

# INTERNATIONAL ADVANCED LEVEL

## Business Studies

### Getting Started

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Pearson Edexcel International Advanced Subsidiary in Business Studies (XBS01)

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Pearson Edexcel International Advanced Level in Business Studies (YBS01)

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For first teaching in September 2013

First examination January 2014

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This guide is Issue 1. We will inform centres of any changes to this issue. The latest issue can be found on the Edexcel website: [www.edexcel.com/ial](http://www.edexcel.com/ial)

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ISBN 9781446907115

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# A Getting started for teachers

## Introduction

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This Getting Started book will give you an overview of the Pearson Edexcel International Advanced Level (IAL) Business Studies course and what it means for you and your students. The guidance in this book is intended to help you plan the course in outline and give you further insight into the principles behind it to assist you and your students in succeeding in the qualification.

## The Specification

Pearson Edexcel International Advanced Level in Business Studies is designed for use in schools and colleges outside the United Kingdom. It is part of a suite of International Advanced Level qualifications offered by Pearson.

### Key features of the specification

The International Advanced Level qualification in Business Studies is designed to enable students to:

- develop an interest in and enthusiasm for the study of business
- gain a holistic understanding of business
- develop a critical understanding of organisations and their ability to meet society's needs and wants
- understand that business behaviour can be studied from a range of perspectives
- generate relevant solutions to business problems and issues
- be aware of the ethical dilemmas and responsibilities faced by organisations and individuals
- acquire a range of relevant business and generic skills, including decision making, problem solving, the challenging of assumptions and the quantification and management of information.

The Pearson Edexcel International Advanced Level in Business Studies comprises the following four units:

Unit 1: Business Enterprise

Unit 2: Business Structures and Processes

Unit 3: Strategic Business Decisions

Unit 4: Business in a Global Context

### Assessment

Each unit is equally weighted at 25%. A combination of assessment techniques including supported multiple choice (students have to write a justification of the answer chosen), data response (students apply shorter response answers to a context) and extended response questions (students develop their arguments), will be used.

Examination of unit 1 and unit 2 will last 1 hour 30 minutes each while examination of unit 3 and unit 4 will last 2 hours each.

Each unit examination paper has an allocation of 80 raw marks.

## Unit 1: Business Enterprise

### BASIC READING

Course books:

- Ian Marcousé: *Business Studies for A-Level* (4th edition), Hodder, ISBN 978-1-444-12275-6 [referenced below]
- Dave Hall, Rob Jones, Carlo Raffo and Alain Anderton: *Business Studies* (4th edition), Pearson, ISBN 978-1-4058-9231-5 [referenced below]

Unit 1 books:

- Brian Ellis: *Edexcel AS Business Studies/Economics and Business: Student Unit Guide, Unit 1: Developing New Business Ideas*, Philip Allan, ISBN 978-1-444-14794-0
- Jon Brook, Polly Glegg, Nancy Wall: *Developing New Business Ideas for AS Level*, Anforme, ISBN 978-1-905-50472-5

Units 1 and 2:

- Ian Marcousé: *A–Z Business Training Ltd Worksheets for 2008 Edexcel Business Studies AS Level (Units 1 and 2a)*, Anforme

Useful websites:

- *tutor2u*: [www.tutor2u.net/blog/index.php/business-studies/C130](http://www.tutor2u.net/blog/index.php/business-studies/C130)
- *The Times 100 Business Case Studies*: [www.businesscasestudies.co.uk/#axzz2a31GPENm](http://www.businesscasestudies.co.uk/#axzz2a31GPENm)

### 1.3.1 Entrepreneurship

Content		Reading
<b>1. Characteristics</b>	<ul style="list-style-type: none"> <li>■ Individual characteristics, including takes initiative, hard-working, resilient, creative, self-confident, risk-taking, effective communicator.</li> </ul>	Marcou��: Unit 1 Hall et al: Unit 2
<p>Students might work in small groups to research definitions of entrepreneur, enterprise. They discuss the contribution to the economy of well-known entrepreneurs and consider the characteristics of people who set up a new business.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Indian high-profile entrepreneurs &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/6942.aspx">http://community.edexcel.com/business/m/business_gcsegce/6942.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Duncan Bannatyne &lt;<a href="http://www.businesscasestudies.co.uk/bannatyne/from-ice-cream-van-to-dragons-den-duncan-bannatyne/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/bannatyne/from-ice-cream-van-to-dragons-den-duncan-bannatyne/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Peter Cruddas &lt;<a href="http://www.businesscasestudies.co.uk/cmc-markets/enterprise-in-the-fast-lane/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/cmc-markets/enterprise-in-the-fast-lane/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>2. Motivations</b>	<ul style="list-style-type: none"> <li>■ Reasons why people set up businesses including:               <ul style="list-style-type: none"> <li>◆ profit as a motive, e.g. profit maximisers, profit satisficers</li> <li>◆ other motives, e.g. ethical stance, social entrepreneurship.</li> </ul> </li> </ul>	Marcou��: Unit 1 Hall et al: Unit 2
<p>Students should explore the profit- and non-profit-related motives of why people set up businesses, e.g. desire to work independently or from home. Some may start businesses for social purposes, e.g. an organic farm.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Takao Furuno &lt;<a href="http://www.schwabfound.org/content/takao-furuno">www.schwabfound.org/content/takao-furuno</a>&gt;</li> </ul>		
<b>3. Role</b>	<ul style="list-style-type: none"> <li>■ The initial idea.</li> <li>■ Creating and setting up a business.</li> <li>■ Running a business.</li> <li>■ Expanding a business.</li> <li>■ Innovation within a business.</li> </ul>	Marcou��: Units 1 and 4 Hall et al: Unit 3
<b>4. Company structures</b>	<ul style="list-style-type: none"> <li>■ Different ways of structuring a business, including:               <ul style="list-style-type: none"> <li>◆ sole trader</li> <li>◆ partnership</li> <li>◆ private limited company</li> <li>◆ public limited company</li> <li>◆ co-operative.</li> </ul> </li> <li>■ Other forms of business organisation, including franchises.</li> </ul>	Marcou��: Units 1, 4, 6 Hall et al: Units 3, 7–9

Content		Reading
<b>5. Stakeholders</b>	<ul style="list-style-type: none"> <li>■ Definition: any person or organisation that has an interest in the outcome of a business decision/action.</li> <li>■ Internal stakeholders, e.g. employees, owners/ shareholders.</li> <li>■ External stakeholders, e.g. suppliers, customers.</li> </ul>	Marcou��: Unit 53 Hall et al: Unit 6
<p>Students could use a case study to identify the potential effects on stakeholders of a decision by a business to offer a particular product or service.</p> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Kellogg’s &lt;<a href="http://www.businesscasestudies.co.uk/kelloggs/stakeholder-engagement/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/kelloggs/stakeholder-engagement/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ BT &lt;<a href="http://www.businesscasestudies.co.uk/bt/stakeholders-as-partners/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/bt/stakeholders-as-partners/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Primark &lt;<a href="http://www.businesscasestudies.co.uk/primark/engaging-with-stakeholders/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/primark/engaging-with-stakeholders/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Shell &lt;<a href="http://www.businesscasestudies.co.uk/shell/balancing-stakeholder-needs/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/shell/balancing-stakeholder-needs/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>6. Opportunity cost</b>	<ul style="list-style-type: none"> <li>■ Choices and potential trade-offs.</li> <li>■ Impact on decision making.</li> <li>■ Effects on stakeholders.</li> </ul>	Marcou��: Unit 9 Hall et al: Unit 1
<p>Students could consider a business idea that seems to have a potential demand, and ask what are the trade-offs of going with one particular business idea rather than another.</p>		

## Activity sheet 1 Characteristics of entrepreneurs

### Task 1

Working in small groups, research a definition of enterprise, entrepreneur and leadership. Discuss your definitions with the rest of the class.

### Task 2

In small groups, discuss and review your knowledge of the contribution to the UK economy that each of the following well-known entrepreneurs has made: Richard Branson (Virgin), Samir Patil (ACK Media), Sachin Bansal and Binny Bansal (Flipkart.com). Collect information about their business activities.

### Task 3

In small groups, produce a wall chart that represents the characteristics of entrepreneurs, drawing upon all the above activities.

## 1.3.2 Researching a business opportunity

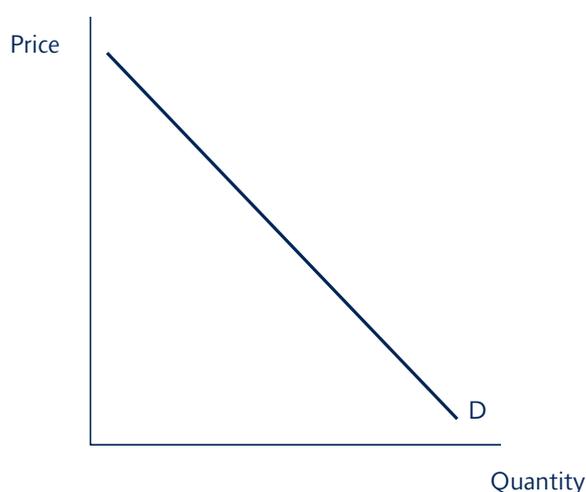
Content		Reading
<b>1. Market research</b> <ul style="list-style-type: none"> <li>■ Product and market orientation.</li> <li>■ Primary and secondary market research (quantitative and qualitative), used to quantify demand and gain insight into consumer behaviour.</li> <li>■ Use of ICT to support market research, including websites, social networking, databases.</li> <li>■ Sampling: size, methods, potential bias.</li> <li>■ Market segmentation, e.g. gender, age.</li> </ul>		Marcou��: Unit 22–23 Hall et al: Units 12–14
<p>Teacher to define primary (quantitative and qualitative) and secondary research and why they are used, e.g. to quantify demand and gain insight into consumer behaviour. In addition, students can use a business textbook to define methods of research.</p> <p>Teacher to identify problems that arise with small sample sizes; and the sampling method used, e.g. convenience sampling and potential bias.</p> <p>Students could carry out their own brief survey using quantitative and qualitative questions to ascertain demand for several business ideas.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Fishy market research &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/7242.aspx">http://community.edexcel.com/business/m/business_gcsegce/7242.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Coca-Cola &lt;<a href="http://www.businesscasestudies.co.uk/coca-cola-great-britain/using-market-research-to-develop-a-product-range/the-soft-drinks-category.html#axzz2a31GPENm">www.businesscasestudies.co.uk/coca-cola-great-britain/using-market-research-to-develop-a-product-range/the-soft-drinks-category.html#axzz2a31GPENm</a>&gt;</li> <li>■ Nivea &lt;<a href="http://www.businesscasestudies.co.uk/nivea/segmentation/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/nivea/segmentation/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>2. The market</b> <ul style="list-style-type: none"> <li>■ Definition: any medium in which buyers and sellers interact and agree to trade at a price, e.g. virtual, face-to-face.</li> <li>■ Market size and characteristics, e.g. a mass market, a niche market.</li> <li>■ Competition from existing businesses, e.g. differentiation.</li> </ul>		Marcou��: Units 23–24 Hall et al: Unit 15
<b>3. Positioning</b> <ul style="list-style-type: none"> <li>■ Market mapping.</li> <li>■ Competitive advantage of product or service.</li> <li>■ Adding value.</li> </ul>		Marcou��: Units 2 and 5 Hall et al: Unit 11
<p>Students could identify the market competition for a product or service idea, and the strengths and weaknesses of the competition. They could use market mapping to identify an appropriate market niche, and the competitive advantage of a product or service idea and how it might add value.</p> <p>Slides and case study:</p> <ul style="list-style-type: none"> <li>■ Positioning &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/5111.aspx">http://community.edexcel.com/business/m/business_gcsegce/5111.aspx</a>&gt;</li> </ul>		
<b>4. Product trial</b> <ul style="list-style-type: none"> <li>■ Customer trialling to encourage purchases, e.g. free samples, tasting.</li> <li>■ Test marketing of a product to assess likely demand levels.</li> </ul>		Marcou��: Units 30 and 63
<p>Students could consider the benefits of trialling a product or service before it is launched, e.g. to assess likely demand levels: and how to turn the product trial into repeat purchases</p>		

### 1.3.3 Supply and demand

Content		Reading
1. Demand	<ul style="list-style-type: none"> <li>■ The relationship between price and demand.</li> <li>■ Non-price factors affecting demand, including tastes and fashions, income, price of substitutes and complements, demographics, seasonality, external shocks.</li> </ul>	Marcou�: Units 3 and 23 Hall et al: Unit 24

Many students find these concepts quite abstract – use examples that they are able to relate to, such as asking how many times they would visit their local coffee shop per week at different prices of their favourite drink, or how likely they would be to deliver newspapers at different wage rates. A significant number of students find it difficult to remember that a change in price leads to a movement along the curve not a shift – this point needs emphasising.

Demand refers to the amount that consumers are willing and able to buy at any given price. A demand curve shows this relationship between price and quantity demanded. It slopes downwards from left to right, because as price falls, people are more willing to buy a good.



#### Factors causing demand curve to shift right:

- an increase in income (for normal goods)
- a fall in income (for inferior goods)
- successful advertising
- fall in price of complementary goods
- rise in price of substitute goods
- good becomes more fashionable.

#### Factors causing demand curve to shift left:

- a fall in income (for normal goods)
- a rise in income (for inferior goods)
- rise in price of complementary goods
- fall in price of substitutes
- good becomes less fashionable.

**A very important point:** a change in the price of a good does not lead to a movement of the demand curve – it simply leads to a shift **along** the demand curve, since the demand curve shows the relationship between price and quantity demanded.

#### Key terms:

**Normal good** – one for which demand increases as income rises

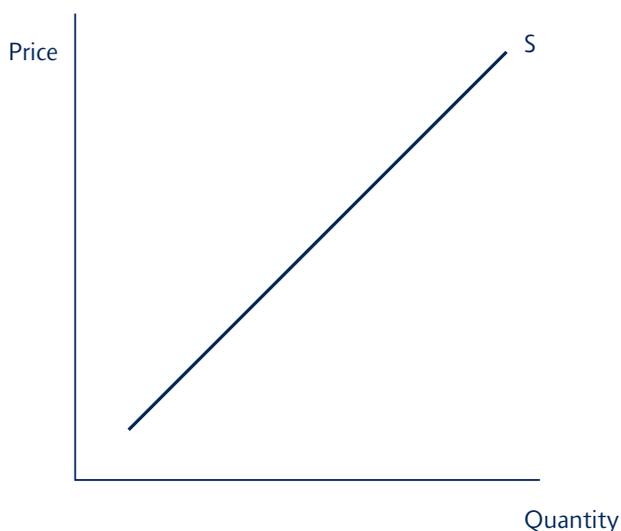
**Inferior good** – one for which demand falls as income rises

**Complementary good** – a good that is bought with another good, i.e. the two go together well

**Substitute good** – a good that is bought instead of another good, i.e. consumers choose between one or the other

Content		Reading
2. Supply	<ul style="list-style-type: none"> <li>■ The relationship between price and supply.</li> <li>■ Non-price factors affecting supply, including changes in costs, technological change, climate/weather, external shocks, taxes and subsidies.</li> </ul>	Marcou��: Unit 3 Hall et al: Unit 24

Supply refers to the amount that producers are willing and able to sell at any given price. The supply curve shows this relationship between price and quantity supplied. It slopes upwards from left to right, because, as price rises, producers will supply more because of the potential for higher profit.



**Factors causing supply to shift right:**

- an increase in productivity
- improvement in technology for production
- increased availability of materials
- a fall in price of raw materials
- a fall in labour/capital costs
- introduction of a subsidy
- a rise in the number of firms in the industry.

**Factors causing supply to shift left:**

- a fall in productivity
- reduced availability of raw materials
- a rise in price of raw materials
- a rise in labour/capital costs
- imposition of a tax
- a fall in the number of firms in the industry.

**A very important point:** a change in the price of the good leads to a movement along the supply curve, not a shift in the supply curve.

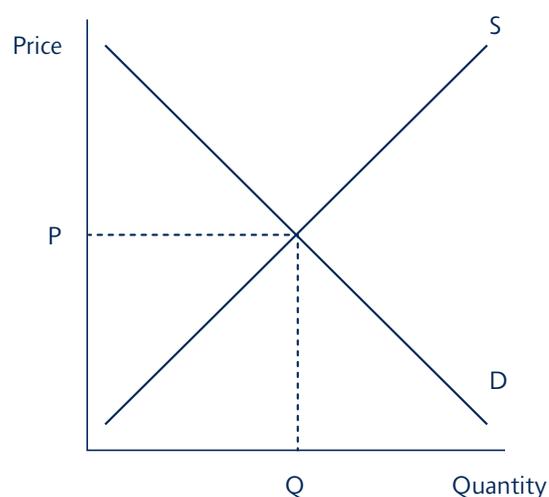
3. Interaction of supply and demand	<ul style="list-style-type: none"> <li>■ How changes in demand might impact on supply.</li> <li>■ How changes in supply might impact on demand.</li> </ul>	Marcou��: Unit 3 Hall et al: Unit 24
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Students can get confused between excess demand and excess supply – it is worth emphasising the need to label market diagrams fully and accurately to avoid this. For explaining the solution to excess supply, use examples of local markets that have stock left at the end of the day – ask students what market traders could do to eliminate their stock. For explaining the solution to excess demand, ask students to think of ways of preventing queues at popular attractions.

In a free market, we combine the forces of demand and supply in order to determine the market price of a good or service.

## Content

## Reading



P is known as the **market clearing price** – the price at which supply exactly meets demand. If the price is too high, then supply > demand, and we have **excess supply**, or **a surplus or glut**. To get rid of the excess supply, producers will have to lower the price, and so the market clearing price will eventually be reached. If the price is too low, then demand > supply, and we have **excess demand or a shortage**. To get rid of the excess demand, the price will rise towards the market clearing price, causing consumers to leave the market as the good becomes more expensive than the price they are willing to pay.

#### How might the change in the price of a good be explained?

It is easy to see that a shift in demand or supply causes a change in the price of a good. **Prices will increase** if **demand increases** (moves to the right) or supply decreases (moves to the left). **Prices will decrease** if **demand decreases** (moves to the left) or supply increases (moves to the right).

Students could explore the changes in the market, and charges, for mobile phones – from when mobile phones were first available to now. What do they conclude about the interaction between price, supply and demand?

