UNIT 3 – PRODUCTION, FINANCE AND EXTERNAL ENVIRONMENT

Production is about creating goods and services. Managers have to decide on the most efficient way of organising production for their particular product.

Choosing a production method

The best method of production depends on the type of product being made and the size of the market.

Small firms operating in the service sector, such as plumbers or beauticians, opt for **job production** because each customer has individual needs. Niche manufacturers of items such as made-to-measure suits would also use job production because each item they make is different.

Batch production is used to meet group orders. For example, a set of machines could be set up to make 500 size 12 dresses and then adjusted to make 600 size 12 dresses. Two batches have been made.
Batch production is where a large or small quantity (batch) of the same item is produced at the same time. It does not involve continuous production of these items – as with flow

Flow production is used to mass produce everyday standardised (all the same) items such as soap powder and canned drinks.

The main advantages and disadvantages of using job production include:

Advantages	Disadvantages
Product usually high quality	Cost of producing one unit or job is higher
Producer meets individual customer needs	Labour –intensive
Greater job satisfaction – involved in all stages of production	Requires investment in skills and training

Cost implications like these are common with job or small batch production systems in comparison to mass and flow production systems which are cheaper.

The benefits and drawbacks of batch production include:

Advantages	Disadvantages
Making in batches reduces unit costs	Time lost switching between batches – machinery may need to be reset
Can still address specific customer needs (e.g. size, weight, style)	Need to keep stocks of raw materials. Cash also investment in work-in-progress
Use of specialist machinery & skills can increase output and productivity	Potentially de-motivating for staff

The benefits and drawbacks of flow production include:

Advantages	Disadvantages
Ideal for large-scale production of mass-market products	Expensive set up
Cost per unit is low	Large stocks may be needed unless lean production (e.g. JIT) is used
Can still use computer-programmed machinery to create personalised products	Jobs can be repetitive and boring

There is a forth method of production and this is **PROCESS** production. This is when production is carried out in a sealed unit – totally automated.

Capital intensive:

- Where the production of goods is mainly by machines/technology
- Use of technology e.g. automated ticket machines.
- *Possible introduction of state-of-the-art automatic vending machines for some food products*

Labour intensive:

- Where the production of goods and services is mainly by workers
- Staff for selling, tickets, manning booths, running the films.

Quality

Quality is very important to businesses. If the quality of the product is poor the reputation of the business can be poor. So if the quality of the products/ services is good so should the business' reputation!

Why making high quality products is important

Consumers will not buy from the same company twice if they are supplied with poor quality products.

- For example, if your car keeps breaking down you are unlikely to buy the same car again

Also, if goods are not of a good quality:

- They may not be able to be sold, and may have to be thrown away
- Or, if they are sold:
  - they may have to be sold at a reduced price
  - they may be returned

Finally, relations with customers are affected, which will lead to:

- Less repeat purchases
- Poor word-of-mouth publicity
- Time costs in dealing with complaints etc.

Quality control

In the past, quality control was undertaken by **quality-control inspectors**. These people would inspect a small amount of the products being made, and would check for mistakes. They may have sampled/inspected as few as 1 in 2,000 products made.

Quality Control was the traditional method of checking quality
A product was checked at the end of the process and if it was okay – they would sell it, if not they would throw it away or sell it as a 'second'

Why is quality important?

- Lower wastage
- Better quality products can lead to a higher selling price
- Helps develop a quality USP
- Can be marketed and communicated with customers.

BUT, things have changed… the job of quality control is now in the hands of the workers doing the job. They check their own work, and that of their colleagues. So, throughout the production process, quality is being continually checked. This is known as **Total Quality Management (TQM).**

TQM

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So, Total Quality Management spreads out the work, and puts it in the hands of the experts (i.e. the people making the product).

This is important due to the increasingly complex nature of modern products. For example, it would be impossible for a quality control inspector to check that all 10,000+ parts in a car are all working and have all been fitted properly.

TQM is therefore mainly used when making products with lots of different parts.

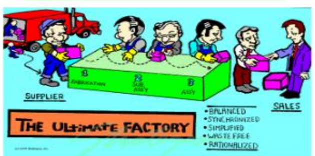
Achieving high quality?	
Total Quality Management (TQM)	Quality Control
This means that everyone is responsible for their own quality – this is what is known as quality assurance.	Employing quality inspectors to check the quality of products at a number of stages in the production process.

What are the benefits of TQM?

- TQM would be cheaper as extra quality control staff are not needed.
- TQM is more suitable for highly skilled workers
- Can be more motivating as staff feel more involved with the business.

Quality Assurance

This is the process where the manufacturer assures the customer that the product is of a certain standard.
This is related to BSI and ISO 9000
The aim of quality assurance is to prevent production problems before they occur, not after.



Just In Time (JIT)

JIT is when companies do not hold large quantities of raw materials/ components. Instead, they get their suppliers to deliver raw materials/parts Just In Time. Just In Time places the responsibility on the supplier to be on time and, as such, the supplier must be reliable and must always deliver the correct quality required amount of stock.

This saves on costs

There are costs associated with storing large quantities of stock. For example, you have to have a warehouse (buildings cost money – security, electricity, insurance etc.) and there is a greater risk of parts being damaged being moved in and out of the warehouse.

However, the risk is that if there's a delay in delivery or there is a problem with the raw materials/parts, production will have to stop. For example, a one-day delay could stop the production of 500 cars. (If each car sold at £10,000, that would cost the manufacturer £5,000,000 worth of sales revenue.)

<u>Value added</u>

When companies **add value** they are able to sell their products/services for more than the **cost of production**.

For example, it costs Starbucks £0.40 to make a cup of coffee, yet they charge customers £2.50.

In this example, they have added £2.10 of value to the cost of the raw materials.

There are many ways of adding value, for example:

- Coca-Cola can charge more because of their strong brand.
- Toyota can charge more due to the high quality of their products.
- Boots can charge more due to their excellent customer service.

The impact of technology on production

Technology has made it possible to make higher quality products for less money.

Key words

1. **Mechanisation**
- This is when machinery is used but labour is still required to operate it
  - For example, fork-lift trucks
- This makes production more efficient

2. **Automation**
- This is when machinery is used and a computer controls it
  - For example, car production lines
- Workers are still employed to supervise and program the computers
- It's easy to remember: autopilot is when a computer is flying the plane

3. **CAD (Computer Aided Design)** – This is when computers are used to design products. Almost all products are now designed on computers, as it is easier to make changes, and save/share information.

4. **CAM (Computer Aided Manufacturer)** – This is when computers control the machines in the manufacturing process.

5. **CIM (Computer Integrated Manufacturer)** – This is when the whole factory is controlled by a computer.

6. **Productivity** – Companies always want to try to make more using the same or less resources. For example, if a motorbike factory employed 50 workers per 1,000 bikes it made, it would look to reduce that number of employees (possibly using automation or mechanisation). If they managed to do this, they would have been said to have **improved productivity**.

