ; at the new rate  $20,000 \times 1.20 = \mathbf{24,000 \text{ USD}}$ . The pound has **weakened**, so the machine is 6,000 USD cheaper abroad and the firm should sell more - good for an exporter. Check it against SPICED: a weak pound is the reverse of it, so exports are cheaper. Convert the **actual figures** rather than only reciting the mnemonic, and notice that the UK price never changed at £20,000 - it is the **foreign** price that moves.

## Exam tips

- Learn the **business cycle** (growth, boom, recession, slump, recovery) and how each stage changes sales, profit and jobs.
- Trace each economic factor to the business: higher **interest rates** → dearer loans, so less borrowing and spending; higher **tax** → people have less to spend; **inflation** → higher costs.
- **External costs** (pollution, noise) fall on other people, not the business; **external benefits** (new jobs, better roads) help others.
- Use **SPICED** for exchange rates: **S**trong **P**ound → **I**mports **C**heaper, **E**xports **D**earer.
- **Ethical behaviour** can cost more in the short term (so it may conflict with profit), but it can win loyal customers and a good name that raise profit later.