Case study:

- Supply and demand <[http://community.edexcel.com/business/m/business\\_gcsegce/9028.aspx](http://community.edexcel.com/business/m/business_gcsegce/9028.aspx)>



## Activity sheet 3 Evaluating a business opportunity

### Task 1

Imagine you are employed to research a product or service of your choice. Discuss how you might do this. You will need to identify how the information will be used and what methods you will use to collect the appropriate marketing information. You should also discuss the difficulties you might encounter and/or the compromises you might have to make in carrying out your research.

Method of collection	Qualitative/quantitative	Purpose
e.g. survey questionnaire		
e.g. focus group		

### Task 2

Divide into small groups for this activity.

Select three of your business ideas and carry out primary and secondary market research to establish information about your competitors and potential market. Initially, a questionnaire will be needed, a significant number of relevant responses obtained, and the results analysed. From this you will gain information that will inform your business idea. You will need to carry out the following:

- design a short questionnaire which you can use to obtain information from potential customers to see if there is demand for your product/service — make sure your teacher checks this
- interview 20 people using the questionnaire
- list the factors that could affect the demand for your product/service
- use secondary data sources to compile a list of potential local competitors
- identify the strengths and weaknesses of these competitors
- explain the benefits of trialling the product/service before it is launched.

### Task 3

- Using the results from your questionnaire, and competitor information, compare each of your business ideas and consider the trade-offs.
- Use market mapping to identify a possible gap in the market.
- Identify the idea for which there is most demand and the price you would charge for the product/service.
- How could you add value to your product or service idea?
- Present your findings to the rest of the class and justify your choice of business idea.

### 1.3.4 Finance

Content		Reading
<b>1. Sources of finance</b>	<ul style="list-style-type: none"> <li>■ Internal sources: retained profit, sale of assets.</li> <li>■ External sources: loans, debentures, venture capital, ordinary share capital, overdrafts, leasing, trade credit.</li> <li>■ Alternative sources, e.g. business angels and venture capitalists, peer-to-peer.</li> <li>■ Secured and unsecured loans and the cost of borrowing.</li> <li>■ Sources of finance appropriate for company structure.</li> <li>■ Implications of limited and unlimited liability.</li> <li>■ Relevance of a business plan in obtaining finance.</li> </ul>	Marcou��: Units 5, 12, 16 Hall et al: Unit 34
<p>The teacher should provide an input on:</p> <ul style="list-style-type: none"> <li>■ internal sources of finance: retained profit, sale of assets</li> <li>■ external sources of finance: loans, debentures, venture capital, ordinary share capital, overdrafts, leasing, trade credit</li> <li>■ alternative sources</li> <li>■ sources of finance appropriate for sole trader and company organisations; implications of limited or unlimited liability.</li> </ul> <p>Students could consider the total cost of a commercial loan and the loan repayment period from different financial providers. They could weigh this up against the benefit of a personal loan from family or friends and any resulting interference in the business.</p> <p>They should consider the implications of unlimited liability.</p> <p>Teacher to cover the purpose of a business plan – to gain finance.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Financing a start-up &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9145.aspx">http://community.edexcel.com/business/m/business_gcsegce/9145.aspx</a>&gt;</li> </ul>		

**Activity sheet 4 Financing the new business idea and putting it into practice****Task 1**

Finance is the crucial element for any successful enterprise. This activity sheet will guide you through a suggested format for handling this in a manageable way. Initially, you will need to decide upon the likely sources of finance available to a start-up business.

Research possible sources of finance for a small start-up business:

Sources of finance	Types of finance	Suitability for business idea

Select a suitable source of finance for the following:

- a plumber, presently working from home, wants to buy a small shop from which to work and to sell bathroom and other plumbing-related equipment. The plumber also wants to borrow money to obtain stock for the shop
- the directors of a medium-sized limited company want to buy a new computer network
- a partner in an estate agents needs to get a new car so she can travel to meet potential clients.

**Task 2**

Use the Internet to produce a database showing the different methods of finance available from different sources, for example:

<b>Field name</b>	<b>Typical entry</b>
Method of finance	Loan
Sources of finance	XXX Bank
Time span	X years
Interest rate	X%
Minimum amount	
Maximum amount	
Type of business	Small/Medium

**Task 3**

Using the information gathered so far, compare the cost of a commercial loan against a loan from family or friends. List the advantages and disadvantages of each.

Type of loan	Advantages	Disadvantages
Commercial loan		
Loan from family or friends		

In a group, discuss how a small business could finance itself. What do you think might be the most it could raise, and how would this limit the type of enterprise that could be started up?

**Task 4**

What would be the implications for you as the owner of a new business of having unlimited liability?

## 1.3.5 Measuring business performance

Content		Reading
<b>1. Pricing, sales revenue, costs and profit</b> <ul style="list-style-type: none"> <li>■ Pricing strategies, including cost-plus, competitive, skimming, penetration, psychological, destroyer/predatory, premium.</li> <li>■ Sales revenue, fixed and variable costs.</li> <li>■ Calculation of profit/loss.</li> </ul>		Marcousé: Unit 13 Hall et al: Unit 35
Students should try several exercises provided by the teacher to calculate revenue, variable costs, total costs and potential profit. Students may also need to practise identifying fixed costs. Case study: <ul style="list-style-type: none"> <li>■ Estimating profit for a start-up &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/5284.aspx">http://community.edexcel.com/business/m/business_gcsegce/5284.aspx</a>&gt;</li> </ul>		
<b>2. Break-even</b> <ul style="list-style-type: none"> <li>■ Contribution (selling price minus variable cost per unit).</li> <li>■ Break-even point (total fixed costs + total variable costs = total sales revenue).</li> <li>■ Using contribution to calculate break-even point.</li> <li>■ Margin of safety.</li> </ul>		Marcousé: Unit 14 Hall et al: Units 36–38
Teacher should introduce the concept of margin of safety. Test: <ul style="list-style-type: none"> <li>■ Profit and break-even &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/7377.aspx">http://community.edexcel.com/business/m/business_gcsegce/7377.aspx</a>&gt;</li> </ul>		
<b>3. Measuring and improving profit</b> <ul style="list-style-type: none"> <li>■ Gross profit.</li> <li>■ Profit for the year.</li> <li>■ Calculation of gross profit margin and profit for the year margin.</li> <li>■ How a business might improve profitability.</li> </ul>		Marcousé: Units 13, 18, 55 Hall et al: Units 49–50
Students should be able to calculate basic profit and loss (sales revenue less deductions to identify gross and operating profit) and be able to calculate gross and operating profit margins. They should be able to comment on their calculations, such as identify ways in which the profit level could be improved. Students should be able to prepare an income (profit and loss) statement and identify ways in which profit level could be improved.		
<b>4. Importance of cash flow</b> <ul style="list-style-type: none"> <li>■ Distinction between profit and cash flow.</li> <li>■ How to construct simple cash flow forecast.</li> <li>■ Use of a cash flow forecast to manage finances.</li> </ul>		Marcousé: Units 15 and 19 Hall et al: Units 39–40
Students must be able to identify the difference between cash and profit. Students should undertake simple cash flow exercises (filling in the blanks). Students should interpret a cash flow forecast and know how they are used to manage finances. Activity: <ul style="list-style-type: none"> <li>■ Profit and Cash &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/5903.aspx">http://community.edexcel.com/business/m/business_gcsegce/5903.aspx</a>&gt;</li> </ul> Teacher help: <ul style="list-style-type: none"> <li>■ Spreadsheet for Sally and Pollard &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/2208.aspx">http://community.edexcel.com/business/m/business_gcsegce/2208.aspx</a>&gt;</li> </ul>		

## Activity sheet 5 Measuring the potential success of a business idea

Sally has had a fast food shop selling pizzas for the last 12 months. She has decided to expand her business into a wider range of fast food outlets and is looking for suitable premises in Marketville. She has employed a small team of market researchers to find out what other fast food would be acceptable to the residents of Marketville. The results of the market research were as follows:

- fish and chips 12% of those surveyed
- salads 30%
- burgers 44%
- rolls and sandwiches 14%.

Sally decides to offer both burgers and salads in her new fast food outlet.

### Task 1

Sally has found suitable premises in Marketville to rent and has incurred a lot of expenses in getting the premises ready for business. Which of the following costs are classified as start-up costs and which are classified as running costs?

Cost	Type	Cost	Type
Rent of premises	Running	Grills and spits	
Freezers		Decorating	
Market research fees		Purchases of food	
Packaging		Machinery	

(One is filled in to get you started.)

### Task 2

Sally will need to borrow money from the bank to finance this new venture. The bank has asked her to submit a cash flow forecast of all income and expenditure over the first six months of trading. She has estimated the following costs and revenues.

Income	January	February	March	April	May	June
Sale of burgers	1025	1300	1500	1600	1600	1600
Sale of salads	1350	1450	1500	1550	1600	1650

Enterprise Grant of £3000 received in January

Capital introduced; £500 in January and a further £500 in April.

## Expenditure

Freezers — £1350, purchased in January

Grills — £1850, purchased in January

Market research fees — £1000, paid in February

Wages — £500 every month

Advertising — £100 payable January, March and May

Rates — £450 in March and June

Drawings — £100 per month

Rent — £1000 per month

	January	February	March	April	May	June
Stocks of foodstuffs £	1700	1200	1000	1200	1300	1000
Sundry expenses £	70	60	50	90	10	50

There is no opening bank balance.

Prepare a cash-flow forecast for the first six months of trading for Sally, and identify the maximum amount that she will need to borrow and how long she will need this loan/overdraft.

### Task 3

From the costs in the cash-flow forecast, list those which are fixed costs (that is, do not vary with output) and those which are variable (vary with output).

### Task 4

The bank manager was very impressed with the cash-flow forecast but is not quite convinced that the business is viable. He needs to be persuaded that the business will cover its fixed costs. Sally has suggested that she prepare a break-even analysis to show him that these costs will be adequately covered.

Sally has worked out the following weekly costs:

Wages	£125
Advertising	£25
Sundry	£18
Rates	£37
Rent	£250
Drawings	£25

The market research survey showed that the price of a burger should be no more than £2.50. At that price the business should be able to sell at least 400 burgers per week. Sally estimates that the variable cost of each burger will be:

Bread roll	£ 0.10
Burger	£ 0.50
Salad	£ 0.20
Packaging	£ 0.10

Using the break-even formula, which is:

$$\text{Break-even point in units} = \frac{\text{Fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$$

Calculate how many burgers Sally needs to sell each week to break even.

### Task 5

Sally may need to buy top quality beef for her burgers, which would increase her variable cost per burger to £1.10. How many burgers would Sally now have to sell to break even?

### Task 6

Using the information in Tasks 4 and 5, prepare two break-even charts, identifying the following:

- fixed costs
- total costs
- total revenue
- area of profit
- area of loss.

**Task 7**

Sally's Burger Bar has now been trading for two months (Jan and Feb) and the bank manager is keen to see if it has made a profit. From the following costs and revenues, prepare an income (profit and loss) statement.

Revenue/cost	£
Sales	6200
Cost of sales	2875
Wages	950
Rent	1500
Advertising	102
Sundry expenses	26

**Task 8**

In groups, discuss ways in which the profit level could be improved.

### 1.3.6 The wider business environment

Content		Reading
<b>1. Government influences</b> <ul style="list-style-type: none"> <li>■ Impact on businesses of government policy, e.g. taxation, spending levels.</li> <li>■ Impact on businesses of government legislation, e.g. health and safety, minimum wages.</li> <li>■ Government support for businesses, e.g. grants, subsidies.</li> <li>■ Government protection of businesses, e.g. trademarks, patents.</li> <li>■ Consumer protection legislation, e.g. product safety, product labelling.</li> </ul>		Marcou��: Units 4, 10, 82, 83 Hall et al: Units 115, 121–123
<p>Purpose of consumer protection legislation: to ensure goods or services are fit for purpose, do not harm the consumer, and that information on packaging does not mislead, to create awareness of costs associated with implementation of legislation and of the need to deal with customer complaints.</p> <p>Students do not need to know the names or dates of Acts, just the purpose of consumer protection legislation.</p> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ DSG &lt;<a href="http://www.businesscasesstudies.co.uk/dsg-international/meeting-and-exceeding-consumer-protection-laws-to-drive-competitive-advantage/introduction.html#axzz2a31GPENm">www.businesscasesstudies.co.uk/dsg-international/meeting-and-exceeding-consumer-protection-laws-to-drive-competitive-advantage/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>2. Economic influences</b> <ul style="list-style-type: none"> <li>■ Impact on businesses of unemployment, e.g. effect on demand, job recruitment.</li> <li>■ Impact on businesses of exchange rates, e.g. exporters, importers.</li> <li>■ Impact on businesses of inflation, e.g. cost of supplies, competitiveness.</li> </ul>		Marcou��: Units 10, 79, 82 Hall et al: Units 110–115
<p>Using the latest economic data, students could analyse the potential effects of the latest economic trends on local businesses. The economic data should include:</p> <ul style="list-style-type: none"> <li>■ interest rates</li> <li>■ exchange rates</li> <li>■ inflation rates</li> <li>■ local or national unemployment figures.</li> </ul>		
<b>3. Social influences</b> <ul style="list-style-type: none"> <li>■ Impact on businesses of the digital economy, e.g. ecommerce, communications.</li> <li>■ Impact on businesses of ethical considerations, e.g. Fair Trade, child labour.</li> <li>■ Impact on businesses of environmental considerations, e.g. the circular economy, climate change.</li> <li>■ Impact on businesses of demographic change, e.g. an ageing population, migration.</li> </ul>		Marcou��: Units 85–87 Hall et al: Units 31, 125–128

Content	Reading
<p>The Fair Trade movement is one way in which farmers in Less Developed Countries (LDCs) are supposed to benefit, thus improving development. This guarantees farmers a certain income, so that they are not subject to monopsony purchasing power from developed countries, particularly with respect to coffee, cocoa and cotton. However, there are often a significant number of 'middle men' involved, reducing the benefits that fair-trade farmers receive. Additionally, not every farmer in every LDC benefits – many are unaware of the scheme, and many are not able to afford the membership fees that are required.</p> <p>There is significant debate regarding the impact of Fair Trade schemes, particularly with respect to the coffee market – much of the literature on this is available on the Internet.</p> <p>The Ellen MacArthur Foundation is a good source for the Circular Economy:</p> <ul style="list-style-type: none"><li>■ <a href="http://www.ellenmacarthurfoundation.org/circular-economy">www.ellenmacarthurfoundation.org/circular-economy</a>.</li></ul> <p>Times 100:</p> <ul style="list-style-type: none"><li>■ Primark <a href="http://www.businesscasestudies.co.uk/primark/providing-consumers-with-ethically-sourced-garments/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/primark/providing-consumers-with-ethically-sourced-garments/introduction.html#axzz2a31GPENm</a></li><li>■ Tata Steel <a href="http://www.businesscasestudies.co.uk/tata-steel/business-ethics-and-sustainability-in-the-steel-industry/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/tata-steel/business-ethics-and-sustainability-in-the-steel-industry/introduction.html#axzz2a31GPENm</a></li></ul>	

## Activity sheet 6 Economic considerations

There are a number of economic considerations that affect the decisions a business might make. Use the following table to explain how each factor would affect local business, and how that business might ensure that there was no damage to itself.

Exchange rates	Interest rates	Inflation rates	Unemployment (local or national)

Collect recent newspapers and find articles that explain how businesses have been affected by economic considerations such as those listed above.

Cut out these articles and make a collage out of the headlines.

Choose one of the articles and write out the key points. In a presentation, explain to the rest of the class the main issues affecting the business in the article. What actions might the business take to minimise the threat posed or to capitalise on the opportunity?