How technology helps

1. It enables companies to make higher quality goods. It is possible to engineer to a hundred of a millimetre using machinery. Humans are at least 100 times less precise.

2. It is possible for computers to detect minor defects in goods being made. This leads to less poor quality products.

3. Computers, machines, robots etc. don't get paid, don't need to take holidays, and can work 24/7 all year round – they are much cheaper than humans. This means, by using technology, companies can reduce their costs and produce more.

4. Machines are faster – one machine can often do the work of 50 workers.

5. The Internet has also enabled companies to sell all over the world. For some companies, it has reduced their production, transportation and retail space costs significantly (for example, iTunes, sell downloads).

6. Some workers can use technology to work from home, or they may be able to check the quality of work being done from remote locations.

The downside of technology

1. Often technology is very expensive to buy, and it can date quickly. This means the up-front costs are often high, and companies may have to buy replacement equipment every few years.

2. Some workers could lose their jobs if they are replaced by machines. A simple example, years ago people were employed to put lids on jars… all of these people have now been replaced by machines.

3. There are now far less unskilled jobs as a result of technology – this means that companies may have to retrain staff if their job has been replaced by a machine (which could include training on how to operate and repair the new machine). This costs the company money.

Production costs

Business costs are therefore organised into the following two categories:

- Fixed Costs
- Variable Costs

Fixed costs - costs that stay the same regardless of output. (at least in the short term) Examples: rent, telephone bill, insurance, interest repayments. **TAX is NOT a cost**

Variable costs – costs that change according to the level of output. Costs include, for example, the cost of materials used to make businesses products.

Total costs - the total cost of producing all output over a period of time, e.g. daily, weekly, monthly, quarterly or yearly. Total cost is calculated by adding together the total fixed costs and total variable costs.

Average costs (or unit costs) - the average cost per unit of output is calculated by dividing the total costs that are involved in producing a certain level of output with the level of output (number of items produced).

ECONOMIES OF SCALE: - Occur when a business increases its scale of production and this leads to a decrease in average costs.

Purchasing economies when large businesses often receive a discount because they are buying in bulk.

Marketing economies from spreading the fixed cost of promotion over a larger level of output.

Administrative economies from spreading the fixed cost of management staff and IT systems over a larger level of output.

Research and development economies from spreading the fixed costs of developing new or improved products over a larger level of output.

Managerial economies businesses that can employ specialist managers can run their business more **efficiently.**

Technical Economies of Scale. This is when bigger businesses can use better technology so therefore produce products cheaper and more efficiently.

It is important not to confuse **total cost** with **average cost**. As a firm grows in size its total costs rise because it is necessary to use more resources. However, the benefits of becoming bigger can mean a fall in the average cost of making one item.

Diseconomies of scale

A business can become so large that its unit costs begin to rise. Expanding firms can experience **diseconomies of scale**. Causes include:

Ineffective communication. Coordinating large numbers of staff becomes a challenge. Big businesses can develop many levels of hierarchy which slow down communication or even lead to miscommunication.

Reduced motivation. Staff can feel remote and unappreciated in a large organisation. When staff productivity begins to fall, unit costs begin to rise.

Financial information and decision making

Why business needs finance

Finance refers to sources of money for a business. Firms need finance to:

- Start up a business, e.g. pay for premises, new equipment and advertising.

- Run the business, e.g. having enough cash to pay staff wages and suppliers on time.

- Expand the business, e.g. having funds to pay for a new branch in a different city or country.

- New businesses find it difficult to raise finance because they usually have just a few customers and many competitors. Lenders are put off by the risk that the start-up may fail. If that happens, the owners may be unable to repay borrowed money.

Sources of finance

Some sources of finance are short term and must be paid back within a year. Other sources of finance are long term and can be paid back over many years.

Internal sources of finance are funds found inside the business. For example, profits can be kept back to finance expansion. Alternatively the business can sell assets (items it owns) that are no longer really needed to free up cash.

External sources of finance are found outside the business, e.g. from creditors or banks.
Short-term sources of external finance

Sources of external finance to cover the short term include:

An overdraft facility, where a bank allows a firm to take out more money than it has in its bank account.

Trade credits, where suppliers deliver goods now and are willing to wait for a number of days before payment.

Factoring, where firms sell their invoices to a factor such as a bank. They do this for some cash right away, rather than waiting 28 days to be paid the full amount.

Long-term sources of external finance

Sources of external finance to cover the long term include:

- Owners who invest money in the business. For sole traders and partners this can be their savings. For companies, the funding invested by shareholders is called share capital.

- Loans from a bank or from family and friends.

- Debentures are loans made to a company.

- A mortgage, which is a special type of loan for buying property where monthly payments are spread over a number of years.

- Hire purchase or leasing, where monthly payments are made for use of equipment such as a car. Leased equipment is rented and not owned by the firm. Hired equipment is owned by the firm after the final payment.

- Grants from charities or the government to help businesses get started, especially in areas of high unemployment

Advantages and Disadvantages of different Sources of Finance

Method	Advantage	Disadvantage
Share Capital – raising money buy issuing more shares	• Can gain a large amount of money • Do not have to pay any back • Not affected by interest rates	• Will have to pay out more dividends each year • Existing owners may lose control of the business if they have to take on new shareholders
Retained Profit – using profit that the business has made	• They do not need to borrow • No interest • Do not have to pay any back	• Might not be able to fund the whole amount • There will be no money left for emergencies or future investments.
Leasing – this is renting instead of buying.	• No debt • Can make upgrades to furnishings	• Normally end up paying more than if you bought the items •
Loan – borrowing the amount needed from the bank	• The money comes straight away – so they can start the refurb soon • They can borrow the exact amount needed	• Has to be repaid with interest

Financial forecasting and analysis

Cash flow is the movement of money in and out of the business.

Cash flows out of the business when bills are paid

Cash flows into the business as receipts, e.g. from cash received from selling products or from loans.

Cash flows out of the business as payments, e.g. to pay wages, supplies and interest on loans.

Net cash flow is the difference between money in and money out.

Profit and cash flow are two very different things. Cash flow is simply about money coming and going from the business. The challenge for managers is to make sure there is always enough cash to pay expenses when they are due, as running out of cash threatens the survival of the business.

