Production

Stage 1 - Research what customers want and develop and design products to meet their needs.
Stage 2 - Identify resources and create finished product in order to achieve added value.
Stage 3 - Feedback from customers.

Job production: Where products are made individually

Ads:
- Products are usually high quality
- Products can be made to meet the needs of individual customers
- Workers often get more satisfaction from working on something until it is finished

Disads
- Costs of production will be high
- Labours costs may be high because job production often requires skilled labour

Batch production: Where one product is made and then production shifts and they make another product.

Ads:
- Needs of different customers can be met by making batches of different goods
- Batches are made to meet specific orders from customers and this may reduce costs because the goods may not need storing
- It may be possible to use specialist machines to save costs

Disads
- It takes time to switch production to another batch
- Have high level of stock and materials for different batches
- Task repetitive and boring for workers

Process production: Usually an automotive process suited to the large-scale manufacture of products.

Ads:
- Large amounts can be made
- Processes can be automated to allow production costs to be kept low
- Ideal for products that have to be consistent and exacting quality

Disads
- It is very expensive to set up a process system of production
- A problem with one part of the production process stops the whole process

Flow production: Production of one product takes place continuously using a production or assembly line

Ads:
- Large amount can be made
- Costs of production for each unit are low because of Economies of large scale
- Machinery can be used, help keeping costs low
- Improvement in technology mean that not all products need to be the same; variations can programmed in the machines

Disads
- Goods are mass-produced and may not be of good quality
- It is very expensive to set up a production line
- Large stocks of materials may have to be kept
- If the production stops at any point on the assembly line the may be a complete shut down
- Jobs on the assembly line can be repetitive and boring

Division of Labour: the organisation of production into a number of specialised ‘simple’ repetitive processes

Specialisation: occurs in production processes where workers specialise in carrying out one or several related, but simple, production tasks.

Quality and productivity

Technology in production
Ads
- Large amounts can be made
- Productivity of workers improves
- Quality of production can improve - less mistakes
- Production can be flexible - machines programmed
- Repetitive or dangerous jobs done by machine

Disads
- Machines replace workers making them redundant
- May need to employ skilled workers to work machines
- Need to retrain existing employees to use new tech
- Purchasing and installation expensive

Lean production: A production system which helps ensure waste is kept to a minimum i.e. JIT
JIT - Stocks of materials and components aren't stored but ordered and used when needed

Quality Control: Checking the quality of goods/services
Important:
- Poor quality goods don't sell
- Poor quality goods only sell at discounted prices known as seconds
- Customer unhappy if receiving poor quality goods - returns
- Production may be disrupted to correct quality issues further down the line.

TQM - Total quality management - every worker is responsible for their own quality - check work themselves against standard checklist.

Economies of Scale - the bigger you are the lower the unit cost becomes because of the following:

- Technical - saves on costs by using better methods and machinery
- Managerial - employ specialist managers who improve efficiency
- Financial - dont have to pay out as much money to raise finance
- Risk bearing - range of products or services so don't have to rely on just one
- Purchasing - discounts for bulk buying
- Marketing - saves on advertising and transport costs

Diseconomies of scale - Get too big and problems occur such as communication

Revenue

Sales Revenue = Quantity Sold x selling price

Increasing sales revenue:

- Changing the price it charges - either raising it or lowering it
- Increasing the amount it sells

Factors affecting the price change:
- The number of competitors
- What competitors do (i.e. raise or lower the price)
- If the product is a necessity
- How much people spend on it already

Increasing the amount sold:
- Increase advertising
- Sell in greater number of outlets
- Increase product range

Profit

Gross profit = Sales Revenue - costs of goods sold
Net Profit = Gross profit - running costs
Profit margin = Gross profit ÷ cost of goods (per unit)

Running costs: wages, electricity, interest, advertising

What affects the amount of profit or loss?

- Type and size of business
- Objectives
- Demand for product
- Price consumers are willing to pay
- Controlling of costs
- Amount of competition
- Costs of setting up

Dividend - profits divided up and given to shareholders.
Drawings - Profits given to owners of unincorporated

Costs and breakeven

Costs

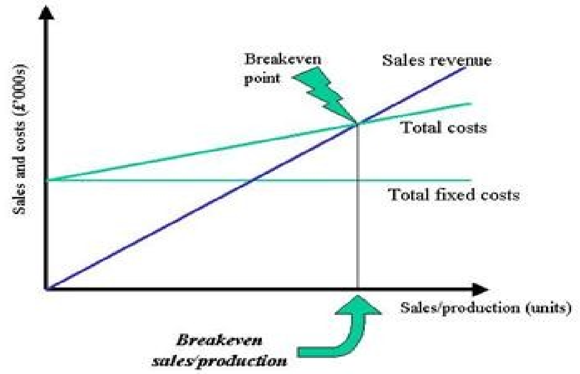
Fixed costs (FC): Cost that don't change with output, i.e. Rent (doesn't matter how many pens [output] I make my rent will always be the same)

Variable cost (VC): Costs that change with output, i.e. wages, electricity , materials (the more pens [output] I make the higher these costs will be)

Total Costs (TC): Fixed costs + variable costs (FC + VC)

Average Costs: Total Costs ÷ amount sold

Managing Costs
- Spreading fixed costs - increase production so unit costs fall
- Reducing the amount paid for resources and materials
- Increasing the efficiency of labour - improve worker motivation



- By achieving economies of scale

Break-even: Forecast of amount of sales need to make profit

Margin of safety = Actual Sales - breakeven point

Limitations:
- Forecast figures may turn out to be different
- The figures usually relate to one product
- All output is sold (just because you plan to make 100 products doesn't mean they sell 100 products)

Price or Costs change:
- The number of competitors in the market may change
- Cost of ingredients may change

Calculating break even

Break-even = $\dfrac{\text{Total Fixed costs}}{\text{Selling price - variable costs (per unit)}}$

Cash flow

Forecast: A prediction of cash in and out of the business

Balance *brought* forward: Cash in the bank at the beginning of the month
Balance *carried* forward: Balance at the end of the month (after adding income and taking away expenditure)
Negative cash-flow: Where the balance carried forward is negative.