## Unit 2: Business Structures and Processes

### BASIC READING

Course books:

- Ian Marcousé: *Business Studies for A-Level* (4th edition), Hodder, ISBN 978-1-444-12275-6 [referenced below]
- Dave Hall, Rob Jones, Carlo Raffo and Alain Anderton: *Business Studies* (4th edition), Pearson, ISBN 978-1-4058-9231-5 [referenced below]

Unit 2 books:

- Doug Waterson: *Managing the Business for AS*, Anforme, ISBN 978-1-905504-75-6

Units 1 and 2:

- Ian Marcousé: *A–Z Business Training Ltd Worksheets for 2008 Edexcel Business Studies AS Level (Units 1 and 2a)*, Anforme
- Alan Hewison: *Revision Guide to AS Level Business Studies*, Anforme, ISBN 978-1-905504-84-8

Useful websites:

- *tutor2u*: [www.tutor2u.net/blog/index.php/business-studies/C130](http://www.tutor2u.net/blog/index.php/business-studies/C130)
- *The Times 100 Business Case Studies*: [www.businesscasestudies.co.uk/#axzz2a31GPENm](http://www.businesscasestudies.co.uk/#axzz2a31GPENm)

### 2.3.1 Marketing

Content		Reading
<b>1. Marketing objectives and strategy</b>	<ul style="list-style-type: none"> <li>■ Definition of marketing: the management process responsible for sales promotion and for identifying, anticipating and satisfying customer requirements profitably.</li> <li>■ Marketing objectives – based on market research, sales or profit forecasts, e.g. increased sales, build a brand image.</li> <li>■ Marketing strategies appropriate for different types of market, e.g. niche markets, mass markets.</li> </ul>	Marcousé: Units 21 and 24 Hall et al: Units 11, 26, 29
<p>Students could consider whether a niche or mass-marketing strategy applies to a particular business idea. They may like to think how a business could move from serving a niche market to a mass market.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Snap Crackle and Flop &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9030.aspx">http://community.edexcel.com/business/m/business_gcsegce/9030.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Enterprise &lt;<a href="http://www.businesscasestudies.co.uk/enterprise-rent-a-car/recruitment-and-selection-at-enterprise-rent-a-car/introduction.html#axzz2a9A1lqi7">www.businesscasestudies.co.uk/enterprise-rent-a-car/recruitment-and-selection-at-enterprise-rent-a-car/introduction.html#axzz2a9A1lqi7</a>&gt;</li> </ul>		
<b>2. Marketing mix</b>	<ul style="list-style-type: none"> <li>■ Components of the marketing mix: product, price, promotion, place (4Ps).</li> <li>■ Identification of a marketing mix that meets the needs of a product or service.</li> <li>■ Product life cycle and product extension strategies.</li> <li>■ Boston Matrix and the product portfolio.</li> <li>■ How current social trends may affect the composition of the marketing mix:               <ul style="list-style-type: none"> <li>◆ product, e.g. use of recycled materials, ethical sourcing</li> <li>◆ price, e.g. online sales, price comparison sites</li> <li>◆ promotion, e.g. viral marketing, social media</li> <li>◆ place, e.g. cloud, online distribution.</li> </ul> </li> </ul>	Marcousé: Units 25–28, 30–31 Hall et al: Units 16–23
<p>Students could consider the marketing mix that they would offer for a given business idea or how they might improve the marketing mix for a current product.</p> <p>They could consider how current social trends affect the composition of a new or existing marketing mix. For example:</p> <ul style="list-style-type: none"> <li>■ ethical trading</li> <li>■ sourcing of sustainable materials</li> <li>■ reduction/recycling of packaging</li> <li>■ environmental factors</li> <li>■ online retailing</li> <li>■ retailer purchasing power.</li> </ul>		

Content		Reading
<p>Case study:</p> <ul style="list-style-type: none"> <li>■ Apple and product life cycle &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9612.aspx">http://community.edexcel.com/business/m/business_gcsegce/9612.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Infiniti &lt;<a href="http://businesscasestudies.co.uk/infiniti/using-sponsorship-to-increase-brand-awareness/introduction.html#axzz2e6oxu95g">http://businesscasestudies.co.uk/infiniti/using-sponsorship-to-increase-brand-awareness/introduction.html#axzz2e6oxu95g</a>&gt;</li> <li>■ Aldi &lt;<a href="http://www.businesscasestudies.co.uk/aldi/creating-value-through-the-marketing-mix/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/aldi/creating-value-through-the-marketing-mix/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Kellogg's &lt;<a href="http://www.businesscasestudies.co.uk/kelloggs/extending-the-product-life-cycle/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/kelloggs/extending-the-product-life-cycle/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Hi-Tec &lt;<a href="http://www.businesscasestudies.co.uk/hi-tec-sports/using-promotion-to-position-a-brand/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/hi-tec-sports/using-promotion-to-position-a-brand/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<p><b>3. Price Elasticity of Demand (PED)</b></p>	<ul style="list-style-type: none"> <li>■ Effect on businesses of price changes.</li> <li>■ Calculation and interpretation of PED.</li> <li>■ Effects on total revenue.</li> <li>■ Implications for pricing strategies.</li> </ul>	<p>Marcousé: Unit 29 Hall et al: Unit 20</p>
<p>Students tend to find the concept of elasticity fairly straightforward, but struggle with the interpretation of the numbers generated from calculation – a number line that they keep in the front of their notes will help with this, as will significant calculation practice (this is a good homework to set). A good way to teach the link between PED and total revenue is to get students to work it out themselves with a guided investigative worksheet – give them some questions containing information about the elasticities of various products, and get them to calculate new and old revenue following an increase/decrease in price.</p> <p><b>Elasticities</b></p> <p><b>Price Elasticity of Demand (PED)</b> measures the responsiveness of demand to a change in price. A steep demand curve shows a good that has price inelastic demand, that is, demand for it is not responsive to a change in price. A shallow demand curve shows a good that has price elastic demand, that is, demand is responsive to a change in price. Goods with price inelastic demand tend to have few substitutes, are necessities, and/or can be addictive, for example, petrol, cigarettes. PED is always a negative number. A number between 0 and –1 means demand is price inelastic. A number between –1 and –∞ means demand is price elastic.</p> <p>It can be calculated using the formula:</p> $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$ <p><b>The importance of elasticities</b></p> <p><b>PED</b> is important to businesses because it tells them what their pricing strategy should be in order to increase total revenue: if PED is inelastic, then a rise in price increases total revenue and a fall in price reduces total revenue; if PED is elastic, then a rise in price reduces total revenue and a fall in price increases total revenue.</p>		

Content		Reading
4. <b>Income Elasticity of Demand (YED)</b>	<ul style="list-style-type: none"> <li>■ Normal and inferior goods.</li> <li>■ Effect on businesses of changes in income.</li> <li>■ Calculation and interpretation of YED.</li> <li>■ Implications for businesses.</li> </ul>	Hall et al: Unit 20
<p><b>Income Elasticity of Demand (YED)</b> measures responsiveness of demand to a change in income. A positive number means the good is normal; a negative number means the good is inferior. It can be calculated using the formula:</p> $\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$		

## Activity sheet 1 Marketing plan

### Task 1

In groups, choose a branded product with which you are all familiar and discuss how you would define the marketing mix for that product.

Who are the target customers? You can identify this by thinking about:

- where the product is sold and where it is not sold
- how and where it is advertised
- what the price is compared with a similar competitor's products
- external factors that have had an impact on the company's marketing decisions (carry out a PESTLE analysis for the company). Using the table below.

Factor category	Description	Impact
Political		
Economic		
Social		
Technological		
Legal		
Environmental		

Feed back your answers to the whole class and discuss any issues that may arise.

### Task 2

In groups, discuss the way your product is targeted at different customers.

How have you arrived at your conclusions?

What does this tell you about segmentation?

Draw a positioning (perceptual) map for your product and feed back to the whole class for discussion. To do this, choose two features of the product that are used to differentiate it from its competitors' products. Give each producer a rating from 1 to 10, based on your group's perceptions. Then plot the position on a map. Typically, variables are price and quality but they could be anything relevant, for example, for cars they could be safety and design.

**Positioning features**

Brand	Quality 1–5 (low)	Quality 6–10 (high)	Price 1–5 (low)	Price 6–10 (high)
e.g. Brand 1	4		3	
e.g. Brand 2		8		7
Etc.				

Plot your products on the appropriate place in each quadrant.

Low price High quality	High price High quality
Low price Low quality	High price Low quality

**Task 3**

**Product mix**

Choose a clearly differentiated branded product with potential for after-sales service or other add-ons.

Can you identify the core, actual and augmented product aspects of your chosen product?

Identify where it might be in its product life cycle — why do you think this?

Identify where the product is within its producer’s Boston Matrix — why do you think this?

Star	Problem child
Cash cow	Dog

### Task 4

Collect a range of marketing materials relating to a current promotional campaign with which you are familiar. These could be from magazines and newspapers, leaflets and brochures, the Internet, packaging or notes on TV, radio, posters, cinema, advertisements.

Discuss how these different tools are used to achieve particular objectives within the campaign as a whole. How successful do you think the campaign has been? What were the good and bad aspects?

If you were working for the company, how might you measure the performance of the campaign?

## 2.3.2 Managing operations

Content		Reading
<b>1. Productivity and efficiency</b> <ul style="list-style-type: none"> <li>■ Definition of productivity: output per unit of input.</li> <li>■ Factors influencing productivity, including physical capital, technology, process innovation, human capital, organising resources, access to finance.</li> <li>■ Distinction between labour and capital intensive production.</li> <li>■ Definition of efficiency: organising production so that waste is minimised and costs are the lowest possible.</li> <li>■ Factors influencing efficiency, including location of production, quality and availability of labour, labour turnover.</li> </ul>		Marcou��: Units 33, 39 Hall et al: Units 54, 61, 87, 89, 91, 97
<p>Teacher should introduce the concept of capital and labour intensity.</p> <p>Students could be taught this topic in a factory or service context, e.g. setting up a caf�� or using a start-up business idea. Students should realise that companies are constrained by the labour, technology or equipment they can afford.</p>		
<b>2. Product or service design</b> <ul style="list-style-type: none"> <li>■ The design mix (function, aesthetics, economic manufacture).</li> <li>■ Changes in the elements of the design mix to reflect social and economic trends, e.g. changes in type of materials and technology used in design to minimise waste, resource depletion.</li> </ul>		Marcou��: Units 40–41 Hall et al: Units 92, 96
<p>Students should consider examples of standard (or bespoke) product or service designs that meet identified market needs.</p> <p>Students should consider the efficiencies that can be achieved from changing the type of materials and technology used in making products.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ The Mini &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9146.aspx">http://community.edexcel.com/business/m/business_gcsegce/9146.aspx</a>&gt;</li> </ul>		
<b>3. Capacity utilisation</b> <ul style="list-style-type: none"> <li>■ Calculating capacity utilisation: <math>(\text{current output}/\text{maximum possible output}) \times 100</math>.</li> <li>■ Implications of under- and over-utilisation of capacity.</li> <li>■ Ways of improving capacity utilisation.</li> </ul>		Marcou��: Unit 47 Hall et al: Unit 82
<p>This topic is important as it allows students to consider how they could improve productivity. It could also be taught in the context of improving the throughput of customers in a caf�� or restaurant.</p>		
<b>4. Inventory control</b> <ul style="list-style-type: none"> <li>■ Inventory control graphs.</li> <li>■ Implications of poor inventory control, e.g. cash tied up in inventory, loss of production.</li> </ul>		Marcou��: Units 44–45 Hall et al: Unit 83
<p>Textbooks will refer to stock control but we are substituting the word inventory for stock to comply with the International Accounting Standards terminology.</p> <p>Students should analyse inventory control graphs, how inventory control could be improved, and problems of cash tied up in inventory.</p> <p>Invite a representative from, or visit, your local supermarket to talk about how they handle inventory control and wastage.</p>		

Content		Reading
<p><b>5. Lean production and quality management</b></p>	<ul style="list-style-type: none"> <li>■ Just in time (JIT) management of inventory.</li> <li>■ Competitive advantage of short product-development lead-times.</li> <li>■ Minimising waste of resources.</li> <li>■ Quality management techniques, including quality assurance and quality control.</li> <li>■ Total Quality Management (TQM) as part of company culture, e.g. continuous improvement (Kaizen), quality circles.</li> </ul>	<p>Marcou�: Units 43, 46, 77 Hall et al: Unit 84, 95</p>
<p>Students should consider the advantages and disadvantages of JIT. A visit to a factory would be useful. Short product-development lead-times could be taught in conjunction with product design.</p> <p>Students could consider how a culture of quality is created, e.g. through management expectations of continuous improvement (Kaizen), quality assurance processes and self-checking. They should consider why quality control inspections may still be used by some firms. Case study examples of different quality management techniques would be useful here.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Primark and Peacocks &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/8257.aspx">http://community.edexcel.com/business/m/business_gcsegce/8257.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Corus &lt;<a href="http://www.businesscasestudies.co.uk/corus/product-development-through-continuous-improvement/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/corus/product-development-through-continuous-improvement/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Nestl� &lt;<a href="http://www.businesscasestudies.co.uk/nestle/achieving-sustainability-through-lean-production/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/nestle/achieving-sustainability-through-lean-production/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		

## Activity sheet 2 Managing the provision process

Operations management is all about how organisations produce goods and services. A friend who wants to set up a café has asked for your help.

### Task 1

In small groups, visit two or three local cafés (you can include a well-known fast-food chain such as McDonalds and compare this with a small privately owned café). Observe how they operate, where the customers go, how staff interact with them, size of the café, how the café uses its space, the variety of products it offers. Identify:

- a. the inputs and outputs
- b. the type of transformation process
- c. the type of production system.

Inputs include:

- finance
- renewable resources
- consumable resources
- human resources
- finished products from another process
- skills
- technology.

Outputs include:

- finished products
- services
- combination products
- rejected products
- waste products.

Wild (1985) identifies four main types of transformation process:

- changing raw materials into finished products (manufacture)
- changing ownership of materials or stocks (supply)
- changing the place of items (transport)
- changing the state of the customer (service).

## A Getting started for teachers

The basic types of production system are:

- job
- batch
- line (mass or flow)
- cell.

Draw up a table giving an example of each type of production system, listing the advantages and disadvantages of each. Present your results to the rest of the class.

### Task 2

Research information to describe operations in terms of their processes.

Operation	The process inputs	What the operation's processes do	The process outputs
Furniture manufacturer			
Hospital			
Supermarket			
Airline			

### Task 3

Working in groups, prepare a short PowerPoint presentation for your friend which explains the concept of capacity utilisation and, giving examples, explain how it is measured. Suggest ways for coping with demand fluctuation at the café.

Deliver your presentation to the rest of the class for discussion.

### 2.3.3 Managing finance

Content		Reading
<b>1. Budgets</b> <ul style="list-style-type: none"> <li>■ Types of budget, e.g. sales budget, production budget.</li> <li>■ Purpose of budgets.</li> <li>■ Historical-based budgeting.</li> <li>■ Zero-based budgeting.</li> <li>■ Variance analysis.</li> </ul>		Marcou��: Unit 17 Hall et al: Units 41, 42
<p>Students should consider the purpose of budgets; the difficulties of budgeting when there is no historical information to go on; problems inherent in using historical figures; zero-based budgeting.</p> <p>Students should compare actual figures with budget figures to provide elementary variance analysis.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Budgeting &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/6449.aspx">http://community.edexcel.com/business/m/business_gcsegce/6449.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Zurich &lt;<a href="http://www.businesscasestudies.co.uk/zurich/the-benefits-of-budgeting/introduction.html#axzz2a9A1lqi7">www.businesscasestudies.co.uk/zurich/the-benefits-of-budgeting/introduction.html#axzz2a9A1lqi7</a>&gt;</li> </ul>		
<b>2. Sales forecast</b> <ul style="list-style-type: none"> <li>■ Purpose of sales forecasts.</li> <li>■ Difficulties of estimation.</li> <li>■ Factors affecting sales forecasts, e.g. economic variables, actions of competitors.</li> </ul>		Marcou��: Unit 63 Hall et al: Unit 33
<p>Students should consider the difficulties of estimating sales. Using a case study, they should identify potential ways of increasing sales.</p> <p>Invite a business owner or bank representative to give a talk on the subsequent financial topic areas to explain how crucial it is for the survival of the business to manage sales and cash-flow effectively.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ iPad sales forecasting &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9031.aspx">http://community.edexcel.com/business/m/business_gcsegce/9031.aspx</a>&gt;</li> </ul>		
<b>3. Managing working capital</b> <ul style="list-style-type: none"> <li>■ Importance of working capital.</li> <li>■ Managing potential cash shortfalls.</li> <li>■ Managing customer and supplier credit terms and payments, including timing of payments.</li> <li>■ Holding appropriate levels of inventory.</li> <li>■ Contingency finance planning, including overdrafts, loans, factoring, introduction of extra cash into the business by the owner/shareholders.</li> </ul>		Marcou��: Units 15, 20 Hall et al: Units 40, 47
<p>Students need to identify how a shortage of working capital may impact on the running of the business and what potential solutions may be appropriate, e.g. contingency finance planning such as an overdraft or loan, managing customer and supplier credit terms and payment, holding appropriate levels of inventory.</p>		

Content		Reading
<b>4. Why businesses fail</b>	<ul style="list-style-type: none"> <li>■ Differences between cash and profit.</li> <li>■ Importance of cash in the short run and profit in the long run.</li> <li>■ Reasons why businesses fail, including poor management of cash flow, overestimation of sales, poor inventory control, changing market conditions, attitude of lenders to releasing funds, overtrading.</li> </ul>	Marcou��: Units 19, 11 Hall et al: Unit 5
<p>Teacher could use case study scenarios to demonstrate that taking a profitable contract can mean a negative cash flow in the short term, owing to cost of stock or labour to fulfil the deal. Similarly, that businesses can't survive or continue to trade, with negative cash flow without additional finance. In the long term, retained profit can be used to invest in the business.</p> <p>Students could research why small businesses fail, e.g. poor management of cash flow, overestimation of sales, poor inventory control, changing market conditions.</p>		

### Activity sheet 3 How does a company budget efficiently?

#### Task 1

In small groups, discuss and list the ways that people in your group budget, and why all of you have to budget. Compare the results of your discussion with the 'textbook' reasons why businesses budget.

Which of these would apply to your personal situations?

Reasons for budgeting	Relevance to personal situations
To study alternative courses of action	
To predict what will happen in the future	
To help monitor and control performance	
To set targets	
To motivate people	
To communicate information to people	

#### Task 2

Research the budgeting process in your school or college by completing the table below.

What budgets are set?	
When are budgets set?	
What is the purpose of each budget?	
How are these budgets created?	
Who is the budget-holder for each budget?	
How is overspending prevented?	
What happens if a budget surplus occurs?	

Compare the budgets set by your school or college with those set by a typical manufacturing business, which include:

- sales
- production
- purchases
- labour
- capital expenditure
- cash
- profit and loss.

Does your school/college set different budgets to these and if so, why?

### Task 3

Working in groups, research how much it can cost to live away from home when attending university. You should create a realistic cashflow forecast which shows your expected income and expenditure. When you have completed this, identify any areas where you could reduce your expenditure and any areas you could increase your income.

Present your findings to the rest of the class, and discuss.

### Task 4

In small groups, select a business for which you have financial information relating to its balance sheet. List the various current assets and liabilities for this business. What are the total values of the current assets and the current liabilities, and which is the greater amount?

Calculate the difference between these two totals to discover the amount of working capital the business has. How does this amount differ if inventory is omitted from the calculation?

Express the ratio of current assets to current liabilities. How does this ratio differ if inventory is omitted from the calculation?

Explain why it is important for your chosen business to have working capital.

Draw a diagram to illustrate the operating cycle of the business.

For a manufacturing business with which you are familiar, give examples for each description in the diagram (other than cash). How would this diagram differ if you were considering the operating cycle for a retailer? Amend the diagram to illustrate any differences.