Main types of cash inflow and outflow

The main types of cash flow can be summarised as follows:

Cash Inflows

- Cash sales
- Receipts from trade customers
- Sale of spare assets
- Investment of share capital
- Personal funds invested
- Receipt of bank loan
- Government grants
- Receipts from factoring

Cash Outflows

- Payment of wages & salaries
- Payment of suppliers (e.g. raw materials, stocks)
- Buying equipment
- Interest on bank loan or overdraft
- Payment of dividends
- Repayment of loans
- Payment of leasing or hire purchase rentals
- Income tax, VAT & Corporation tax

Example of a cash flow forecast

Money carried over at the end of the previous month

	July £s	August £s	September £s
Balance brought forward	2,000	1,400	(1,000)
INCOME			
Sales of goods	10,000	8,000	11,000
TOTAL INCOME	12,000	9,400	10,000
EXPENDITURE			
Materials	3,000	3,000	3,000
Energy costs and other costs	600	400	700
Wages	6,000	6,000	6,000
Transport	400	400	400
Interest payments	600	600	600
TOTAL EXPENDITURE	10,600	10,400	10,700
Balance carried forward	1,400	(1,000)	(700)

Balance B/F + Sales of goods

Money which the business pays out

Balance carried forward	**=**	**Total income minus expenditure**
Total income	**=**	**Balance brought forward plus income**
N.B. Balance brought forward	**=**	**Balance B/F is added to income for that month. If negative figure it is subtracted from the income**

Profit and cash flow are two very different things. Cash flow is simply about money coming and going from the business. The challenge for managers is to make sure there is always enough cash to pay expenses when they are due, as running out of cash threatens the survival of the business.

Insolvency

- If a business runs out of cash and cannot pay its suppliers or workers it is insolvent.
- The owners must raise extra finance or cease trading. This is why planning ahead and drawing up a cash flow forecast is so important, as it identifies when the firm might need an overdraft.

A business can improve its cash flow by:

- Reducing cash outflows, e.g. by delaying the payment of bills, securing better trade credit terms or factoring.
- Increasing cash inflows, e.g. by chasing debtors, selling assets or securing an overdraft.

- Cut costs
- Cut stocks
- Reduce credit periods offered to customers
- Delay of payments to suppliers

Source adapted from: OCR Business Studies for GCSE & Tutor2u Course Companion Unit 3 GCSE

Revenue

SALES REVENUE- The amount of money that a business receives from selling what it provides or produces

The amount a business earns in sales revenue depends on how much it sells and at what price.

Increasing sales revenue

A business may be able to increase its revenue by:

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

Factors affecting sales

The number of competitors	Raising the price will not reduce the amount sold by very much, especially if there are no other businesses selling similar products or services.
What competitors do	If competitors also prices, the amount sold is unlikely to fall very much.
Whether the product is a not	If a product is a necessity, people will **necessity or** have to buy it anyway **even** though it may be expensive.
How much people spend on the product	If the product was already very cheap, people may not be put off buying the product by the higher price.

PROFIT

PROFIT –Money left over from sales after all costs have been paid.

The formula for Profit is:

Profit in basic terms is:	**Sales Revenue – Costs**

<u>What's the difference between Gross Profit and Net Profit ?</u>

Gross profit is the profit made on the raw materials.

It is worked out by the following:

REVENUE – COST OF SALES = GROSS PROFIT

Profit

For AS Plc this means Revenue from the cars that they sell (Quantity sold) x price of the car.

Revenue – Quantity sold x price

Profit more importantly is the reward for taking a risk and is the most important Business Objective for most businesses.

Retained Profit – Profit which is put back into the business as it is kept within the business in order to make an investment.

Profit can be paid out in the form of Dividends to shareholders too.

Calculations required for Exam:

Gross Profit = Revenue – Cost of sales (Goods sold eg variable costs such as materials)

Net Profit = Gross Profit – Expenses (Fixed costs eg transport, insurance, rent, salaries)

Gross Profit Margin = $\dfrac{\text{Gross Profit}}{\text{Sales Revenue}} \times 100 =$

Net Profit Margin = $\dfrac{\text{Net Profit}}{\text{Sales Revenue}} \times 100 =$
(Always lower than the gross profit)

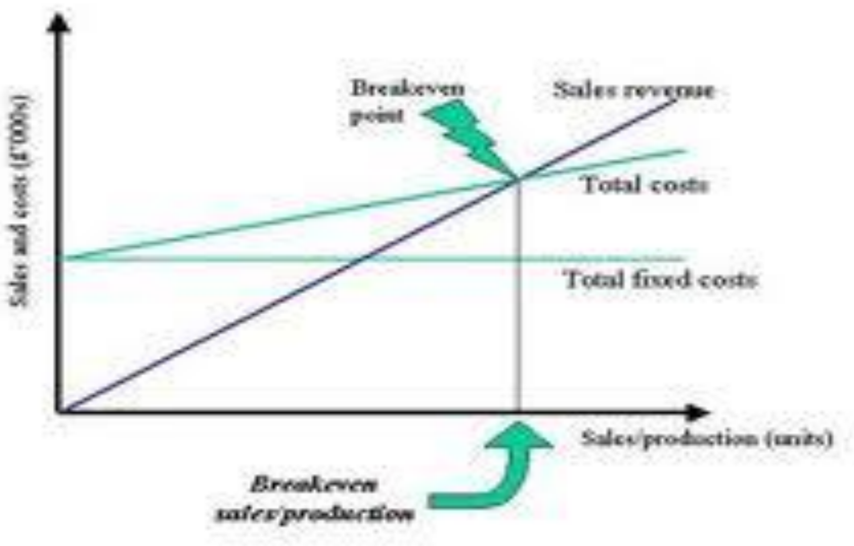
The higher the figure the better. Naturally Gross profit margin will be higher.

Breakeven analysis is a useful tool for working out the minimum sales needed to avoid losses. However, it has its limitations. It makes assumptions about various factors - for example that all units are sold, that forecasts are reliable and the external environment is stable. If new rivals enter the market or an economic recession starts then it could take longer to reach the breakeven point than anticipated.

Many organisations add on a **margin of safety** to the breakeven level of output when deciding on their minimum sales target.

Break-even formula:

FIXED COSTS / PRICE – VARIABLE COST



Limitations of Break-Even Analysis
-Costs can change, eg a supplier may put material prices up and this would increase total costs. The number of products needed to sell to break-even would then increase.
-The break-even chart will not reflect demand – ie the products may not sell.

External influences on business activity

Globalisation and UK business

Globalisation is the process by which business activities in different countries are becoming more and more connected with each other.

Globalisation

Globalisation is having a dramatic effect - for good or ill - on world economies and on peoples' lives.

The main developments in globalisation:-

1. **Growth of international trade**. The UK trades with more countries and in greater volume than ever before.
2. **Movement of production to low-wage countries** E.g. Closing factories in the UK and opening factories in China. They can make products at the same quality for a lower price.
3. **More outsourcing.** Improvements in technology have made it possible to outsource some functions to a cheaper country. For example call centres in India.
4. **Growth of Multinational Corporations**. Big businesses are getting bigger and more powerful.
5. **More global branding.** Brands have gone global - everyone recognises the Coca-Cola brand. These desirable brands are wanted across the globe.
6. **Movement of people around the world increasing**. People are moving between countries more than ever before. People move to countries where the pay is high.
7. **Inward Investment**. This is money that is invested from one country to another. An example of this would be a British company building a factory in Poland. This creates jobs and helps grow the Polish economy.