Is -ve a problem?:
- Negative balance may only be temporary
- May need additional finance to cover it
- May have to delay payment for money owed until -ve balance is covered
- Could result in business unable to buy some equipment until cash position improves

Why forecast cash flow?
- To identify when the business is likely to have a short-age or surplus of cash, and what to do about it
- Help the business plan for the future
- To provide targets i.e. sales targets for staff

Problems and limitations
- Prices of goods or materials may change
- New competitor enters the market
- Tastes of customers may change
- New technology may allow new and better products to be developed
- Figures are only estimates
- Estimates are more accurate if based on past performance
- Forecast needs to be updated regularly

Competition

Competitive market: many firms, many products (all different), low prices, advertising is used to get edge, branding is used to gain loyalty, locations used that are convenient for customers

Monopoly: One firm, one main product, high prices, advertising used to stop competition, patents used, economies of scale, high start up costs stop new firms entering

Very competitive ⟷ Monopoly

$$\text{Market Share} = \frac{\text{sales of business}}{\text{total sales in the market}} \times 100$$

Market share: The % of sales that belong to the firm in that market

How to increase competition in a market:
- New firms entering a market
- Privatisation - government owned businesses get sold off
- Selling new products
- Cutting prices
- Increasing advertising

How to decrease competition in a market:
- Taking over competitors or merging
- Using marketing to increase market share
- Patent or copyrighting their products
- Collusion - working together

The European Union

Benefits to business:
- A bigger market - more people to sell to
- Common standards - i.e. safety, quality
- Free trade - no trade taxes or tariffs
- Free movement of goods and services - business can sell their goods anywhere over EU
- Freedom of movement for workers - workers can move and work anywhere easily in side of EU
- Grants and subsidies

Problems for business
- A bigger market - more competition
- Social charter i.e. minimum wage, max 48hr week
- Environmental standards

Business Ethics - What is morally correct and wrong

Child labour - use of children in order to achieve low cost production
Human rights - people are entitled to the basic rights and freedom

Environmental influences

Importance of environment:
- It provides us with natural resources
- It is something we get pleasure form
- It is somewhere to dump waste

Social costs
- We are using up non-renewable resources
- We are spoiling the look of natural resources
- Causing congestion on roads
- Causing pollution and global warming
- Air pollution
- Noise pollution

Government and environment
- Taxes
- Rules and regulations
- Advertising and labelling and education
- Carbon permits - credit limited given on air pollution
- Recycling
- Grants and tax relief

Globalisation - activities between different countries and business.

Benefits of globalisation for the UK:
- Consumer choice
- Lower prices
- Cheaper labour
- Labour market
- Economies of scale
- More jobs

The problems of globalisation for the UK:
- Lower profits
- Lower sales
- Business closures and the loss of jobs

Globalisation and developing countries:
The Good: improvements in living standards and creates jobs
The Bad: Exploitation

Exchange rates - the amount of one currency that another currency can buy i.e. £1 = $1.5

Exchange rate falls - Exporters benefit as their goods are now cheaper to buy abroad; BUT importers into the UK now have to spend more money importing goods
Exchange rate rises - The opposite of above.

The Euro
Ads
- No exchange costs
- Reduced uncertainty - prices stay the same
- Comparing prices is easier if all in the same currency

DisAd
- UK be run under one set of financial rules governed by ECB

Government and business - Demand

Rising employment and rising consumer incomes - economic growth
Falling employment and consumer incomes - recession

Interest rates - the charge made to people and businesses for lending money. Alternatively, it is the reward to people and businesses for saving money.

How it affects business
- It is the cost to the business of borrowing money
- It is the cost to the consumer of borrowing money
- It is the reward for saving

i.e. the higher the rate the more expensive it is to borrow but better to save.

The Bank of England - set interest rates. If inflation is high then interest rate is raised to encourage saving, not spending

Government spending and taxation
The government spends money on:
- To provide good and services
- To help poorer or unfortunate people in the community
- To help businesses

Taxation

We pay tax for two reasons:
1. The government use the money to spend on public services
2. Use the tax to put the price of certain goods up so people buy less i.e. alcohol, cigarettes and petrol.

Types of Tax: income tax, National insurance, corporation tax, VAT, exercise duty, business rates

Government and business - supply

Basically foreign firms do most things cheaper than we can, especially manufacturing.

How do UK firms succeed?
- Produce the rights good and services
- Produce at the right price
- Good marketing
- Delivery at the right time
- Outsource or moving abroad
- High value added
- Inward investment

How can the government help?
- Cuts in taxes on busies profits
- Grants to businesses
- Cuts in income tax
- Education and training
- Improving infrastructure