### 2.3.4 Managing people

Content		Reading
<b>1. Organisational structures</b> <ul style="list-style-type: none"> <li>■ Hierarchy.</li> <li>■ Types of structure, including tall, flat, matrix.</li> <li>■ Chain of command.</li> <li>■ Span of control.</li> <li>■ Decentralisation and centralisation.</li> <li>■ How organisational structures affect the ability to manage businesses effectively.</li> </ul>		Marcou�: Units 37 and 69 Hall et al: Units 59–60, 73
<p>Students should consider how a business familiar to them organises its staff. Is it a tall or flat organisation? What is the chain of command or span of control? Is decision making centralised or decentralised?</p> <p>Using a case study, students could consider how an organisational structure may affect communications between employer and employee.</p>		
<b>2. Recruitment, selection and training</b> <ul style="list-style-type: none"> <li>■ Planning staffing requirements accurately.</li> <li>■ Internal against external recruitment.</li> <li>■ Recruitment and selection process.</li> <li>■ Costs of recruitment, selection and training.</li> <li>■ Types of training, including induction, on-the-job, off-the-job.</li> </ul>		Marcou�: Unit 38 Hall et al: Units 62–63, 65
<p>Students should consider the advantages and disadvantages of internal and external recruitment.</p> <p>Students should realise that some employers recruit for positive attitude and then train for skill.</p> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Enterprise &lt;<a href="http://www.businesscasestudies.co.uk/enterprise-rent-a-car/recruitment-and-selection-at-enterprise-rent-a-car/introduction.html#axzz2a9A1lqi7">www.businesscasestudies.co.uk/enterprise-rent-a-car/recruitment-and-selection-at-enterprise-rent-a-car/introduction.html#axzz2a9A1lqi7</a>&gt;</li> <li>■ Tesco &lt;<a href="http://www.businesscasestudies.co.uk/tesco/recruitment-and-selection/introduction.html#axzz2a9A1lqi7">www.businesscasestudies.co.uk/tesco/recruitment-and-selection/introduction.html#axzz2a9A1lqi7</a>&gt;</li> </ul>		
<b>3. Leadership styles</b> <ul style="list-style-type: none"> <li>■ Types of leadership style, including autocratic, paternalistic, democratic, laissez-faire.</li> <li>■ McGregor’s Theory X and Theory Y.</li> </ul>		Marcou�: Unit 36, 92 Hall et al: Units 69–70
<p>Students should consider the various leadership styles, e.g. autocratic, democratic, that can be used and which are appropriate for different situations and skilled and unskilled staff. Students may reflect on their own preferred leadership style.</p> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Tesco &lt;<a href="http://www.businesscasestudies.co.uk/tesco/developing-appropriate-leadership-styles/introduction.html#axzz2a9A1lqi7">www.businesscasestudies.co.uk/tesco/developing-appropriate-leadership-styles/introduction.html#axzz2a9A1lqi7</a>&gt;</li> <li>■ Enterprise &lt;<a href="http://www.businesscasestudies.co.uk/enterprise-rent-a-car/using-a-range-of-management-styles-to-lead-a-business/introduction.html#axzz2a9A1lqi7">www.businesscasestudies.co.uk/enterprise-rent-a-car/using-a-range-of-management-styles-to-lead-a-business/introduction.html#axzz2a9A1lqi7</a>&gt;</li> </ul>		

Content		Reading
<b>4. Motivation of staff</b>	<ul style="list-style-type: none"> <li>■ Motivation theorists (Taylor, Mayo, Maslow, Herzberg).</li> <li>■ Financial incentives to improve staff performance including piecework, commission, bonus, profit share, performance-related pay.</li> <li>■ Non-financial techniques to improve staff performance, including delegation, consultation, empowerment, team working, flexible working, job enrichment, job rotation.</li> </ul>	Marcou�: Units 34–35 Hall et al: Units 66–68
<p>Motivation theory — Taylor, Mayo, Herzberg, Maslow. Try to apply to business situations. Students should consider criticisms of motivational theorists.</p> <p>Case studies could be used to consider the techniques of:</p> <ul style="list-style-type: none"> <li>■ delegation</li> <li>■ consultation</li> <li>■ empowerment</li> <li>■ team working</li> <li>■ flexible working</li> <li>■ job enrichment</li> <li>■ job rotation within a context.</li> </ul> <p>Students should realise that financial incentives may not be possible for a new business.</p> <p>Low labour turnover should be linked to staff motivation.</p> <p>Case studies:</p> <ul style="list-style-type: none"> <li>■ Motivation &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/8263.aspx">http://community.edexcel.com/business/m/business_gcsegce/8263.aspx</a>&gt;</li> <li>■ Diageo Scotland &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/6452.aspx">http://community.edexcel.com/business/m/business_gcsegce/6452.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Kellogg’s &lt;<a href="http://www.businesscasestudies.co.uk/kelloggs/building-a-better-workplace-through-motivation/introduction.html#axzz2a9A1lqi7">www.businesscasestudies.co.uk/kelloggs/building-a-better-workplace-through-motivation/introduction.html#axzz2a9A1lqi7</a>&gt;</li> </ul>		
<b>5. Reduction of labour costs</b>	<ul style="list-style-type: none"> <li>■ Flexible employment, e.g. part-time, flexible hours.</li> <li>■ Flexible working, e.g. multi-skilled workforce, responding to change.</li> <li>■ Reducing staff costs, e.g. dismissal, redundancy.</li> </ul>	Marcou�: Units 39 and 68 Hall et al: Unit 73
<p>Students should consider the benefits and disadvantages of using a flexible workforce. They should know what natural wastage is and how this affects labour costs. Teachers could provide a brief overview of the rights of staff when dismissed or made redundant, to promote discussion.</p>		

## Activity sheet 4 Managing other people

### Task 1

The structure of any organisation will depend on the following factors:

- what it does
- how it does it
- whether or not it operates in one place, or on several sites
- its size.

Carry out research into how your school/college/ workplace is organised. What departments or sections does it have? Is there an organisational chart that summarises its structure? Is it up to date? Does it contain the names of who holds which posts? (If not, update the chart and/or add names against posts.) If there isn't a chart, construct one to show the organisation and its hierarchy.

Who is at the top of the hierarchy?

Who is at the bottom?

How many layers are there in the chart?

What are the roles and responsibilities of each member of the teaching staff? How are these divided into teaching and non-teaching responsibilities? How is the administration of your school/college/workplace organised — who are the key personnel and what are their main tasks?

Try to find out how a small organisation, such as an estate agency, dental surgery or a hairdresser is structured. Produce a simple structure chart to show the positions of each member of staff.

### Task 2

In a small organisation, staff work closely together, and there is frequent communication.

What difficulties might there be in a large organisation in relaying information to all employees?

Look at the ways in which your own workplace, school or college communicates information, both:

- internally — to staff, visitors, etc.
- externally — to customers, clients, suppliers, VAT people, banks.

What is the most commonly used form of communication in each case?

## A Getting started for teachers

What the method of communication is the best in each of the following cases:

- a. an employee needs to be reminded of what is acceptable dress for work
- b. your manager needs to call a departmental meeting
- c. your firm needs to get expert advice from an overseas supplier
- d. prices for materials are needed for a new contract: the suppliers are in the US and their office is not open yet
- e. messages must be sent to all sales representatives in full calling them to a meeting tomorrow
- f. copies of a specification for a new design must be sent to a laboratory for testing
- g. you need to recruit additional staff at management level
- h. you need to tell customers how much they owe you for goods supplied
- i. a government department has requested information about employment statistics
- j. the VAT people need to know how much money they are owed
- k. a record is required of the hours a truck driver has driven on his recent journey to France.

Discuss your findings with the rest of the class.

### Task 3

In small groups, research and then visit three local businesses to find out how they manage their staffing to meet changing business demands. Try to select different types of business, for example, retail shops, factories, local council, professional offices, charities.

Draw up a table to illustrate your findings and present this to the rest of the class.

	Organisation 1	Organisation 2	Organisation 3
Type of business			
Organisational structure			
How teams are organised			
Staffing levels			

**Task 4**

A friend who is setting up a new company needs to recruit staff and they have asked you how they should go about it and the different recruitment methods they could use. Produce a summary describing the following methods, listing the advantages and disadvantages of each:

- online recruitment
- telephone interview
- assessment centre
- recruitment agency.

**Task 5**

The Yellowfin Restaurant is about to move from a city-centre site to newly refurbished property on the quayside at Seatown. The owners want the new working environment to reflect this phase in their expansion and have decided to set up team working, based upon the staff who work during the day and those who work in the evening. This is a complete change to the previous pattern of working and will require careful handling to ensure it is successful.

Carlos and Zophia have discussed their ideas with friends and agree that the best way to introduce team working is to have a friendly meeting with all staff, in a relaxed environment away from the restaurant. They have asked for your help in drafting notes of the points they should cover during this meeting. Prepare a briefing paper showing the main points to discuss:

- the benefits of working as part of a team
- how specialist skills can combine to provide a more efficient service to customers
- what is required of each person once they become a team member
- what will be gained from increased flexibility
- ways to share problem solving and encourage ideas
- methods of rewarding individual efforts and team achievements
- how customers are likely to react to the improvement in atmosphere and service.

Carlos and Zophia would like to hold the first training session next week.

Suggest an interesting activity they could use as a team-building exercise.

### Unit 3: Strategic Business Decisions

#### BASIC READING

Course books:

- Ian Marcousé: *Business Studies for A-Level* (4th edition), Hodder, ISBN 978-1-444-12275-6 [referenced below]
- Dave Hall, Rob Jones, Carlo Raffo and Alain Anderton: *Business Studies* (4th edition), Pearson, ISBN 978-1-4058-9231-5 [referenced below]

Units 3 and 4:

- Ian Marcousé: *Worksheets for Economics and Business Studies A Level (Units 3 and 4a)*, A–Z Business Training

Useful websites:

- *tutor2u*: [www.tutor2u.net/blog/index.php/business-studies/C130](http://www.tutor2u.net/blog/index.php/business-studies/C130)
- *The Times 100 Business Case Studies*: [www.businesscasestudies.co.uk/#axzz2a31GPENm](http://www.businesscasestudies.co.uk/#axzz2a31GPENm)

### 3.3.1 Corporate objectives and strategy

Content		Reading
<b>1. Corporate objectives</b> <ul style="list-style-type: none"> <li>■ Corporate aims.</li> <li>■ Mission statements.</li> <li>■ Corporate objectives.</li> </ul>		Marcou�: Units 50–52 Hall et al: Units 100–101
<p>Students to use company annual reports and accounts, company websites or Times 100 case studies (<a href="http://businesscasestudies.co.uk/">http://businesscasestudies.co.uk/</a>) to identify company mission statements, corporate aims and objectives.</p> <p>Students should identify how corporate objectives have been developed from the mission statement/corporate aims and critically appraise mission statements.</p> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Kellogg’s &lt;<a href="http://www.businesscasestudies.co.uk/kelloggs/using-aims-and-objectives-to-create-a-business-strategy/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/kelloggs/using-aims-and-objectives-to-create-a-business-strategy/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ TNT &lt;<a href="http://www.businesscasestudies.co.uk/tnt/delivering-a-business-strategy/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/tnt/delivering-a-business-strategy/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Syngenta &lt;<a href="http://www.businesscasestudies.co.uk/syngenta/values-into-vision/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/syngenta/values-into-vision/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>2. Stakeholder influences on corporate objectives</b> <ul style="list-style-type: none"> <li>■ Stakeholder objectives.</li> <li>■ Stakeholder conflicts.</li> <li>■ Impact of conflicting and common aims between different groups of stakeholders.</li> <li>■ Corporate social responsibility (CSR) and potential conflicts between profit-based and other objectives.</li> </ul>		Marcou�: Unit 53 Hall et al: Unit 6, 127
<p>Students should identify the potential influences of stakeholders on corporate objectives and which stakeholder objectives are in common, or in conflict, e.g. a supermarket wanting to build a new store to create profit for their shareholders compared with local community concerns over traffic growth.</p> <p>Students should examine the business principles and objectives of a multinational company and consider how these may conflict with stories about their unethical behaviour.</p> <p>Students should define corporate social responsibility and consider the policies of major companies such as Nestl� and Coca-Cola.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Starbucks &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/7608.aspx">http://community.edexcel.com/business/m/business_gcsegce/7608.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Primark &lt;<a href="http://www.businesscasestudies.co.uk/primark/beyond-corporate-social-responsibility/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/primark/beyond-corporate-social-responsibility/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		

Content		Reading
<p><b>3. Corporate culture</b></p>	<ul style="list-style-type: none"> <li>■ Definition of corporate culture: the set of important assumptions that are shared by people working in a particular business and influence the ways in which decisions are taken.</li> <li>■ Classification of corporate cultures, including power, role, task, person cultures (Charles Handy).</li> <li>■ Factors influencing the formation of corporate culture, e.g. owner aspirations, customer demand.</li> <li>■ Characteristics of strong corporate cultures, e.g. staff loyalty, high staff motivation.</li> <li>■ Characteristics of weak corporate cultures, e.g. poor retention of skilled staff, staff do not support objectives.</li> <li>■ Difficulties in changing an established corporate culture.</li> </ul>	<p>Marcou�: Unit 93 Hall et al: Unit 108–109</p>
<p>Students should consider power, role, task and person cultures (Handy). They should look at any company stories, heroes, sagas and symbols that may have influenced the corporate culture. Also they should use the mission statements and corporate objectives considered earlier to see how they may have influenced corporate culture.</p> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Corus &lt;<a href="http://www.businesscasestudies.co.uk/corus/overcoming-barriers-to-change/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/corus/overcoming-barriers-to-change/introduction.html#axzz2a31GPENm</a>&gt;</li> <li>■ Reed Elsevier &lt;<a href="http://www.businesscasestudies.co.uk/reed-elsevier/corporate-responsibility-and-stakeholders/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/reed-elsevier/corporate-responsibility-and-stakeholders/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<p><b>4. Corporate strategy</b></p>	<ul style="list-style-type: none"> <li>■ Corporate strategy, e.g. market entry or exit, mergers and takeovers.</li> <li>■ Portfolio analysis, including Boston Matrix.</li> <li>■ Achieving competitive advantage through distinctive capabilities, e.g. brand image, customer loyalty.</li> <li>■ Porter’s strategic matrix (cost leadership, differentiation, cost focus, differentiation focus).</li> <li>■ Impact of strategic and tactical decisions on human, physical and financial resources.</li> <li>■ Strategic choice can involve co-operation or competition.</li> <li>■ External influences on strategy, including Political, Economic, Social, Technological, Legal and Environmental (PESTLE).</li> </ul>	<p>Marcou�: Units 27, 50–52, 78–79, 82–88, 96 Hall et al: Units 18, 26, 102, 110, 125, 128, 129</p>

Content	Reading
<p>Students should consider how corporate strategy is developed:</p> <ul style="list-style-type: none"><li>■ the aim of portfolio analysis (Boston Matrix) and how this contributes to corporate planning</li><li>■ how competitive advantage is achieved through distinctive capabilities</li><li>■ and the effect of strategic and tactical decisions on human, physical and financial resources.</li></ul> <p>The competitive environment of a company should be analysed through a model such as Porter's Strategic Matrix. Students should understand the difficulty of changing corporate strategy in response to the influence of a competitive environment. Students should also consider political, legal or other influences that encourage co-operation between companies on strategy.</p> <p>Times 100:</p> <ul style="list-style-type: none"><li>■ Logica &lt;<a href="http://www.businesscasestudies.co.uk/logica/using-skills-to-respond-to-the-external-environment/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/logica/using-skills-to-respond-to-the-external-environment/introduction.html#axzz2a31GPENm</a>&gt;</li></ul>	

## Activity sheet 1 Corporate objectives

### Task 1 Business planning — an overview

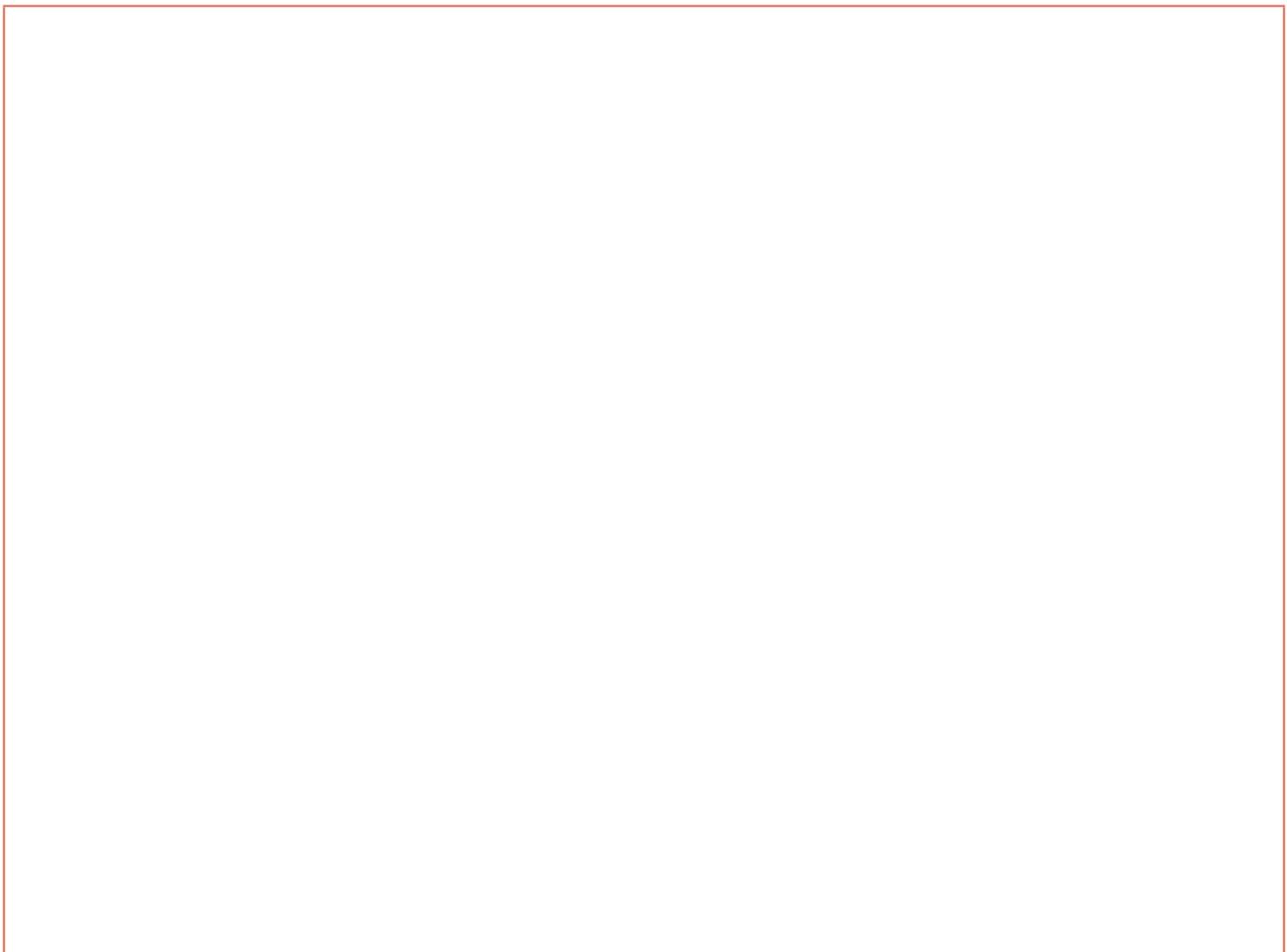
The following terms will be used within this unit:

- Mission statement
- Business environment analysis
- Corporate objectives
- Corporate strategy
- Tactics.