Globalisation is both good and bad for countries. You need to have a balanced view and be able to explain the advantages and disadvantages of globalisation in the given context of the exam question.

Positives impacts of globalisation	Negative impacts of globalisation
TNCs (Transnational Corporations) • Because they reduce their costs and increase their markets resulting in profits rising	Many politicians • They feel TNCs have more power than countries and take advantage of them
Governments in LEDC's • They have factories moving to their countries creating jobs. Foreign companies can also help exploit resources	Workers in LEDC • They feel mistreated by TNCs, earn little money and don't learn many new skills
Governments in MEDC's • It helps the spread of their country. Factories will also be set up in MEDC creating jobs	Some workers in MEDC • They lose their jobs as factories move to LEDCs
Inward investment by TNCs (transnational corporations) helps countries by providing new jobs and skills for local people.	Environmentalists • Many LEDCs have fewer environmental laws so TNCs take advantage of them
Many workers worldwide • TNCs will offer them jobs	Many people • People believe that they are losing their individuality and cultures. Everyone drinks and eat the same stuff, wears the same clothes and listens to the same music.
Economists • Helps to increase the development of countries	Economists • The feel the money made from TNCs like Nike is not invested in LEDCs
World Trade Organisation • It gives people more freedom of products	**Richest countries get richer** - Big business send profit back to own country
Jobs - more jobs for the local community.	**Exploitation of workers** - Poor working conditions, low wages, poor health & safety, child labour.
Low prices and More choice – consumers	**Environmental issues** - Factories and

in developed countries benefit from lower prices and a greater choice of things to buy.	increased transportation increase pollution.
Money investment in local economies for education, health and infrastructure.	**Diversity threatened** - Traditions and languages eroded.
Mix of cultures from all over the world, sharing of ideas, experiences, and lifestyles.	

Trading with Europe

The UK's biggest trading partners are other businesses in Europe.

Why? We are a member country of the European Union.

The European Union (EU) is a collection of countries in Europe, which aim to co-operate together on trade, social affairs and certain laws. The EU has 27 member states, as 10 new members have joined since May 2004.

The European Union membership can be good for UK businesses because:-

- **An enlarged market** – The UK has population of around 60 million the total EU population 501 million. We can sell more products.
- **Common Standards** - This means that all products sold in the EU have to have the same labelling (e.g. food), have similar safety features (e.g. seat belts in cars), etc. This makes it easy for companies, as they only have to produce one version of the product for the whole of the EU. This make production more efficient

- **The Single market -** No tariffs (i.e. no import or export taxes) on goods or services. Workers have freedom to work anywhere within the EU. This makes trade easier and cheaper. Therefore the amount of trade increases.
- **Grants and Subsidies –** UK businesses may receive grants and subsidies from the European Union. E.g. UK Farmers receive EU subsidies.

Key words

- **Grants** = money paid to companies and deprived areas to help them create new jobs.
- **Subsidies** = money paid mainly to farmers to encourage them to grow more crops etc.

The European Union membership can also be a problem for the UK because:-

- **An enlarged market -** An enlarged market = More Competition. British businesses might make less money as European rivals take their market share.
- **The Social Charter –** The UK has to abide by some Europe wide laws. For example:- Full-time and part-time workers have the same rights. Limit of 48 hours working week and Minimum Wage
- **Environmental Standards -** New standards on water quality, recycling and pollution could increase a UK businesses costs.
- **Common Agricultural Policy (CAP) -** CAP sets minimum prices for agricultural produce = Surplus food. This creates inefficient markets, as it may be able to import cheaper food from outside te EU.

Whilst we trade mostly with Europe we also trade a lot with other developed countries such as Japan and America. However, our trade with developing countries has gone up massively in the last few decades. We are trading a lot more with countries such as Brazil, Russia, India and China.

The reason we are trading a lot more with these developing countries is due to:-

- **Cost Reasons** – It is cheaper to buy products from developing countries than developed countries. Often the cost of production is lower eg. Cheaper labour and raw materials.
- **Rising Demand** – Demand for products is rising in the UK as people get richer. So we have to look for other places to buy them.
- **The size of the market** – As these markets develop and become richer it becomes viable for UK businesses to sell to these markets.

- **The pool of potential workers** – As countries develop and their work forces become more skilled, UK businesses may move to these areas to take advantage of this. For example, the increase of a skilled IT workforce in India has meant that many UK businesses have moved operations to India.
- **Trade arrangements** – The UK government has negotiated a reduction of trade barriers (tariffs and quotas) with certain countries. This makes trade more likely with some countries over others as it is cheape

The EU

- **BENEFITS OF THE SINGLE MARKET**
- Treats the area as one large trading block almost like an individual country instead of 27 separate countries
- - Should encourage trade
  - Should help createjobs
  - Should improve standards of living
  - Avoids protectionism / trade barriers between its members
  - Ensures sound working conditions

  - Has a market of 380 million customers for firms

Benefits of the EU	**No taxes or extra charges for importing goods**
• Being in the EU means countries can buy and sell goods freely across the EU, without long waits at boarders, or paying tariffs. • A tariff is the term for taxes that most countries charge on everything imported into their country. • Having fast and simple trading means that businesses make a lot more profit and the economy of a country improves	• Being a member of the EU means that you can trade freely with other EU members. • This means that countries cooperate; they don't charge each other for imports and their governments don't charge tariffs (taxes) to companies who buy from other EU countries. • They work together so that products are made cheaply. This encourages EU citizens to buy the products made, and makes goods cheaper to export to countries outside the EU.

Key term definition: EU	**Key term definition: BRIC Economies**
Arguments for European Union (specifically Eastern Europe)	Arguments for expansion into the BRIC countries (Brazil, Russia, India and China)
Wages for employment are rising slowly. • Could mean demand for mid market retailers. As consumers have increasing levels of disposable income	High rates of growth in middle income groups. • Suggests it's easier to gain a market share – especially as there may not be much competition.
Have similar seasons to the UK • Similar tastes so product range is likely to be the same.	Some of the BRIC framework have different seasons to the UK which makes their **centralised** structure difficult. They may have to adapt their product range.
There are no tariffs in EU countries (a tariff is a tax in importing goods)	Very different cultures so would require different products. Marketing will have to change as each use different languages
Labour laws are the same throughout the EU	4 different currencies which will make pricing decisions difficult.
Most countries use the same currency – the Euro that allows for price transparency for customers and easier for AS Plc as less change/administration needed.	They each have different labour/trading laws which might make administration more difficult.

Expanding abroad EU & BRIC Economies

In the short-term expansion into the EU might be easier due to less changes, this may also make it lower risk. However, in the long-term as the BRIC nations are much larger markets they might be more beneficial as the middle income groups are growing at a faster rate..