To help build an understanding of these terms, find a diagram of the planning process that includes as many of the above terms as possible and draw it in the space below.

### AN OVERVIEW OF THE PLANNING PROCESS

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Now you are familiar with the business planning process, define the following terms:

**MISSION STATEMENT****BUSINESS ENVIRONMENT ANALYSIS****CORPORATE OBJECTIVES****CORPORATE STRATEGY****TACTICS**

### Task 2 Mission statements

As part of Task 1 you studied mission statements. Now, think of three large organisations you are familiar with.

Using resources, such as company websites or their latest annual report and accounts, find out the mission statement of each of your chosen organisations.

Also, given your knowledge of each organisation, comment on whether you think that their mission statement is appropriate.

Company name:

Mission statement:

My comments:

Company name:

Mission statement:

My comments:

Company name:

Mission statement:

My comments:

**Task 3 Corporate aims and objectives**

The terms aims and objectives are often used interchangeably, but there are distinct differences between them.

Find definitions of both terms and write them below.

Aims are ...

Objectives are ...

It is often said that good objectives are SMART objectives.

Does SMART stand for:

- a) Specific, Measurable, Achievable, Realistic and Time bound
- b) Sensible, Measurable, Achievable, Relentless and Tedious
- c) Specific, Meaningless, Arduous, Realistic and Terrible.

Why do you think that good objectives should be SMART?

### Task 4 Corporate objectives

Corporate objectives tell us what the organisation wants to achieve.

In Task 2 you found the mission statements for three organisations of your choice.

Using resources such as corporate websites or company annual report and accounts, research the corporate objectives of each of your chosen organisations and list them below.

Company name:

Corporate objectives:

Comments: (For example, are the objectives SMART? Are there clear links between the mission statement and the corporate objectives?)

Company name:

Corporate objectives:

Comments: (For example, are the objectives SMART? Are there clear links between the mission statement and the corporate objectives?)

Company name:

Corporate objectives:

Comments: (For example, are the objectives SMART? Are there clear links between the mission statement and the corporate objectives?)

**Task 5 Review of mission statements, aims and objectives**

By completing Tasks 2, 3 and 4 you should have discovered a lot about the mission statement, aims and objectives of your chosen organisations.

Prepare a five-minute presentation summarising your findings.

When preparing your presentation, remember that your audience may not be as familiar with your chosen organisations as you are.

It may be helpful to begin with a brief introduction outlining who they are and the nature of their business.

## Activity sheet 2 Stakeholder influences on corporate objectives

Stakeholders can be defined as any individual/group affected by/interested in the activities of an organisation.

### Task 1 Stakeholders — who are they?

List at least eight typical organisational stakeholders.


**Task 2 Stakeholders and corporate objectives**

Imagine you work for the head office of a large grocery retailer. A key corporate objective for this year is to increase profit by 10 per cent.

The company has decided that the most cost-effective way to meet this objective is by opening five new out-of-town stores within the next six months.

List below both the internal and external stakeholders that may be affected by, or interested, in your company's new store launch programme.

Internal stakeholders	External stakeholders

Which of these stakeholders do you think would be supportive of the new store launch programme and which do you think may be against it — please state why?

For	Against

How might your organisation overcome any stakeholder opposition?

### Activity sheet 3 Corporate Social Responsibility (CSR)

Many organisations publish their CSR policies or have corporate responsibility statements. Some also publish an annual CSR report. Think of five large organisations you are familiar with and note the key points of their policy or statement below.

Then think about what you know about the organisations. How socially responsible do you think they actually are?

Rate each organisation on a scale of 1 to 10, with 1 being highly socially irresponsible and 10 highly socially responsible. Please explain how you came to your conclusions.

Company name:
Notes on their approach to CSR.
CSR rating — please circle the rating you think best represents how socially responsible this organisation is.
1            2            3            4            5            6            7            8            9            10
Please explain your rating.

Company name:
Notes on their approach to CSR.
CSR rating — please circle the rating you think best represents how socially responsible this organisation is.
1            2            3            4            5            6            7            8            9            10
Please explain your rating.

Company name:
Notes on their approach to CSR.
CSR rating — please circle the rating you think best represents how socially responsible this organisation is. 1          2          3          4          5          6          7          8          9          10 Please explain your rating.

Company name:
Notes on their approach to CSR.
CSR rating — please circle the rating you think best represents how socially responsible this organisation is. 1          2          3          4          5          6          7          8          9          10 Please explain your rating.

Company name:
Notes on their approach to CSR.
CSR rating — please circle the rating you think best represents how socially responsible this organisation is. 1          2          3          4          5          6          7          8          9          10 Please explain your rating.

Finally, through your own research, identify one organisation that has recently been exposed as being less than socially responsible.

Compare your findings with any CSR statements the organisation makes on its website or within their annual report and accounts.

Comment on your findings.

### Activity sheet 4 Corporate culture

#### Task 1 Power, role, task and person cultures

Corporate culture is commonly defined as 'the way we do things around here'.

Charles Handy identified four different cultures based on: power, roles, tasks and the person.

Briefly define each of these four different cultures. Try to include a diagram that represents each of them.

Power culture

Role culture

Task culture

Person culture

Choose two of the organisations you looked at when completing Activity sheet 1 Tasks 2 and 4.

How do they describe their corporate culture?

Does their description match any of the four cultures described by Handy?

Do you think that their mission statements and objectives may have influenced their corporate culture? Explain your answer.

**Task 2 Company stories, heroes, sagas and symbols**

The following phrases are often used when discussing corporate culture:

- company stories
- heroes
- sagas
- symbols.

Research the meaning of each of these terms and give examples below:

Company stories

Heroes

Sagas

Symbols

### Activity sheet 5 Business environment analysis

#### Task 1

Looking back at Activity sheet 1 you will have seen that many planning models refer to business environment analysis or, as it is sometimes also called, situation analysis.

A business environment analysis looks at both internal and external factors. However, this task will focus on external factors.

Companies do not operate in isolation. And they are affected by a number of external macro- and micro-environmental factors.

Macro-environmental factors are often categorised as:

- social
- political
- economic
- legal
- technological.

The above are often referred to as SPELT factors.

Micro-environmental factors are often categorised as:

- customers
- competitors
- distributors
- suppliers.

The main purposes of an external business environment analysis are to:

- try to find new opportunities for the organisation
- try to identify any threats to the organisation.

For example:

- personal computers posed a real threat to typewriter manufacturers
- increased participation in sports, such as long-distance running, has provided opportunities for manufacturers of energy drinks.

In small groups, choose an organisation you are all familiar with.

Using the categories listed above (for example, social factors) complete the table on the next page by listing as many relevant macro- and micro-environmental factors as possible. Tick the appropriate box to indicate whether they would provide an opportunity for or pose a threat to your chosen organisation.

Name of chosen organisation		
Macro-environmental factors	Opportunity	Threat
Micro-environmental factors	Opportunity	Threat

### Task 2 Porter's Five Forces Analysis

From the previous activity you will have seen that competition is a micro-environmental factor.

Michael Porter identified five forces that determine competitive intensity and, therefore, how attractive a market/industry sector is.

Find a diagram showing Porter's Five Forces, and draw it below.



Briefly describe each of Porter's Five Forces:

Threat of new industry entrants

Threat of substitute products

Bargaining-power of buyers

Bargaining-power of suppliers

Intensity of rivalry between competitors

Porter states that the profitability of an industry is a function of these five forces.

Split into small groups and choose one of the following industry sectors.

- airlines
- grocery retailing
- MP3 players.

Given what you have learnt about Porter's Five Forces, how attractive is your chosen industry sector? Please note that in this context attractive refers to the profit potential of the industry.

Please use appropriate research to justify your answer.

### Task 3 Business environment — internal factors

The last two tasks looked at external business environmental factors that can present the organisation with opportunities or threats.

This task will focus on the internal business environment. Analysing the internal environment of an organisation should enable the strengths and weaknesses of that organisation to be identified.

List some of the factors that should be considered when analysing an internal business environment.

Examples: company reputation, cash flow

### Task 4 SWOT analysis

In Task 1 you considered the opportunities and threats that an organisation may face. In Task 3 you considered internal factors that are generally categorised as either strengths or weaknesses.

A SWOT analysis looks at the strengths, weaknesses, opportunities and threats of an organisation.

In small groups, undertake a SWOT analysis of an organisation of your choice and present your findings to the class in the format shown on the next page.

<b>S</b> <b>(Strengths)</b>	<b>W</b> <b>(Weaknesses)</b>
<b>O</b> <b>(Opportunities)</b>	<b>T</b> <b>(Threats)</b>

**Task 5 Competitive advantage/distinctive capabilities**

In small groups, discuss why it is important to analyse both the external and the internal business environments.

Your discussion should refer to the following:

- competitive advantage
- distinctive capabilities/competencies.

### Task 6 Portfolio analysis

So far you have looked at mission statements, aims and objectives, the internal and external business environment, competitive advantage and distinctive competencies/capabilities.

This is because we can think of planning in terms of a series of questions and answers:

- What is our purpose?                      Mission statement
- Where are we now?                      Business environment analysis, SWOT analysis
- Where do we want to be?              Objectives
- How are we going to get there      Strategy

Portfolio analysis can help us devise appropriate strategies.

The Boston Matrix is a very popular approach to portfolio management.

By carrying out your own research, describe the following:

- cash cows
- dogs
- question marks
- stars.

### Questions

- Would a harvesting strategy be appropriate for a star?
- Why should organisations aim to have a balanced portfolio?
- Is hold an appropriate strategy for a question mark?
- What is an appropriate strategy for a dog?

### 3.3.2 Marketing strategic and tactical decisions

Content		Reading
<b>1. Decision-making models</b> <ul style="list-style-type: none"> <li>■ SWOT analysis.</li> <li>■ Ansoff's Growth Matrix.</li> </ul>		Marcou�: Units 64, 94 Hall et al: Units 28, 29, 103–104
<p>The Ansoff Growth Matrix and organic growth could be taught together, e.g. internal company growth by growing products and markets. Students should consider how the Ansoff Matrix could be used to communicate intended strategic direction.</p> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Enterprise &lt;<a href="http://www.businesscasestudies.co.uk/enterprise-rent-a-car/marketing-and-product-strategies-for-growth/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/enterprise-rent-a-car/marketing-and-product-strategies-for-growth/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>2. Investment appraisal</b> <ul style="list-style-type: none"> <li>■ Nature and purpose of investment appraisal.</li> <li>■ Calculations and interpretations of figures generated by investment appraisal techniques:               <ul style="list-style-type: none"> <li>◆ simple payback</li> <li>◆ average rate of return</li> <li>◆ discounted cash flow (net present value only).</li> </ul> </li> <li>■ Limitations of investment appraisal techniques.</li> </ul>		Marcou�: Unit 60 Hall et al: Unit 53
<p>Students need to understand the following techniques: simple payback, average rate of return, discounted cash flow (net present value only). They should be able to do calculations and interpret figures generated by these techniques. They also need to know the limitations of these techniques.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Rahels's investment &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9032.aspx">http://community.edexcel.com/business/m/business_gcsegce/9032.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ Syngenta &lt;<a href="http://www.businesscasestudies.co.uk/syngenta/investment-appraisal-in-action/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/syngenta/investment-appraisal-in-action/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>3. Decision trees</b> <ul style="list-style-type: none"> <li>■ Nature and purpose of decision trees.</li> <li>■ Construction and interpretation of simple decision tree diagrams.</li> <li>■ Limitations of decision trees.</li> </ul>		Marcou�: Unit 95 Hall et al: Unit 105
<p>Students need to construct and interpret simple decision trees. They also need to know the limitations of this technique.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ GKN &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9148.aspx">http://community.edexcel.com/business/m/business_gcsegce/9148.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ CIMA &lt;<a href="http://www.businesscasestudies.co.uk/cima/decision-making-techniques/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/cima/decision-making-techniques/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		

Content		Reading
<b>4. Critical Path Analysis (CPA)</b> <ul style="list-style-type: none"> <li>■ Nature and purpose of critical path analysis.</li> <li>■ Constructing simple networks showing critical path and calculating the total float.</li> <li>■ Calculating Earliest Start Time (EST) and Latest Finish Time (LFT).</li> <li>■ Limitations of critical path analysis.</li> </ul>	Marcou�: Unit 76 Hall et al: Unit 98	
<p>Students need to know the nature and purpose of critical path analysis. They need to draw simple networks, calculate Earliest Start Time and Latest Finish Time, identify the critical path and calculate the total float. They also need to know the limitations of these techniques.</p>		
<b>5. Contribution</b> <ul style="list-style-type: none"> <li>■ Nature and purpose of contribution.</li> <li>■ Calculation and interpretation of contribution.</li> <li>■ Contribution as a decision-making tool for making special order decisions.</li> </ul>	Marcou�: Unit 48 Hall et al: Unit 18, 36, 52	
<p>Students need to know whether an unexpected order is worth accepting based on the contribution it will bring.</p>		
<b>6. Business contingency planning</b> <ul style="list-style-type: none"> <li>■ Nature and purpose of business contingency planning.</li> <li>■ Business contingencies, e.g. external shocks, loss of data.</li> <li>■ Contingency planning to reduce risk.</li> </ul>	Marcou�: Unit 91 Hall et al: Unit 107	
<p>Students need to understand the importance of contingency planning, e.g. consider the risk of operating in a country or seeking growth in new overseas markets. Students to use the Ansoff Growth Matrix to consider why a company may seek to invest in a factory overseas, e.g. to reduce dependence on domestic market through planning for growth.</p>		

## Activity sheet 6 Making strategic decisions

### Task 1 Strategic versus tactical decisions

Briefly describe the difference between a strategic and a tactical decision.

### Task 2 Ansoff's Growth Matrix

If an organisation has decided that it wants to grow its business, according to Ansoff, there are four strategic growth options to choose from. Each of the four options has a different level of associated risk.

- a) Find a version of Ansoff's Growth Matrix that refers to the level of risk associated with each of the four strategic options.
- b) Which of Ansoff's strategic growth options has the highest level of associated risk and why?
- c) Which of Ansoff's strategic growth options has the lowest level of associated risk and why?

### Task 3 Applying Ansoff's Growth Matrix

- a) Working in small groups, choose a large organisation you are all familiar with.
- b) Research their products and markets.
- c) Given your research, which of Ansoff's growth strategies would you recommend your organisation follows and why?
- d) Prepare a brief presentation that explains your choice to the rest of your class. Your presentation should include a representation of Ansoff's Growth Matrix.

### Activity sheet 7 Investment appraisal

In order to achieve their objectives, organisations may have to make substantial investments in, for example, new factories.

The following are investment appraisal techniques that organisations can use to help them make investment decisions.

- Simply payback
- Average Rate of Return
- Net Present Value (a form of discounted cash flow)

Go to the worksheet titled 'Investment Appraisal' found at:

[www.bized.co.uk/timeweb/reference/using\\_experiments.htm](http://www.bized.co.uk/timeweb/reference/using_experiments.htm)

Complete the parts of the worksheet that relate to the three project appraisal methods listed above.

## Activity sheet 8 Decision trees

Decision trees are used because they can help in decision making.

Read the information about decision trees that can be found at:

[www.thetimes100.co.uk/theory/theory--decision-tree-analysis--323.php](http://www.thetimes100.co.uk/theory/theory--decision-tree-analysis--323.php)

Then complete the exercise that can be found at:

[www.bized.co.uk/educators/16-19/business/strategy/activity/decision1.htm](http://www.bized.co.uk/educators/16-19/business/strategy/activity/decision1.htm)

### Activity sheet 9 Critical Path Analysis (CPA)

Read the case study Critical Path Analysis at Network Rail that can be found at:

<http://businesscasestudies.co.uk/network-rail/critical-path-analysis-at-network-rail/introduction.html#axzz2e6oxu95g>

Given what you have learnt about critical path analysis, what do you think could be its limitations as an approach to project planning?

Use critical path analysis to plan a project of your choice, for example, your next holiday.

**Activity sheet 10 Contribution**

A customer has approached your organisation with an order for 100 premium widgets. Your organisation has never dealt with this customer before but would like to.

You have been asked to investigate if the organisation should you accept the order.

Undertake your own research on special order contracts.

List the information you need in order to make an informed decision about whether or not to accept the order.

Describe the financial circumstances under which you would, or would not, accept the order.

Accept	Reject

### Activity sheet 11 Contingency planning

Contingency planning will be considered in terms of developing plans we can turn to if events we foresaw, but thought unlikely, actually happen.

Think of an organisation you know well. What contingency plans might they need in order to ensure they still achieve their corporate objectives?

### 3.3.3 Assessing competitiveness

Content		Reading
<b>1. Interpretation of financial statements</b>	<ul style="list-style-type: none"> <li>■ Nature and purpose of financial statements: statement of comprehensive income, statement of financial position.</li> <li>■ Calculation and interpretation of ratios using simplified financial statements to determine:               <ul style="list-style-type: none"> <li>◆ profitability (gross profit margin, profit for the year margin)</li> <li>◆ return on capital employed (ROCE)</li> <li>◆ liquidity (current and acid test ratio)</li> <li>◆ gearing ((non-current liabilities/capital employed) x100).</li> </ul> </li> <li>■ Limitations of ratio analysis.</li> <li>■ Corporate response to profitability, liquidity and gearing issues.</li> </ul>	Marcousé: Units 55–58 Hall et al: Units 44, 48–50, 55–57
<p>Students need to use ratio analysis on simplified financial statements to calculate and interpret return on capital, liquidity (current and acid test ratio) and gearing.</p> <p>They may examine a company's performance over time and should understand the limitations of ratios as a decision-making tool, the likely corporate responses to results of ratio analysis, and how level of assets can influence the level of financial borrowing permitted.</p> <p>Case studies:</p> <ul style="list-style-type: none"> <li>■ Ratio summary sheet &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/8294.aspx">http://community.edexcel.com/business/m/business_gcsegce/8294.aspx</a>&gt;</li> <li>■ Tesco price war &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9149.aspx">http://community.edexcel.com/business/m/business_gcsegce/9149.aspx</a>&gt;</li> <li>■ Mandarin Oriental &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/8103.aspx">http://community.edexcel.com/business/m/business_gcsegce/8103.aspx</a>&gt;</li> <li>■ Ratio practice &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/10511.aspx">http://community.edexcel.com/business/m/business_gcsegce/10511.aspx</a>&gt;</li> </ul> <p>Times 100:</p> <ul style="list-style-type: none"> <li>■ ACCA &lt;<a href="http://www.businesscasestudies.co.uk/acca/interpreting-and-understanding-accounts/introduction.html#axzz2a31GPENm">www.businesscasestudies.co.uk/acca/interpreting-and-understanding-accounts/introduction.html#axzz2a31GPENm</a>&gt;</li> </ul>		
<b>2. Human resource competitiveness</b>	<ul style="list-style-type: none"> <li>■ Calculation and interpretation of:               <ul style="list-style-type: none"> <li>◆ labour productivity (output per time period/number of employees)</li> <li>◆ labour turnover ((number of staff leaving/number of staff employed) x 100).</li> </ul> </li> <li>■ Limitations of these calculations.</li> <li>■ Corporate response to labour productivity and labour turnover issues.</li> </ul>	Marcousé: Units 66–67 Hall et al: Units 61, 74–75

## A Getting started for teachers

Content	Reading
<p>Students should use labour productivity calculations based on labour/inputs/outputs and labour turnover calculations, including unavoidable leavers, in measuring organisational effectiveness (e.g. in different country offices).</p> <p>Students should consider the use and limitations of such analyses and potential corporate responses to results of human resource analysis.</p> <p>Ask a representative from a business to give a talk on their labour turnover and productivity, the reasons behind the figures and how they are seeking to improve them.</p>	

## Activity sheet 12 Financial ratios

### Questions

Choose the correct ending from the list to complete each statement.

An organisation makes a gross profit when:

- a) sales revenue is greater than the cost of the goods sold
- b) sales revenue is less than the cost of the goods sold
- c) the sales team's expenses are less than £1000
- d) other (please state).

The amount of net profit an organisation makes is calculated within its:

- a) income statement
- b) statement of financial position
- c) rent book
- d) other (please state).

In accountancy, 'being liquid' can be defined as:

- a) being able to pay debts as they are due
- b) being able to pay the tea and coffee bill
- c) being able to take key account customer out to lunch
- d) other (please state).

In small groups discuss one of the following topics.

- Do ratios help us understand how successful an organisation is?
- What ratios might a bank look at before lending money to an organisation and why?
- Could an organisation's desire to achieve a particular level of gross profit result in conflict between certain stakeholders/stakeholder groups?

### Activity sheet 13 Human resource analysis

Many organisations realise that good employees are a valuable asset.

Some state on their website that their employees are their greatest asset and you may see the phrase 'human capital' used in some textbooks.

At its most basic, organisations need to have the right number of people, with the right skills in the right place at the right time.

Many business experts believe that, in the future, organisations that manage their employees well will be able to outperform their competitors. It is therefore important that Human Resources are managed well.

Imagine you are the chief executive of a large organisation.

You have asked the human resource (HR) director to give a presentation at the next board meeting about how effectively your organisation is utilising its 'human capital'.

You are not a human resource expert but have noticed that a number of people have left the organisation lately and that it seems difficult to find replacements.

Your real concern is that without the right people, with the right skills in the right place at the right time, your organisation will not achieve its corporate objectives. Not only would that be bad for the organisation, it would also directly affect your bonus!!

Before the presentation, you undertake some research on what information the human resource department should be analysing in order to ensure that, as you would say, they are doing their job properly!

Your research should include finding definitions of the following:

- staff turnover
- retention
- unavoidable leavers
- sickness absence rates
- workforce planning.

Armed with your new knowledge of human resource management, what are the five key things you think the HR director should include in their presentation and why?

### 3.3.4 Company growth

Content		Reading
<b>1. Nature of company growth</b>	<ul style="list-style-type: none"> <li>■ Organic and inorganic growth.</li> <li>■ Mergers and takeovers, including horizontal, vertical and conglomerate.</li> <li>■ Joint ventures.</li> <li>■ Reasons for growth, including to achieve economies of scale.</li> </ul>	Marcou�: Units 73, 89 Hall et al: Units 88–90
<p>Students should consider examples of different types of organic and acquisitive growth, the differences between mergers and takeovers, why growth is necessary. Case study examples can illustrate horizontal, vertical and conglomerate.</p> <p>Students will need to be taught about economies of scale.</p> <p>Case studies:</p> <ul style="list-style-type: none"> <li>■ Kellogg’s buys Pringles &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9794.aspx">http://community.edexcel.com/business/m/business_gcsegce/9794.aspx</a>&gt;</li> <li>■ Vertical integration and Muller &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9619.aspx">http://community.edexcel.com/business/m/business_gcsegce/9619.aspx</a>&gt;</li> </ul>		
<b>2. Effects of growth</b>	<ul style="list-style-type: none"> <li>■ Positive effects of growth, e.g. increased market share, diversification.</li> <li>■ Negative effects of growth, e.g. diseconomies of scale, problems with communication.</li> </ul>	Marcou�: Units 71, 73, 89 Hall et al: Units 88–90
<p>Students should consider potential problems resulting from organisational restructuring, e.g. diseconomies of scale.</p> <p>Case studies:</p> <ul style="list-style-type: none"> <li>■ Clinton Cards &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9991.aspx">http://community.edexcel.com/business/m/business_gcsegce/9991.aspx</a>&gt;</li> <li>■ Google and Motorola &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/8289.aspx">http://community.edexcel.com/business/m/business_gcsegce/8289.aspx</a>&gt;</li> </ul>		

## Activity sheet 14 More on organisational growth

We looked at Ansoff's Growth Matrix during Activity sheet 6.

Ansoff's Growth Matrix provides organisations with a choice of four growth strategies.

But we can look at growth in a different way, that is, in terms of organic growth versus acquisitive growth.

Define the following terms, list some possible advantages and disadvantages of each approach to organisational growth and include appropriate examples.

	Definition	Advantages	Disadvantages	Examples
<b>Organic growth</b>				
<b>Mergers</b>				
<b>Takeovers</b>				

- What do mergers and takeovers have in common?
- What is the key difference between a takeover and a merger?
- Could any of Ansoff's strategic growth options be said to represent organic growth?
- Why do organisations frequently place such importance on growth?

**Activity sheet 15 Effects of growth**

When discussing the reasons why organisations frequently see growth as being important you may have discussed the concept of economies of scale.

If not, carry out some research to familiarise yourself with the concept of economies of scale.

Now familiarise yourself with the concept of diseconomies of scale.

Prepare a brief presentation on the topic 'Why diseconomies of scale are not inevitable'.

## Unit 4: Business in a Global Context

### BASIC READING

Course books:

- Ian Marcousé: *Business Studies for A-Level* (4th edition), Hodder, ISBN 978-1-444-12275-6 [referenced below]
- Dave Hall, Rob Jones, Carlo Raffo and Alain Anderton: *Business Studies* (4th edition), Pearson, ISBN 978-1-4058-9231-5 [referenced below]

Unit 4 books:

- Alan Hewison: *International Business for A2*, Anforme, ISBN 9781905504411
- Alan Hewison: *International Business for A2: Questions and Answers*, Anforme, ISBN 978-1-905504-54-1
- Brian Ellis: *Edexcel A2 Business Studies/Economics and Business: Unit 3 New Edition Student Unit Guide: International Business*, Hodder, ISBN 978-1-444147-97-1

Units 3 and 4:

- Ian Marcousé: *Worksheets for Economics and Business Studies A Level (Units 3 and 4a)*, A-Z Business Training

Useful websites:

- *tutor2u*: [www.tutor2u.net/blog/index.php/business-studies/C130](http://www.tutor2u.net/blog/index.php/business-studies/C130)
- *The Times 100 Business Case Studies*: [www.businesscasestudies.co.uk/#axzz2a31GPENm](http://www.businesscasestudies.co.uk/#axzz2a31GPENm)

### 4.3.1 International markets

Content	Reading
<p><b>1. Reasons for the increased growth of international trade</b></p> <ul style="list-style-type: none"> <li>■ Factors contributing to increased globalisation, e.g. political change, improvements in transport and communication.</li> <li>■ Increasing trade liberalisation.</li> <li>■ Increasing specialisation by countries, e.g. Indonesia and palm oil, Sri Lanka and tea.</li> <li>■ Reduction of international trade barriers, including the role of the World Trade Organization (WTO).</li> <li>■ Expansion of trading blocs, e.g. European Union, Association of Southeast Asian Nations (ASEAN).</li> <li>■ Increase in Foreign Direct Investment (FDI).</li> </ul>	<p>Marcou�: Units 80, 83, 90 Hall et al: Unit 118, 120</p>

International trade can be defined as the buying and selling of goods across international boundaries.

#### Why do countries trade?

The basic reason is that countries are not able to produce everything that they want in today's society – gone are the days when people lived off local produce and owned very few assets. This is associated with economic development and increases in income. Trade allows countries to specialise in producing the goods/services that can be produced efficiently – receipts from exports can then be used to buy goods that would be inefficient for that country to make. People buy goods from abroad because of their:

- **availability**, e.g. the UK cannot grow coconuts so they are imported from the Caribbean
- **price**, e.g. other countries may be able to produce much more cheaply than the UK can, because of lower labour costs or easier access to raw materials
- **product differentiation**, e.g. a car is not just a car – many Asian people now want to own large American SUVs.

#### Definition of globalisation (from Peter Jay)

'The ability to produce any goods (or service) anywhere in the world, using raw materials, components, capital and technology from anywhere, sell the resulting output anywhere, and place the profits anywhere.'

#### Characteristics

Globalisation refers to the **increasing** interdependence of economic actors (producers, consumers, governments, entrepreneurs). Key phrases include global branding and global sourcing, although it is not just about the activity of multinational companies (MNCs). Globalisation is characterised by increasing foreign ownership of companies, increases in trade in both goods and services, de-industrialisation in developed countries, and increasing global media presence.

#### Causes

- Improvements in transport infrastructure and operations
- Improvements in communications technology and IT (especially the Internet, allowing a global media presence)
- Reduced protectionism (although this is debatable, with the increase in trading blocs' power. **Trading blocs** are seen as both a contributor to globalisation, with their emphasis on **creating trade** within their boundaries, and also an inhibitor to globalisation, since they **divert trade** away from economies not within their boundaries.)
- Development of international financial markets
- Increasing number and influence of multinational companies
- End of the Cold War and subsequent increase in global labour supply as formerly closed economies in communist countries were opened up.

Content	Reading
<p><b>Patterns of trade</b></p> <p>The G7's share of world trade in manufacturing has fallen significantly over the past century. In global terms, trade flows with Newly Industrialised Countries and the <b>Tiger Economies</b> have radically increased.</p> <p>Trade within trading blocs, such as the EU, has also significantly increased (<b>trade creation</b>), but at the expense of trade with more traditional trading partners, such as between the UK and the Commonwealth countries (<b>trade diversion</b>). Trade has also been influenced by the increase in outsourcing over the past decade or so.</p> <p>Students should be encouraged to look at how patterns of trade have changed, particularly with reference to the growing importance of trading blocs.</p> <p><b>Trading blocs</b></p> <p>There are several types. Free Trade Areas are blocs in which groups of countries agree to abolish trade restrictions between themselves but maintain their own restrictions with other countries.</p> <p>Customs Unions have free trade internally and a common set of protectionist measures. Examples include the EU, NAFTA and ASEAN. They comply with the aims of the WTO in terms of creating trade between members, but they contradict the aims by causing trade diversion, where non-members are excluded from trade in favour of less efficient producers within the bloc.</p> <p><b>Consequences</b></p> <ul style="list-style-type: none"> <li>■ Increased dependency of economies on the output of other economies</li> <li>■ Greater consumer choice</li> <li>■ Lower prices, through specialisation according to comparative advantage</li> <li>■ Increasing environmental destruction and other negative externalities. Students should be aware of environmental problems caused by globalisation, e.g. rising greenhouse gases from cheaper transport.</li> <li>■ 'Footloose' companies (which can cause unemployment as they move from place to place). Global branding and global sourcing should be considered in the light of activity by MNCs/TNCs.</li> <li>■ Possible loss of culture/national identities.</li> <li>■ <b>De-industrialisation</b> in developed countries, combined with a global search for new sources of energy (especially oil/gas reserves) and the growth of economies such as China and India has left many 'Western' countries concerned about their future and their future power in the global economy.</li> </ul> <p>Students should also be introduced to the idea that globalisation is not a new phenomenon and that we have been in a continual process of globalisation since the time of the first humans – this is supported by the fact that the rate of increase in exports has not really changed recently.</p>	
<p><b>2. Conditions that prompt businesses to trade internationally</b></p>	<ul style="list-style-type: none"> <li>■ Push factors, e.g. saturated domestic markets, fierce domestic competition.</li> <li>■ Pull factors, e.g. extending product life cycle, increase in sales and profits.</li> <li>■ Outsourcing and offshoring.</li> </ul> <p>Marcoucé: Unit 75</p>
<p>Look at examples of companies that have extended the product life cycle through selling in new (country) markets or through selling product innovations in multiple (country) markets, or that have sought new (country) markets owing to domestic competition. Examine the implications of global sourcing and improvements in transportation and communication links with countries.</p>	

Content		Reading
<b>3. Global mergers and takeovers</b>	<ul style="list-style-type: none"> <li>■ Spreading risk over different countries/regions.</li> <li>■ Entering new markets/trade blocs.</li> <li>■ Acquiring national/international brand names and patents.</li> <li>■ Securing resources/supplies.</li> <li>■ Maintaining/increasing global competitiveness.</li> </ul>	Hall et al: Unit 90
<p>Students should consider the role of takeovers/mergers in strengthening company position, advantages to a multinational company of global technology, R&amp;D, sourcing, and the ability to balance resource investments in different countries.</p>		

### Activity sheet 1 Why has international trade increased?

#### Task 1

Each student should list 10–20 items in their household that have not been made in their home country. They should then identify why each of these items has been made/bought abroad rather than at home. Teachers should then ask students about their items in order for students to construct a set of notes as to why these items are bought/made abroad.

Reasons that they might identify include:

- exchange rates, e.g. if the domestic currency is relatively strong, buying iPods in the USA proves to be very cheap
- the growth of China as a manufacturer of cheap goods and clothing
- the inability of domestic farmers to grow agricultural products
- trading-bloc membership
- better quality goods abroad, e.g. German-made cars.

This could then lead to a class discussion on the country's main trading partners.

#### Task 2

Students should carry out a short research assignment into one or more of the following case studies:

##### Mobile phones

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The mobile phone industry is growing rapidly in developing countries (where there is no landline infrastructure) — the take-up of mobile phones in India is the fastest anywhere in the world. Students should investigate why companies such as Vodafone and Nokia have chosen to target developing countries as a new source of revenue.

##### Tesco

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Despite being the UK's largest supermarket, Tesco has put in place an international expansion strategy. They now have stores in, for example, Poland, Slovakia, Japan, South Korea and China. A useful website as a starting point is: [www.corporatewatch.org.uk/?lid=252](http://www.corporatewatch.org.uk/?lid=252)

Before starting, students should consider the following quote on UK supermarkets:

*'...they've got nowhere else to go. Their domestic markets are saturated, so they are looking for countries with large populations, high population growth, per capita GDP edging toward consumer levels, high income growth, and low supermarket presence. Countries with all five of these characteristics are a good bet, and companies rush to get there before everyone else.'* (David Hughes, Professor of Agribusiness and Food Marketing at Imperial College, London)

## Coca-Cola Zero

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This new Coca-Cola product was launched in over 20 countries in 2007. Its target market is young adult men who don't want to drink Diet Coke (or Coca-Cola Light as it is branded in most countries) as it is associated with women who are dieting. Students should investigate why Coca-Cola decided to launch this new product and any differences in their launch campaign in the various countries in which it is sold. An excellent source of information, as a starting point, can be found at Wikipedia, [en.wikipedia.org/wiki/Coca-Cola\\_Zero](http://en.wikipedia.org/wiki/Coca-Cola_Zero) — this website also contains a number of links to the official Coca-Cola Zero launch campaigns in various countries.

### Activity sheet 2 Global industries

Students should be introduced to the idea that global companies can develop/manufacture their product globally as well as sell it globally.

#### Task 1 Global sourcing/manufacture

Many companies, especially car manufacturers, make different components in different countries, and then assemble them near to their final market. Students could investigate where Ford, for example, makes its various components. Can they explain why Ford may make different components in different countries?

#### Task 2 Why companies grow internationally

Some markets are considered to be local markets, that is, the goods/services offered are very specific to a geographic area. Examples could include local food items. Other markets are considered to be international markets, where people from all over the world want to buy the same or very similar products. Examples include cars/vehicles, banking/financial services and basic clothing.

- a) Students should then start by listing any examples of global markets they can think of.
- b) They should identify why those markets are global in nature — what is it about them that means people all over the world want those goods.
- c) They should consider the benefits (from the point of view of consumers and of the global business itself) there might be of one company supplying a particular product around the world.
- d) Are there any disadvantages?

#### Task 3 How companies grow internationally

The main ways in which companies can grow internationally include mergers/acquisitions of existing companies overseas or starting from scratch overseas. In a merger and acquisition situation, the company may choose to adopt the name of the company it acquired or change the name to its main trading name. When starting from scratch, it usually makes more sense to keep the main trading name.

Students should research and write a short report outlining the factors that a company should consider in merging with, or acquiring, another company overseas.