This is just an example. Pick any reason that you think is relevant just remember to **justify your choice.**

Overall – in order to recommend you'll need to answer the question…

No country can treat their workers badly or underpay them

There are EU laws about making sure no country abuses its workforce. Paying people too little or treating them badly will make them unhappy and they may look to vote for an extremist government that won't cooperate with the EU. Also; good, safe working conditions are a basic human right.

- Under paying people will make products cheaper and won't be fair on the countries who pay their workers decent wages.

This is the term given to when foreign businesses set up in the UK.

What does this mean?

- More employment for the local area – higher levels of consumer income – increase demand for products… this may lead to more sales for the Bowton branch.
- Benefits the local community as the local infrastructure will improve.

Inward Investment

This is the term given to when foreign businesses set up in the UK.

What does this mean?

- More employment for the local area – higher levels of consumer income – increase demand for products… this is often referred to as the *multiplier effect*
- More competition for UK businesses, however, it is unlikely that foreign cheese producers will set up in the local area.
- Benefits the local community as the local infrastructure will improveSome businesses might bring workers with them which may mean less jobs for local people.

How UK business competes internationally

International trade is the exchange of goods and services between different countries. UK business can compete against foreign rivals by offering better designed, higher quality products at lower prices.

UK **exports** are products made in the UK and sold overseas, while UK **imports** are products made overseas and sold in the UK.

What are Imports?

Imports are the purchase of goods and services by UK firms or individuals from businesses abroad.

What are Exports?

Exports are the sale of UK goods and services to individuals and services abroad.

What are Quotas?

Quotas are restrictions on the amount of goods that can be brought into a particular country (imported) – e.g. the UK government impose a **quota** on the number of Japanese cars that can be sold here, this is about 250,000 cars or 10% of the total market and then no more. Quotas also restrict competition from foreign firms.

What are Tariffs?

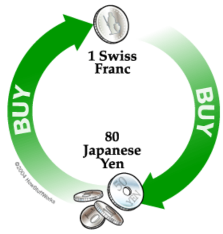
Tariffs are taxes on imports which add to the price making home goods seem more competitive. Taxes on imports that raise the price of imports so that it will be harder for foreign firms to sell their goods.

For example, limit the number of Mercedes cars coming into the UK the govt. might put a tax of 20% on top of the normal price. A Mercedes costing £50,000 would then cost £60,000, which would limit sales.

Problems with International Trade

- Exploits poor countries i.e. forcing people to work for tiny amounts of money.
- Some countries use child labour
- Buying from overseas weakens businesses in this country who make the same goods.
- Businesses often move out of the UK to cheaper countries, meaning loss of jobs here.
- The quality of overseas goods might not be as high.

Exchange Rates



The exchange rate is the price of foreign currency one pound can buy. If the current exchange rate is two dollars to the pound, then one pound is worth two dollars.

The price of UK exports and imports is affected by changes in the exchange rate.

An increase in the value of sterling means one pound buys more dollars. The pound has appreciated (gone up) in value and become stronger.

A fall in the value of sterling means one pound buys fewer dollars. This means the pound has depreciated (fallen) in value and become weaker.

UK exporters benefit from a fall in the value of sterling. This is because people/businesses in other countries will get more pounds for their currency and then be able to afford to purchase more UK exports.

However British firms importing raw materials, components or foreign-made goods face higher costs and must either put up their prices or reduce their profit margin.

<u>The impact that exchange rates might have…</u>

S	**strong**
P	**pound**
I	**imports**
C	**cheap**
E	**exports**
D	**dear!**

What happens if the pound weakens (i.e. falls in value against other exchange rates)?
The answer is – the opposite of a stronger pound.
Imports become more expensive for UK importers
Exports become cheaper in overseas markets.

Weak pound Business Sound – Good for exports.

- remember that if the pound sterling is weaker than the currency of a country it is selling to this is good for business
- good for exports
- this means that sales could rise
- If the pound is strong against one of the currencies noted above then those businesses will have to pay out more for the goods in sterling – opposite of above statement

Exchange rate falls **(the value of the £ goes down)** ↓	**Exchange rate rises** **(the value of the £ goes UP)** ↑
Exporters benefit. More goods sold abroad, possibility of business expansion, increased sales, more employment and rising profits.	**Exporters have problems** with price increase in other countries as the prices of exports become more expensive for the buyer. Export sales will probably go down.
Importers have problems due to increase in the price of imported goods measured in pounds. As a result sales might fall, workers may be made redundant and the business might close.	**Importers benefit**. The cost of imports will fall as fewer pounds are needed to pay for them. This will mean that sales and profits might rise; more jobs may be created as the business expands.

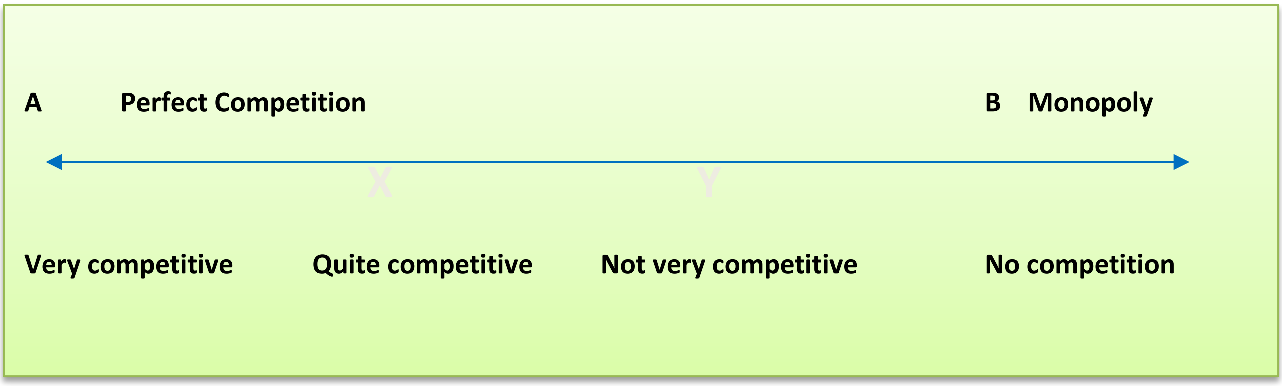
How will exchange rates affect export sales?

The foreign exchange market is quite volatile. There are a great many factors that can change the rates between any two currencies and sometimes these changes can be extreme and happen very quickly.

So you either have to mark up your prices to compensate for the change in the currency rates, or you maintain your prices and absorb the loss.

If you raise prices, you may suffer from loss of business if your customers think the item is too expensive.

The Competitive Environment



Perfect competition

- Many buyers, many sellers
- All firms provide very similar products
    - E.g. potatoes
- Businesses are often small

Monopoly

- A single seller (or a seller with over 25% of the market)
- Branded goods
- No real competitors – this means prices are usually higher
- Competition prevented by:
    - Patents/copyrights, economies of scale, high spending on marketing, high set-up and operating costs

Best for consumers

- Lots of choice
- Low cost/prices
- Higher quality - competing
- More inclined to innovate

Worst for consumers

- Little choice
- High prices
- Possibly lower quality
- Less inclined to innovate

A competitive market will have many businesses trying to win the same customers. A monopoly is either the only supplier in a market, or a large business with more than 25% of the market.