### 4.3.2 Changing global economy

Content		Reading
<b>1. Growing economies</b> <ul style="list-style-type: none"> <li>■ Indicators of growth, e.g. GDP per capita, literacy.</li> <li>■ Emergence of the BRICS economies (Brazil, Russia, India, China, South Africa).</li> <li>■ Other growing countries, e.g. Mexico, Indonesia.</li> <li>■ An awareness of other growing regional economies, e.g. Africa, South America.</li> <li>■ Implications of their economic growth for individuals and businesses, e.g. trade opportunities for businesses, employment patterns.</li> </ul>		Marcosé: Units 90
<p><b>Economic growth:</b> an increase in real GDP/an increase in the productive potential of a country. Measured by assessing growth in GDP, or sometimes GDP per capita.</p> <p><b>Economic development:</b> an increase in living standards – this could relate to income per head, levels of education, healthcare, access to housing, etc. Measured in many ways, usually using composite measures such as the Human Development Index (HDI), which provides a score between 0 and 1 based on GDP per capita, literacy rates and life expectancy.</p> <p>Students should consider what makes India, China, Brazil and other countries economically powerful (e.g. population size, economic growth and export rates), and how they impact on individuals or firms with their manufacturing exports. They might also consider how a business might seek to trade with these countries.</p>		

### Activity sheet 3 The economic growth of China and India

Students should start by reading the following:

#### **China and India — economic growth in Asia**

With population sizes of 1.3bn (China) and 1.1bn (India), these countries have a large and relatively poor, but educated, labour force readily available in their quest for economic growth.

China's astonishing growth rates have worried the rich, developed countries, as they struggle to compete with huge quantities of low-cost manufactured goods leaving China every day. China has achieved this through its highly disciplined workforce, often living in appalling conditions for low pay away from their home and families, and its rapidly improving transport infrastructure. It is estimated that one new power station opens every day in China to cope with the ever increasing demands for energy for production purposes. Foreign Direct Investment (FDI) is very high in China, roughly 15 times more than that in India, although much of the Chinese government's own investment is considered to be wasted.

India, on the other hand, is somewhat different. More of its people live in poverty than in China, and more of its workforce are illiterate. India has become known for being the home of outsourced call centres, pharmaceutical companies and software companies. Many of the people in these jobs, however, are graduates. India's transport system is less developed than China's, and government bureaucracy and red tape is high, meaning that the level of FDI is much lower than that entering China. These are probably the main reasons why it has gone down the road of service provision, rather than the provision of manufactured goods. Two-thirds of India's population work in the low-paid, monsoon-affected agricultural sector.

After reading the extract, working in pairs or small groups, students should list as many factors as they can that they think enable a country to grow rapidly. They may wish to do more research before starting on this activity, depending on the available time.

### 4.3.3 Business location

Content		Reading
<b>1. Assessment of a country as a market</b>	<ul style="list-style-type: none"> <li>■ Factors to consider, including:               <ul style="list-style-type: none"> <li>◆ levels and growth of disposable income</li> <li>◆ ease of doing business</li> <li>◆ infrastructure</li> <li>◆ geographic proximity</li> <li>◆ exchange rate.</li> </ul> </li> </ul>	Marcou�: Unit 75 Hall et al: Units 93–94
<p>Measures to attract FDI could include creating a favourable regulatory and tax environment and improving the general ease of doing business, e.g. the World Bank publishes an <i>Ease of Doing Business Index</i> &lt;<a href="http://data.worldbank.org/indicator/IC.BUS.EASE.XQ/countries">http://data.worldbank.org/indicator/IC.BUS.EASE.XQ/countries</a>&gt;.</p> <p>The political environment and respect for property rights and the rule of law will also be factors.</p> <p>Assessment of potential country markets is based on corporate policy (which countries the company wants to target) and market attractiveness. Using one country market (e.g. a European country, USA, India, China, Singapore, Taiwan or South Korea) and a company’s product or service, identify if the country market would be attractive to the company.</p>		
<b>2. Assessment of a country as a production location</b>	<ul style="list-style-type: none"> <li>■ Factors to consider, including:               <ul style="list-style-type: none"> <li>◆ skills and availability of labour force</li> <li>◆ costs of production</li> <li>◆ infrastructure</li> <li>◆ location in trade bloc</li> <li>◆ government incentives</li> <li>◆ ease of doing business</li> <li>◆ natural resources</li> <li>◆ likely return on investment</li> <li>◆ joint ventures.</li> </ul> </li> </ul>	Marcou�: Unit 75 Hall et al: Units 93–94
<p>Case study:</p> <ul style="list-style-type: none"> <li>■ Market attractiveness – BRICs &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9248.aspx">http://community.edexcel.com/business/m/business_gcsegce/9248.aspx</a>&gt;</li> </ul>		

### Activity sheet 4 Identifying a country's attractiveness as a market

The following list of factors should be photocopied so that there is one copy per student pair (depending on class size). The teacher should ensure that students understand the importance of each of the factors before continuing with the activity.

Students should then be allocated one of the scenarios from the second list. They should produce posters outlining all the factors they think are relevant in influencing a company's decision to enter that market. This could be done on a carousel basis, so that students can think about a number of scenarios.

#### Factors that may influence a company's decision to expand into new markets

If the company is aiming to provide goods to consumers within a new country, then they may wish to consider:

- whether GDP per head is rising
- whether there is economic growth
- the degree of urbanisation
- the transport infrastructure to get their products into shops
- whether the product needs to be manufactured in the country of sale and, if so, whether raw materials are available
- cultural similarities
- existing of competitors
- age distribution
- sophistication of advertising media
- exchange rates
- barriers to trade such as tariffs or quotas.

If the company wishes to manufacture goods in a different country, and then sell them elsewhere, they may wish to consider:

- availability of low-cost labour
- level of education
- accessibility of ports/other transport modes
- telecommunications infrastructure
- exchange rates
- banking/financial infrastructure
- availability of natural resources such as oil and timber
- degree of technological sophistication and knowledge
- reliability of the legal system
- local laws, regulations and customs
- level of corporation tax
- language
- the country's political system/degree of government involvement in business activities
- barriers to trade such as tariffs or quotas
- protection of intellectual property, e.g. will trademarks and patents be protected?

### **Potential markets — scenarios**

1. Jack Daniel's (US whiskey company) wanting to sell its products in Ireland.
2. Starbucks wanting to set up coffee shops in China.
3. Motorola wanting to make and sell mobile phones in Nigeria.
4. A UK-based accountancy firm wanting to set up and provide accountancy services in New York, USA.
5. Microsoft outsourcing its software development to India.
6. Cadbury outsourcing its chocolate manufacturing to Brazil.
7. British Gas outsourcing its call centre (dealing with payments, changes of details, subscriptions and gas leaks) to India.
8. Manchester United setting up football schools in Italy.
9. General Motors setting up a production plant for cars in Poland.
10. A UK-based sportswear manufacturer setting up a swimwear manufacture and distribution centre in India.

This list can be added to as contemporary examples develop.

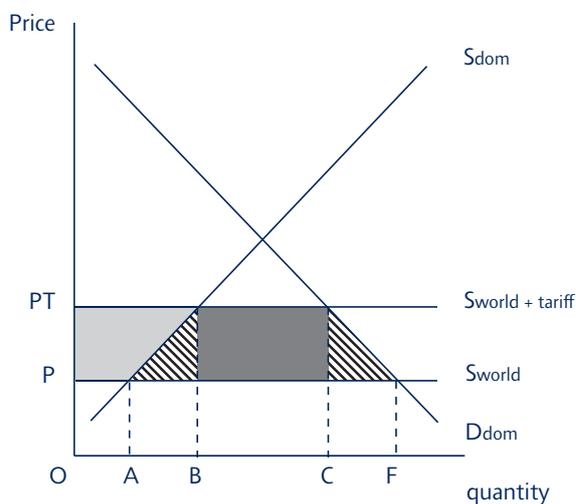
## 4.3.4 Other considerations before trading internationally

Content		Reading
1. Trade barriers	<ul style="list-style-type: none"> <li>■ Protectionism.</li> <li>■ Tariffs.</li> <li>■ Import quotas.</li> <li>■ Other trade barriers, e.g. government legislation, domestic subsidies.</li> </ul>	Marcoué: Unit 80

### Types of protectionism

Tariffs are taxes on imported goods. They are also known as import or customs duties. They raise prices to consumers and restrict imports.

Deadweight welfare loss triangles should be used on tariff/quota diagrams as part of their evaluation.



#### Before tariff

Domestic suppliers supply OA, total demand is OF, so imports are AF.

#### After tariff

Domestic suppliers supply OB total demand is OC, so imports are BC.

Dark grey area shows tariff revenue raised by government.

Light grey area shows additional domestic producer surplus.

Striped triangles show deadweight welfare loss

**Quotas** are a physical limit on the quantity of imports.

They:

- have a similar effect to tariffs but no tax revenue is raised, therefore there is larger domestic welfare loss
- create shortages.

In the Uruguay Round of WTO negotiations, the abolition of quotas on textiles/clothing was achieved from 2005.

**Domestic subsidies** are grants given to domestic producers to enable them to lower production costs, thus lowering prices, which should make the country's products more competitive internationally.

They:

- are difficult for WTO to tackle because not overt protectionism
- incur an opportunity cost.

**Non-tariff barriers** protectionist measures that do not necessarily result in price increases; these might include restrictions on quality (e.g. Kite marks) or product specifications, etc.

Students need to understand why tariffs, laws or import quotas are used, e.g. to protect domestic industries or balance of trade. Students should consider the constraints on businesses that these barriers present.

Content		Reading
<b>2. Ethical considerations</b>	<ul style="list-style-type: none"> <li>■ Stakeholder conflicts.</li> <li>■ Pay and working conditions.</li> <li>■ Environmental considerations, e.g. emissions, waste disposal.</li> <li>■ Supply-chain considerations, e.g. exploitation of labour, child labour.</li> <li>■ Marketing considerations, e.g. misleading product labelling, inappropriate promotional activities.</li> </ul>	Marcou��: Unit 85–86 Hall et al: Unit 125–126
<p>Ethical decisions as to what and where to manufacture, balance between capital and labour, where to sell, pay and working conditions, environmental factors, e.g. emissions, waste disposal. Students should consider the potential conflicts of socially responsible and ethical behaviour with profit-based and other objectives.</p>		
<b>3. Social/cultural differences in doing business</b>	<ul style="list-style-type: none"> <li>■ Considerations for businesses, including:               <ul style="list-style-type: none"> <li>◆ religion</li> <li>◆ cultural differences</li> <li>◆ diet</li> <li>◆ language, e.g. unintended meanings, inappropriate/ inaccurate translations</li> <li>◆ inappropriate branding and promotion</li> <li>◆ gender roles.</li> </ul> </li> </ul>	
<p>There are numerous examples of companies trying to use the same promotional message for each country in which they trade and finding that, when translated, the message is different to what was intended. Students should consider when companies need to use a different promotional message for every country. Students should consider the role of international branding in communications. It is important to emphasise that a businessperson needs to know of any social/cultural differences in order to do business in a certain country. Some companies prefer to use agents as they have local knowledge and appropriate language skills. Students should consider the appropriateness of different distribution channels and pricing strategies for different countries.</p>		

### Activity sheet 5 The use of protectionist policies

#### Task 1

Students should start by defining tariffs and quotas and making notes.

#### Task 2

Students should read the following extract, taken from *The New York Times*, 31 March 2007, regarding the imposition of tariffs by the US government on imports of Chinese paper. They should highlight any reasons given by the USA as to the benefits of this trade restriction, and also highlight, in a different colour, any negative consequences. This should then act as a starting point for a class discussion/debate. Split the class into two groups. One group will need to argue that the tariff is a wise move from the USA's point of view, and the other will need to argue that it is detrimental to the USA.

#### **In Big Shift, U.S. Imposes Tariffs on Chinese Paper**

By STEVEN R. WEISMAN

*Published: March 31, 2007*

WASHINGTON, March 30 — The Bush administration, in a major escalation of trade pressure on China, said Friday that it would reverse more than 20 years of American policy and impose potentially steep tariffs on Chinese manufactured goods on the ground that China is illegally subsidizing some of its exports.

The action, announced by Commerce Secretary Carlos M. Gutierrez, signaled a tougher approach to China at a time when the administration's campaign of quiet diplomacy by Treasury Secretary Henry M. Paulson Jr. has produced few results.

The step also reflected the shift in trade politics since Democrats took control of Congress. The widening American trade deficit with China, which reached a record \$232.5 billion last year, or about a third of the entire trade gap, has been seized upon by Democrats as a symbol of past policy failures that have led to the loss of hundreds of thousands of jobs.

Mr. Gutierrez's announcement has the immediate effect of imposing duties on two Chinese makers of high-gloss paper, one at 10.9 percent and the other 20.4 percent, calculated by adding up the supposedly illegal subsidies.

But trade and industry officials say future actions based on the department's new policy could lead to duties on imports of Chinese steel, plastics, machinery, textiles and many other products sold in the United States, if as expected those industries seek relief and the department finds that they are harmed by illegal subsidies.

Indeed, industry and administration officials say that they chose the high-quality paper industry last year to serve as a test case for a sweeping revision of the administration's previous policies, which did not allow for antisubsidy duties for Communist or other nonmarket economies.

Mr. Gutierrez said that the administration's step was based on careful study of Chinese subsidy practices and was being carried out irrespective of any pressure from Congress.

‘This is simply an application of our law,’ he declared. ‘The message that we have been sending all along to all of our trading partners is that we want fair trade and that we will use every tool at our disposal to guarantee that our workers and our companies have a level playing field.’

A spokesman at the Embassy of China, Chu Maoming, said in Washington that China expressed ‘strong objection’ to the Commerce Department announcement, which he said sets a bad precedent that could damage China-United States relations.

‘The Chinese side strongly urges the U.S. side to reconsider the decision and reverse it as soon as possible,’ he said.

The stock market at first reacted negatively to the news, on fears that a trade war with China could erupt, harming the dollar as well as stocks of companies that rely on trade with China. But stocks later recovered, ending the day barely changed.

Beyond seeking a review of the new policy in coming months, China is expected to challenge it in federal court and also at the World Trade Organization, but not through imposing tariffs of its own on American goods, according to lawyers who have been representing China in the dispute.

Under W.T.O. rules, China must seek recourse through the courts or the W.T.O.’s adjudication process if it hopes to get the new tariffs declared illegal.

Democrats in Congress hailed the announcement by Mr. Gutierrez but said they would continue their efforts to force a tougher policy on China through various pieces of legislation. Many Democrats won their elections last fall in part by advocating a tougher policy on trade with China and other countries where labor and material costs are much lower than those in the United States.

Some lawmakers also complain bitterly that China unfairly ties its currency to the dollar, which aggravates the trade imbalance by making exports to America cheaper and imports to China more expensive. But American officials say there is no thought being given to citing currency policies as a form of subsidy that would bring about import duties.

‘This is a long-overdue change in policy,’ said Sander M. Levin, a Michigan Democrat who is chairman of the trade subcommittee of the House Ways and Means Committee.

He said that lawmakers would nonetheless press for sweeping legislation calling for tougher actions against American trading partners deemed to be engaged in unfair practices. He also said that he would try to enact legislation codifying the new administration policy in case the courts overturn it.

## Activity sheet 6 Responsibility to stakeholders

### Task 1 Identifying stakeholders and their needs.

For most students this should be a revision activity. Ask students to consider a large multinational company. Oil companies such as Shell work well for this activity. Students should identify as many stakeholders as they can and identify the objectives of each of these stakeholders. They should also question whether there are any conflicts between the different objectives. Students could consider how companies can aim to reduce these conflicts. Results can be summarised in a table as follows (some examples have been given as a starting point). Depending on the ability of students in the class, the teacher can provide a blank table or include some examples.

Stakeholder	Objectives	Potential conflict with other stakeholder objectives
Shareholders	Profits, to allow high dividends	
Employees on oil rigs	Strong health and safety guidelines and conditions; good pay	
Petrol consumers	High quality petrol; low prices	

### Task 2 Investigating the rising importance of corporate social responsibility

Corporate social responsibility, or CSR, is one of the 'hottest' topics on many company agendas. The teacher should start this task by asking students what they think CSR actually means. The discussion should revolve around ethical issues, such as reducing pollution, ensuring fair working conditions for overseas workers, and companies 'giving something back' to local communities.

The teacher should then ask students to investigate in small groups one or more of the following examples, in order to make a wall collage of CSR activities:

- **Tesco** heavily promotes its social responsibility actions (Computers For Schools vouchers, donation of 1 per cent of pre-tax profits to charity, etc.) — see [www.tescopl.com/index.asp?pageid=81](http://www.tescopl.com/index.asp?pageid=81) for more details
- **Amway** (one of the world's largest direct sales organisations) works closely with UNICEF (the children's charity) on its One by One programme, which aims to help children in the developing world survive beyond their 5th birthday — see [www.amway.co.uk](http://www.amway.co.uk) for more information
- **Kelloggs** (the cereal company) has been working to encourage people, especially children, to participate in sport and eat more healthily — see [www.kelloggs.co.uk](http://www.kelloggs.co.uk) for more information
- **Costa Coffee** set up its Costa Foundation in 2006 to 'put something back' into the communities from which it gets its coffee beans — see [www.costa.co.uk/costa-foundation/about-the-foundation/](http://www.costa.co.uk/costa-foundation/about-the-foundation/) for more information.

- **BP** (the oil company) is focusing on developing sustainable sources of energy and reducing its impact around the world — see [www.bp.com/en/global/corporate/sustainability.html](http://www.bp.com/en/global/corporate/sustainability.html) for more information.

### Task 3 Assessing the advantages and disadvantages of CSR as a corporate strategy

Students should copy and complete the following table, in terms of the advantages and disadvantages to companies of adopting a CSR strategy.

Advantages	Disadvantages
Encourages consumers to purchase more from them, increasing profit	Can be expensive, therefore increasing costs

### Activity sheet 7 Local/cultural differences

#### Task 1 Introduction to local differences using HSBC adverts

This task can be introduced, if the facilities are available, by showing students a number of TV adverts — HSBC adverts will work very well. Many of these can be downloaded in advance from websites such as [www.visit4ads.com](http://www.visit4ads.com) (which has a school's membership deal), and [www.hsbc.com/about-hsbc/advertising/in-the-future](http://www.hsbc.com/about-hsbc/advertising/in-the-future).

Students should be asked to consider, via class discussion, why companies might be keen to 'customise' their global products for local markets.

#### Task 2 Investigating localised 'global' products

Students should begin by reading the following article, taken from [www.brandchannel.com/features\\_effect.asp?pf\\_id=297](http://www.brandchannel.com/features_effect.asp?pf_id=297) (NB: there are a number of other excellent articles linked at the bottom of this web page).