Competition can make markets work better by improving these factors:

Price: if there is only one retailer, products may not be competitively priced. If there are several retailers, each retailer will lower their prices in an attempt to win customers. It is illegal for retailers to agree between themselves to fix a price - they must compete for business.

Product range: in order to attract customers away from rivals, businesses launch new varieties of products they believe to be superior to their competitors.

Customer service: retailers that provide a helpful and friendly service will win customer loyalty.

Market Share:

In order to calculate the share of a market that one business has, its sales are expressed as a percentage (%) of the total market sales.

$$\frac{\textbf{Sales of the business}}{\textbf{Total sales in the market}} \times \frac{100}{1} = \textbf{market share}$$

For example, the market for gloves are worth £50m per year. A producer of gloves "Handy Gloves", has total sales of £10m

Market share for Handy Gloves = $\frac{£10m}{£50m} \times \frac{100}{1} = 20\%$

Green Production

Being ethical to the environment reduces social costs.
Being ethical helps with a USP – businesses often market the fact that they help the environment
Ethically produced products can often be sold for more leading to higher sales.
Government can often give grants for businesses who develop technologies that help the environment.

Arguments for	Arguments against
• It will mean long-term savings are made on energy bills which could improve profit margins. • Can be marketed to customers as an	• The time that the project takes could disrupt normal business activity. • The noise that the turbine creates will be a significant **social cost** to the local area –

ethical USP (see the following www.dewlay.com) • A government grant should cover most of the cost • Will help them achieve their green objective by lowering carbon footprint • Excess energy could be sold back to the national grid.	although are their customers all local? • The initial cost could be far more than the government grant • Maintenance costs will be incurred • Creates an eyesore in the environment • The wind might not produce enough energy so they may still need to be supplied from the national grid…
Overall, you will need to make a decision. **A lot** depends on what is happening in the economy. If there is another period of recession then customers may not want to pay more for ethically produced cheeses… In addition, the Moorshire council are **cutting money spent on services** so can they be sure they'll receive a grant which is big enough? In the short-term there could be disruption to normal business activity **and** opposition from local people (who could be their suppliers…) but it will provide long-term cost savings and provide them with a stronger 'green' image which could result in increasing the selling price and making more profit.	

What else could they do?

- Re-cycle packaging or use less packaging
- Solar panels
- Use biodiesel instead of petrol
- Donations to pressure groups such as **Greenpeace**

Climate Change

Climate change – co2 emissions and global warming

- Businesses can help to tackle climate change by reducing the levels of greenhouse gases they produce.
- Some businesses, particularly those that are energy-intensive, will have requirements to reduce their greenhouse gas emissions as a result of the UK's commitment to the Kyoto Protocol.

How can the consumer help stop global warming?

There are ways you can help cut greenhouse gases and help stop global warming. They are simple things, but can make a difference if everyone does them!

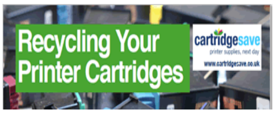
Re-cycle glass bottles, jars, newspapers and magazines and tin cans. Save them and take them to local re-cycling centres.

Re-use plastic shopping bags and envelopes, don't get new ones

Ways a business can be more environmentally friendly

Going green....

1. Recycling ink cartridges
2. Producing goods with less packaging
3. Using solar energy
4. Switching to energy saving light bulbs
5. Using a smaller font (less paper)
6. Using web based technology – less paper
7. Becoming a paperless office
8. Online marketing
9. Switching off lights at night (shop windows)
10. Using recycled batteries
11. Buying vehicles of the business with less co2 emissions
12. Using conference call instead of travelling to a meeting
13. Encourage staff to cycle to work or car share
14. Switching to a wind turbine *see next slide as it appears in the case study



SUSTAINABILITY

- *Living and working in ways that do not jeopardise our current and future social, environmental and economic resources*

- *social and environmental practices that protect and enhance the human and natural resources needed by future generations to enjoy a quality of life equal to or greater than our own.*

Ethics

Ethics is about doing the right thing. Ethical behaviour requires firms to act in ways that stakeholders consider to be both fair and honest. Managers making ethical decisions take into account:

- **Impact: who does my decision affect or harm?**
- **Fairness: will my decision be considered fair by those affected**?

Many owners believe that acting ethically increases costs and so reduces profits. For example, a business can cut costs by hiring child labour at very low wages in developing countries. Paying below average wages lowers the firm's total costs.
Other businesses such as the Fairtrade Foundation have built an ethical brand image, believing that customers are prepared to pay more for products that consider the environment and pay a reasonable wage. Higher sales compensate for higher costs.
Profits from acting ethically are higher than firms that only consider their own narrow self-interest.

Business activities that meet the requirements of the law, but which are considered unfair by stakeholders can result in bad publicity. For example, a restaurant that pays minimum wage but keeps staff tips to boost profits is not breaking the law. It does, however, run the risk of losing the goodwill of customers.

Ethical business behaviour

Includes working towards the ending of child labour, forced labour, and sweatshops, and looking at health and safety, labour conditions and labour rights.

The branch of ethics that examines questions of moral right and wrong arising in the context of business practice or theory

ETHICAL TRADE

Ethical trade means that retailers, brands and their suppliers take responsibility for improving the working conditions of the people who make the products they sell.

Most of these workers are employed by supplier companies around the world, many of them based in poor countries where laws designed to protect workers' rights are inadequate or not enforced.

Businesses affect the local environment - both natural and social. Ethical businesses try to keep the impact of their operations on the environment to a minimum.

Social costs and the environment

Business activity has an impact on the natural environment:

Resources such as timber, oil and metals are used to manufacture goods.

Manufacturing can have unintended spillover effects on others in the form of noise and pollution.

Land is lost to future generations when new houses or roads are built on greenfield sites.

The production process can often create air pollution

Social costs

The unintended negative effects of business activity on people and places are called social costs and include:
• noise • pollution • visual blight • congestion

Ethical businesses are careful to minimise the impact of their behaviour on the environment.

Government laws are used to protect the environment. For example, firms must apply for planning permission before building factories or offices on greenfield sites. Grants are available to encourage firms to locate on brownfield sites, run down areas in need of regeneration.

Social benefits

Social benefits are business activities that have a beneficial or favourable impact on people or places. For example, a business start up can have a multiplier effect. Suppliers will win new trade from them and the new workforce will become customers in the local shops.

A proposed project often generates both costs and benefits. For example, building a new factory on a greenfield site creates social benefits in the form of new jobs. However, the loss of open land is a social cost. Building is justified only if the benefits exceed the costs.