- a) Students should take brief notes, perhaps in mindmap format, on the various examples provided in the body of the extract.

*In 2003, McDonald's announced that all of its restaurants — 30,000 in over 100 countries — would soon be adopting the same brand packaging for menu items. According to a company press release, the new packaging would feature photographs of real people doing things they enjoy, such as listening to music, playing soccer, and reading to their children. McDonald's global chief marketing officer was quoted as saying, 'It is the first time in our history that a single set of brand packaging, with a single brand message, will be used concurrently around the world.' Two years later, the company appeared to backpedal when it announced plans to localize nutritional value charts on its packages.*

*To the extent that international brands appeal to global tastes, worldwide packaging strategies might be expected to show signs of convergence, especially as consumer tastes around the world become more homogeneous. But there is little evidence that this is happening.*

*Computer manufacturer HP strives to convey brand personality on packages that may need to accommodate text in as many as eight local languages. Fast-moving consumer goods companies, for their part, have hardly been more successful in finding global solutions to their packaging needs. Unilever standardizes some branded products while localizing others. Procter & Gamble adjusts branding strategies across borders. P&G markets its brands in Asia under the company brand name, but in Europe and the US, the product brands are not blatantly branded as P&G brands.*

*Continued on next page*

*Much of the reason is that, with the notable exceptions of a few mono-brands like Coca-Cola and Pepsi, few international brands address the same markets wherever they are sold. Mark Kennedy, chief strategy officer at the brand consulting firm Landor Associates, is of the opinion that the term 'global brand' is actually a misnomer when applied to most brands marketed by international companies. 'There are very few truly global brands — brands that occupy a similar space in multiple markets from the point of view of who they are targeted against and their level of premium-ness in that market. Do they do the same kind of job in all the markets they are in? If they don't, I'm not sure they are global brands,' he says.*

*By way of illustration, Kennedy — whose office is in Hong Kong — points to problems international companies have had entering the Chinese market. Kennedy says there have been three waves of attempts to get a foothold in that country. The first involved joint ventures with Chinese companies, most of which failed. In the second wave, foreign companies attempted to launch international brands without well thought-out marketing plans. These also failed. It has only been in the third wave, he says, that companies have actually attempted to understand the market and its consumer needs—and to develop products to meet those needs.*

*Kennedy says that companies that have successfully entered the Chinese market with an international product have often ended up localizing it, while launching a second 'local' product. The first product remains the premium one and provides profile, but small sales volume. It is the second product that, with its lower marketing costs, yields a high market volume.*

*Local competitors in China typically rush to market with competing products following the successful introduction of a new international product. The super-charged competition encourages consumers to demand products that better meet their needs. By contemporary Western standards, the current proliferation of products and brands in the Chinese marketplace may seem a consumer's dream.*

*Herbert Meyers, co-author of The Visionary Package, says he was astonished on a recent trip to China to see the range of toothpaste offerings there. 'The Colgate packages carried such a variety of promotional copy, all right next to each other on the same shelves, that they, in my view, made no sense at all,' he says. 'Different packages promoted 'MaxFresh Breath Strips,' 'Sensitive Breath Strips,' 'Advanced Whitening,' 'Total Plus Whitening,' 'White Teeth in 14 Days,' and 'Maximum Cavity Protection.'" Adds Meyers, 'If I were looking for Colgate toothpaste there, I wouldn't know which to choose.'*

*The current high level of product differentiation in China may be reminiscent to some in the United States of the 1980s, when American corporations were busy extending their product lines to address every perceptible customer preference. In a 20-month period during 1989 and 1990, for example, Procter & Gamble introduced 90 new products. By 1994, Colgate and Crest each offered more than 35 types and packages of toothpaste.*

*Continued on next page*

*But this situation didn't last. Large retailers in the US began to recognize that they held tremendous power and influence over their suppliers. Taking their cues from the successes of Loblaw's in Canada, Marks & Spencer in the UK, Aldi in Germany, and Carrefour in France, they decided to take on brand manufacturers with their own private store labels. With the additional help of product listing fees, retailers were able to exercise enormous control over what appeared on the shelves. The shift of power to retailers left fewer distribution channels available to brand manufacturers, who had to focus their resources on fewer product variants. The result was a marketing model characterized by fewer 'bigger' brands.*

*Compared to markets in the US, markets in China are at very different levels of development. It may not always be possible to cover the entire market there with a single brand. A mainstream brand in Shanghai, for example, may be super premium in a smaller city. In response, international brand manufacturers have resorted to maintaining very high volume shares. This has effectively translated to producing products to fit every consumer need — usually under one master brand.*

- b) As a follow-up, students can investigate products which are slightly different in the various countries in which they sell.

### 4.3.5 Global marketing

Content		Reading
<b>1. Global marketing</b>	<ul style="list-style-type: none"> <li>■ Global marketing strategy and global localisation (glocalisation).</li> <li>■ Different marketing approaches, including:               <ul style="list-style-type: none"> <li>◆ domestic/ethnocentric</li> <li>◆ mixed/geocentric</li> <li>◆ international/polycentric.</li> </ul> </li> <li>■ Application and adaptation of the marketing mix (4Ps) for global markets.</li> </ul>	Hall et al: Unit 23, 30
<p>Those carrying out global marketing may concentrate on product markets, where there is emphasis on the similarities of customers' aspirations or tastes, and access to media for each country. The promotional message may be the same, leading to reduced average marketing costs. Sales incentives used may vary owing to differences in local market segments. Disney will concentrate on selling their films in countries where there is an existing film distribution, and similar media infrastructure. They may be able to use the same promotional message for their film in each country, reducing the average cost of marketing. For some products, sales incentives may be necessary owing to the use of different distribution channels, e.g. agents or distributors.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Disney &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/2254.aspx">http://community.edexcel.com/business/m/business_gcsegce/2254.aspx</a>&gt;</li> </ul>		
<b>2. Global niche markets</b>	<ul style="list-style-type: none"> <li>■ Definition of international subcultures: groups of people across the globe who have common interests or values.</li> <li>■ Features of global niche markets.</li> <li>■ Application and adaptation of the marketing mix (4Ps) to suit global niches.</li> </ul>	
<p>Students should know that some companies may identify a target market across countries which is much larger than a single domestic market, e.g. for luxury goods. International trends or sub-cultures may exist for some products or services, because they meet shared values and perceptions. For example, the Mercedes brand is respected worldwide, owing to the innovative design and quality of their cars.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ Hermes India &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9215.aspx">http://community.edexcel.com/business/m/business_gcsegce/9215.aspx</a>&gt;</li> </ul>		

## 4.3.6 Multinational Corporations (MNCs)

Content		Reading
<p><b>1. Potential positive impact of multinationals on overseas countries</b></p>	<ul style="list-style-type: none"> <li>■ Positive factors to consider, including:                             <ul style="list-style-type: none"> <li>◆ foreign direct investment (FDI) flows</li> <li>◆ employment and income</li> <li>◆ wider effects, e.g. jobs created indirectly, spread of wealth</li> <li>◆ impact on local businesses</li> <li>◆ impact on wider economy, e.g. tax revenues, economic growth</li> <li>◆ skills and technology transfer</li> <li>◆ corporate social responsibility (CSR).</li> </ul> </li> </ul>	<p>Marcou�: Unit 81 Hall et al: Unit 118, 127</p>
<p>Students should consider examples of the contributions different multinational companies have made to local economies, such as The Body Shop who pay premium prices for produce.</p> <p>Case study:</p> <ul style="list-style-type: none"> <li>■ United Biscuits uses canals &lt;<a href="http://community.edexcel.com/business/m/business_gcsegce/9244.aspx">http://community.edexcel.com/business/m/business_gcsegce/9244.aspx</a>&gt;</li> </ul>		
<p><b>2. Potential negative impact of multinationals on overseas countries</b></p>	<ul style="list-style-type: none"> <li>■ Negative factors to consider, including:                             <ul style="list-style-type: none"> <li>◆ poor wages and working conditions</li> <li>◆ exploitation of labour/child labour</li> <li>◆ impact on local businesses</li> <li>◆ transfer pricing and tax avoidance</li> <li>◆ race to the bottom</li> <li>◆ cultural imperialism</li> <li>◆ environmental impact.</li> </ul> </li> </ul>	<p>Marcou�: Unit 81 Hall et al: Unit 118</p>
<p>Students should consider the potential negative impact of multinationals on foreign governments in gaining concessions: exploitation of labour in developing countries, implementation of working practices that would be unacceptable in their home country, sale of unsafe products to consumers, use of unsustainable resources, and degradation of the local environment.</p>		
<p><b>3. Controlling multinationals</b></p>	<ul style="list-style-type: none"> <li>■ Factors to consider, including:                             <ul style="list-style-type: none"> <li>◆ political influence</li> <li>◆ legal control</li> <li>◆ pressure groups</li> <li>◆ social media.</li> </ul> </li> </ul>	<p>Marcou�: Unit 85 Hall et al: Unit 124</p>

Content	Reading
<p>Students should identify ways of controlling multinational firms, e.g. political, legal or economic constraints, competition policy, pressure groups.</p> <p>Measures to control MNC operations might include a requirement that local factors of production, such as labour and local component suppliers, are used; a requirement that the MNC exports as much as it imports, or exports a certain proportion of its output; and requirements to set up joint ventures with technology transfer to the domestic firm. Measures to regulate transfer pricing are more difficult for less powerful countries.</p> <p>One limit to a government's ability to control MNCs is that many are 'footloose'. Other limits might be international agreements a government has signed up to. The WTO has introduced TRIMS (Trade Related Investment Measures) which can limit the ability of governments to control MNCs, e.g. banning the use of local content requirements.</p> <p>Pressure groups protecting suppliers tend to be trade associations or industry groups, who lobby governments hoping to ensure that laws unfavourable to their industry do not get passed. The tobacco industry is perhaps a good example.</p> <p>Pressure groups protecting employees will tend to try to influence government social policy in areas such as child labour, working hours and conditions, paid holidays, maternity and paternity rights. This may well bring them into conflict with pressure groups protecting the interests of business owners.</p>	

### Activity sheet 8 The role of multinationals

#### Task 1 Positive influences of multinational companies (MNCs) on host countries

##### The Body Shop's Community Trade and Protect our Planet programmes

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Students should be directed towards the following web page as a starting point:

[www.thebodyshop.com/values/index.aspx](http://www.thebodyshop.com/values/index.aspx)

##### Green & Black's organic fair trade chocolate range

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Students should be directed towards the following website:

[www.greenandblacks.com](http://www.greenandblacks.com)

The aim of this short task is to enable students to get to grips with the idea of ethical trading and the positive influence that MNCs can have on host countries.

Following initial research, students should work in twos or threes to produce a colourful spider diagram outlining some of the benefits that MNCs can provide to their host countries. Some initial ideas are:

- increased employment
- higher income
- provision of education/training
- investment in local infrastructure, e.g. electricity supply, roads, banks.

##### The growth of MNCs into niche markets and global market niches

Previously in this unit, students will have looked at how MNCs grow internationally, either through acquisition/merger or through setting up new branches in host countries. Students should be aware that companies also grow through acquiring other MNCs that may offer a product that fits neatly into their existing portfolio.

One global market niche that has developed fairly recently is fair trade or ethical consumerism. The following examples should be used as investigation material for students. The class should be split into groups and each group allocated one area to investigate. They should produce a small poster and present their findings to the rest of the class.

### Green & Black's

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In Task 1, students will have found that Green & Black's promotes itself as a provider of ethical chocolate. However, it is now owned by Cadbury Schweppes. Students should research the details of this acquisition. They should produce an A4 poster outlining what advantages Cadbury Schweppes will have gained from this acquisition, and whether there will be a positive or negative influence on the countries in which Green & Black's has operations.

### Ben & Jerry's

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Ben & Jerry's is committed to providing a fair income to farmers, promoting education, and is keenly aware of its environmental impact. They make their packaging from environmentally friendly sustainable sources and give a significant proportion of their pre-tax profits to charity. However, they were taken over by Unilever in 2000. Students should outline what benefits Unilever, as an MNC, might have hoped to gain from this acquisition, and whether there has been any detrimental effect on Ben and Jerry's as a brand.

### P J Smoothies

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P J Smoothies operate at the 'luxury' end of the fruit drinks market in the UK, with about 30 per cent of the market share. They were bought for an undisclosed sum by PepsiCo in 2005. Students should investigate the advantages this acquisition brought to PepsiCo, and whether there were any detrimental effects on P J Smoothies as a brand.

### Task 2 Negative influences of MNCs on host countries

There are a number of case studies that can be investigated. Students should be split into small groups and each group allocated one case study to investigate. They should produce a summary of the problems, as well as any actions taken by the host country and the MNC to address the problems. All of these cases are well-documented on the Internet and this should be used as the primary research tool.

- a) Coca-Cola's activity in Kerala, India (where their use of water to manufacture Coca-Cola led to severe shortages of drinking water for locals in 2003).
- b) The accident at the Union Carbide plant in Bhopal, India, in December 1984 (where a lack of health and safety protocol led to the production of toxic gas, killing thousands of people).
- c) Nike have been criticised by international pressure groups for allowing 'sweatshops' to manufacture their clothing and footwear ranges, where workers are paid low wages and work in poor conditions. There are many documented examples which students could investigate.
- d) Nestlé's baby formula milk issue in Africa, where they advertised formula milk and gave it away free. One of the problems here is that the water used to make up the milk in some African countries can be contaminated.
- e) Shell's activities in Nigeria, where oil spills in the early 1990s led to thousands of deaths from poisoning, and subsequently from cancer.

### Task 3 Tackling MNCs

Many developed countries have advanced legal frameworks to deal with activity by MNCs. For example, in the EU there are working time directives and established laws dealing with employee rights and pollution. However, in many Less Developed Countries, the government often turns a blind eye and actively encourages MNC activity. For example, in China unionisation is banned, allowing workers to be exploited (admittedly by both MNCs and its own companies).

Students should work towards constructing a wall display. There should be a section on the laws against unethical or exploitative activity by MNCs in developed and developing countries. There should also be a section on approaches adopted in host countries that allow MNCs to behave in certain ways. Finally, there should be a section outlining Non-Government Organisation (NGO) activities and the activities of pressure groups (some websites are given below) that aim to counteract how governments in developing countries deal with exploitative behaviour by MNCs.

[www.ethicalconsumer.org](http://www.ethicalconsumer.org)

[www.greenpeace.org.uk](http://www.greenpeace.org.uk)

# B Getting started for students

## Student Guide

### What do I need to know, or be able to do, before taking this course?

You may not have studied any business-related subjects before, but that does not matter! What is much more important is that you want to know how to succeed in setting up and running a business. There are many reasons why people want to set up businesses — perhaps they want to make money for themselves or their family or they want to contribute something special to the life of their community. However, most schools or colleges will expect you to have achieved at least a grade 'C' in GCSE/International GCSE Maths and English.

### What will I learn?

#### Unit 1: Business Enterprise

This unit provides an introduction to business practice, the importance of the market and how businesses interact with customers and competitors. Students will learn about the role of the entrepreneur, market research techniques, the importance and use of finance, break-even analysis and how to measure and analyse business performance. They will also consider how the wider economic environment and stakeholders may affect businesses, large and small.

#### Unit 2: Business Structures and Processes

This unit covers the key functional areas of a business. Students will develop their understanding of how businesses relate to their customers and analyse change in their markets. The unit introduces students to business operations and develops their understanding of finance and why businesses may fail. Students will also consider how businesses manage their people effectively.

#### Unit 3: Strategic Business Decisions

This unit develops the content of Unit 2 and examines the competitiveness of businesses through performance and non-performance indicators. Students will analyse corporate objectives and strategy on the basis of these indicators and on external influences to businesses. Students will assess the causes and effects of change on businesses and examine how companies can manage risk and grow effectively.

#### Unit 4: Business in a Global Context

This synoptic unit focuses on the world of international business, and considers change and growth in global economies. Students will examine the different factors businesses have to consider when operating in a global market. Students will also assess the impact of multinational corporations on the global economy.

### Is this the right subject for me?

This course is suitable if you:

- prefer examinations to coursework
- are prepared to take an interest in current national news and international business news
- want to learn how to analyse information effectively and suggest solutions to real business problems
- enjoy analysing and presenting the merits of alternative courses of action
- want to gain a background in business to enable you to gain a future management position in any organisation.

### How will I be assessed?

Unit number and unit title	Level	Assessment information	Total raw marks
<b>Unit 1: Business Enterprise</b>	IAS	Examination length: 1 hour and 30 minutes Examination paper in two sections: <b>Section A</b> Supported multiple-choice questions. Worth 24 marks. <b>Section B</b> Questions based on data. Worth 56 marks.	80
<b>Unit 2: Business Structures and Processes</b>	IAS	Examination length: 1 hour and 30 minutes Examination paper in two sections: <b>Section A</b> Supported multiple-choice questions. Worth 24 marks. <b>Section B</b> Questions based on data. Worth 56 marks.	80
<b>Unit 3: Strategic Business Decisions</b>	IA2	Examination length: 2 hours Examination paper in two sections: <b>Section A</b> Questions based on data. Worth 40 marks. <b>Section B</b> Questions based on data. Worth 40 marks. The case studies for Sections A and B will have a linked context.	80
<b>Unit 4: Business in a Global Context</b>	IA2	Examination length: 2 hours Examination paper in two sections: <b>Section A</b> Questions based on data. Worth 40 marks. <b>Section B</b> Questions based on data. Worth 40 marks. The case studies for Sections A and B will not be linked.	80

## What can I do after I've completed the course?

The course provides a solid foundation for studies at a higher level in the following subject areas:

- business management
- business administration
- accountancy and finance
- human resource management
- marketing
- retail management
- tourism management
- international business.

It can also lead on to a career in the commercial world, for example, in banking, sales, product management or general management. Business and management skills are also desirable in public sector organisations or charities.

## Next steps

You should find out:

- what grade you are likely to get in your GCSE/International GCSE Maths and English
- whether an IAL in Business Studies will help you to progress on to the degree course or job that you want to do
- about the specification for each unit, which can be found under the IAL Business Studies subject heading on [www.edexcel.com/ial](http://www.edexcel.com/ial), the Edexcel website.

For more information on Edexcel and BTEC qualifications  
please visit our website: [www.edexcel.com](http://www.edexcel.com)

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