Short- and long-term environmental effects

Some business activity can cause short-term environmental costs which can be put right in the longer term. For example, the impact of cutting down forests for timber is much reduced if young trees are planted in their place and left to grow into maturity.

Some trees, such as pine, grow quickly and can be considered a renewable resource.

Other resources, such as mahogany, take hundreds of years to grow and so are non-renewable in our lifetime. Resources like oil that can only be used once are non-renewable.

Business activity - such as intensive fishing in the North Sea - can compromise the ability of future generations to meet their own needs and is unsustainable.

Sustainable growth means meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Is ethical behaviour good or bad for business?

You might think the above question is an easy one for businesses to answer? Surely acting ethically makes good business sense? As with all issues in business studies, there are two sides to every argument:

The advantages of ethical behaviour include:

- Higher revenues – demand from positive consumer support
- Improved brand and business awareness and recognition
- Better employee motivation and recruitment
- New sources of finance – e.g. from ethical investors

The disadvantages claimed for ethical business include:

- Higher costs – e.g. sourcing from Fairtrade suppliers rather than lowest price
- Higher overheads – e.g. training & communication of ethical policy
- A danger of building up false expectations

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Government and the UK Economy

Role of government

In the UK voters elect a national government at Westminster and local government in town halls. Voters expect the government to manage the economy well. Government economic objectives include:

Low unemployment, that is, as many workers in jobs as possible.

Lower prices. Continually rising prices is called inflation. Low inflation is an aim of government.

Economic growth. The aim is to produce more goods and services each year so that individuals have a higher standard of living.

The Chancellor announces the government's economic plans for the year in the annual Budget

The government can change the way businesses work and influence the economy either by passing laws, or by changing its own spending or taxes. For example:

Extra government spending or lower taxes can result in more demand in the economy and lead to higher output and employment.

Governments can pass legislation protecting consumers and workers or restricting where businesses can build new premises.

The main types of tax include:

Income tax taken off an employee's salary. This results in less money to spend in the shops.

Value added tax (VAT) added to goods and services. A rise in VAT increases prices.

Corporation tax is a tax on company profits. A rise in this tax means companies keep less of their profits leading to less company investment and the possible loss of jobs.

National Insurance contributions are payments made by both the employee and the employer. They pay for the cost of a state pension and the National Health Service. An increase in this tax raises a company's costs and could result in inflation.

Local government collects rates from firms and can use the law to block planning permission for new premises

What is Economic Growth?

This is a term given to a period when there is rising employment levels and higher levels of consumer income. Businesses tend to sell more as consumers have higher levels of disposable income.

Government spending and its effect on business

The government can change the way businesses work and influence the economy either by changing its own spending.

For example:

Extra government spending can result in more demand in the economy and lead to higher output and employment.

Government taxation and its effect on business

HM Revenue & Customs collects tax to pay for public services.

Each year the Chancellor's Budget sets out how much it'll cost to provide these services and how much tax is needed to pay for them.

Key taxes that individuals may have to pay include: Income Tax, Capital Gains Tax, Inheritance Tax, Stamp Duty, Value Added Tax and certain other duties.

Government taxation

There are some key reasons why government needs to levy taxes; the main ones are:
 To raise revenue to finance government spending

 Managing aggregate demand - to help meet the government's economic objectives
 Changing the distribution of income and wealth
 Market failure and environmental targets – taxes may help correct market failures (e.g. pollution)

An important distinction can be **Interest rates**

An

Direct taxation	**Indirect taxation**
Direct taxation is **levied on income, wealth and profit** Direct taxes include: Income Tax National Insurance Contributions Corporation Tax Capital Gains Tax	Indirect taxes are **levied on spending** by consumers on goods and services Examples: VAT (15% - 17.5%) Excise duties on fuel and alcohol, car tax, betting tax and the TV licence Who pays? The burden of an indirect tax might be passed onto the consumer by the producer

Interest Rates

The effects of the main types of taxation on businesses can be summarised as follows:

Tax	Levied on	Impact
Income & National Insurance	Income	Affects disposable income of households An increase in income tax would potentially lower consumer spending Higher income tax may also reduce the incentive for employees to work (impact on motivation?)
Corporation	Business profits	Reduces profits available to retain and reinvest in a business A decrease in corporation tax may act as an incentive for a business to invest (to achieve greater profits)
VAT	Spending by households	Directly affects the selling prices of products bought by consumers and households An increase in VAT results in higher inflation and potentially lowers the disposable income of consumers
Capital gains	On profits from shares	Reduces benefits from financial investment

Interest rate is the **cost of borrowing money** or the **return for investing money**

The main policy tool of the Bank's Monetary Policy Committee is the official short-term interest rate, known officially as Bank rate but often also referred to as the **base rate**.

Other things being equal, a rise in base rates will tend to lower demand.

A fall in rates will boost demand, and so put upward pressure on the inflation rate.

Rising and falling consumer incomes and its effect on business lower consumer incomes

- less money coming in to the house
- May be down to unemployment
- May be down to paying increased tax

Less disposable income

- Each household buys less stuff (demand falls)
- Businesses sell less because people are buying less

- Business forced to cut costs   made between **direct** and **indirect** taxes:

Interest rates up

Demand for good is reduced

Cost of mortgage or borrowing will go up

May effect a business' plan to mass produce – will make it more expensive as more interest has to be paid back

AS plc may have to increase prices

AS plc may have to make staff redundant

Interest rates go down

Demand for goods increases (everyone wants more stuff because it costs less)

People can take on more debt because it costs less to borrow

AS Plc will see increased sales

AS Plc will be able to take more staff on to cope with demand – think of unemployment impact!

How might an <u>increase</u> in interest rates affect businesses?

- It will make their current loans more expensive as they will have to pay back more on their current loans (providing the loan is variable interest). *Consequently* this will increase their costs *subsequently* leading to a drop in profit margins.

What about customers?

Interest rates have the same effect on customers. The higher they are the more they have to pay back on their own loans (mortgages and credit cards) so they will have less **disposable income.**

<u>The Bank of England</u>

Not a 'normal' high street bank. They are responsible for setting the rate of

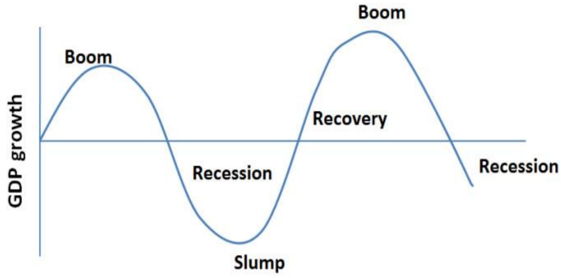
<u>Inflation</u>

Definition of Inflation: "a general rise in the price of goods and services over a period of time (and an erosion in the value of money)".

- Prices are rising.
- This means the costs of living is increasing.
- The government will always try to keep inflation low because if prices go up too fast consumers (voters) will become unhappy as they will be unable to afford what they want.

- **Inflation is when the price goods and services rises over time – this is bad if too high!**
- **The Bank of England is responsible for keeping inflation in check:**
- **If inflation is too high** – the Bank of England will raise the IR (making people save more / borrow less) to reduce demand
- **If inflation (or demand in the economy) is too low** – in other words people aren't spending enough money, the Bank of England will reduce IRs. This should make people borrow more and save less, boosting demand.

The Business Cycle



Economies go through a regular pattern of ups and downs in the value of economic activity (as measured by gross domestic product or GDP. This is known as the **"business cycle"** (sometimes you also see it referred to as the "**economic cycle**").

The business cycle is crucial for businesses of all kinds because it directly affects demand for their products.

The business cycle is characterised by four **main phases:**

 Boom: high levels of **consumer spending**, business confidence, profits and investment. Prices and costs also tend to rise faster. Unemployment tends to be low as growth in the economy creates new jobs

 Recession: falling levels of **consumer spending and confidence** mean lower profits for businesses – which start to cut back on investment. Spare capacity increases + rising unemployment as businesses cut back and reduce stocks

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

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

Employment and Unemployment and the population

Statistics indicate the economic health of the country

Unemployment increases in a recession – lack of demand for good leads to businesses shedding jobs to cut costs – to survive

Changes in the population and its effect on business

Life expectancy is on the increase

People living longer will need a range of products to help them take care of themselves and stay in their own home - increased demand for services (like cleaner, Gardner etc) 1.3 million people aged 85 or over!

UK population density increased may rise to £70 million in 2 decades, will put a strain on housing and public services e.g. Doctors

KEY TERMS –BUSINESS AND PEOPLE, UNIT 2

Chain of production- Stages a product goes through from raw material to finished goods.

Interdependence –The way in which businesses in different sectors depend on each other

De-industrialisation –The reduction of importance in the secondary sector.

Added Value- When a business increases the value of a product.

Business Objectives-Objectives are what the business is trying to achieve eg growth, survival, profit.

Satisficing-The business will make enough profit to meet its needs and not as much as possible.

Dividend-Payment made to shareholders from the profits.

Market share-Amount of a market a business controls. Given as a percentage.

Private Sector-Business activity owned by private individuals.

Public sector- Business activity controlled by local or national government.

Stakeholders-An individual or group of people who have an interest in a business.

Incorporated –A limited company owned by shareholders with limited liability.

Unincorporated-A type of business which has unlimited liability.

Co-operatives –Trading organisation where a number of independent producers work together.

Sole Proprietor –One person owns the business.

Partnership –Between 2 and 20 people own the business.

Unlimited liability –The owners are responsible for all the debts.

Limited Liability –The owners does not risk losing personal possessions in order to pay off the debts.

Bankruptcy- Affects unincorporated businesses when their liabilities are greater than assets.

Insolvency – Affects limited companies when their liabilities are greater than their assets.

Private limited company Ltd –a business owned by shareholders who are usually family and friends.

Public limited company –a business owned by shareholders. Shares are traded to the public on the stock exchange.

Merger-2 or more businesses join together to make one larger business.

Take-over – one business buys control of another.

Conglomerate-merger or take-over of another business in a totally different business activity.

Diversification –A process of spreading the risk by reducing dependence on one product or service.

Footloose-A business is able to locate anywhere it chooses.

Uniform business rate – A tax paid by businesses to cover provision of local services.

Grants –Payment of money from government which doesn't have to be paid back.

Infrastructure –such things as roads, power supplies, telephones and water supplies.

Greenfield site-development on land previously unused.

Brownfield site –development on land previously used by another business activity.

Economies of scale-increase in scale of production produces reduction in average cost of production.

Sleeping partner –a person invests capital in a business but takes no an active part in running it.

Deed of partnership –legal agreement between partners stating responsibilities of each partner.

LLP – limited liability partnership.

Registrar of companies – maintains records of all limited companies

Board of directors-elected by shareholders to run the company.

AGM –annual general meeting in which directors are elected.

Managing director –person responsible for putting into action decisions made by directors.

Capital-money

Institutional Investors –bank and investment companies who own a large part of companies.

Franchise-a marketing arrangement that allows another business to trade in the same style as an existing business.

Franchisor-person who offers the business franchise to other businesses.

Franchisee-person or business buying a franchise.

Royalty-payment made to the franchisor based on sales and revenue of the franchisee.

Globalisation-the world interdependence of business activity.

Multinational company –a company which operates in several countries.

Public sector –business activity owned and run by local or national government.

Public corporation- an organisation which is owned by national government, eg. BBC.

KEY TERMS – UNIT 3 PRODUCTION, FINANCE AND THE EXTERNAL BUSINESS ENVIRONMENT

JOB PRODUCTION - The method of production were products are made individually.

BATCH PRODUCTION – Method of production where one type of product is made and made and then production is switched to make a different product.

FLOW PRODUCTION – Production of one product takes place continuously using a production or assembly line. Sometimes called mass production.

AUTOMATION - Machines, controlled by computer, are introduced into the production process.

LEAN PRODUCTION – A production system which helps ensure that waste is kept to a minimum.

PRODUCTIVITY – A means of measuring the efficiency with which a business produces goods.

QUALITY CONTROL – A system of checking the quality of finished goods.

TQM – Total management control: the process where all workers are responsible for the quality throughout the process of production.

SALES REVENUE- The amount of money that a business receives from selling what it provides or produces

INELASTIC PRODUCTS – People will still buy these products if the price increases as they are essential products, e.g. petrol. This means that if price increase revenue will increase.

ELASTIC PRODUCTS – People will cut back on these items if the price increases and will buy more if the price falls. Clothing is an elastic product and revenue will increase if the price falls.

FIXED COSTS - The costs that do not change as a business changes the amount it produces.

VARIABLE COSTS – Those costs that rise as business increases production and fall when it reduces production

TOTAL COSTS – The fixed and variable costs of a particular level of production added together.

AVERAGE COSTS – The cost of each unit produced.

BREAK-EVEN POINT- When total revenue is equal to total cost. Profits are zero.

BREAK-EVEN FORMULA – Fixed costs / price – variable costs

ECONOMIES OF SCALE – Occur when a business increases its scale of production and this leads to a decrease in average costs. Bulk-buying is a type of economy of scale.

INTEREST RATE – The charge made to businesses and people for lending money.

OVERDRAFT – A short term method of finance. The bank allows the business to withdraw more than is in their current account. Interest charged is high.

TRADE CREDIT – Goods and materials are obtained from a supplier and payment is made at a later date.

RETAINED PROFIT – Profit which is kept by the business for its own use.

HIRE PURCHASE – A business uses equipment but does not own it until the final payment has been made.

SHARE ISSUE – Finance is raised from selling shares. This finance does not have to be paid back. However, dividends will need to be paid and shareholders can vote. Only Plc's like AS plc can sell shares on the stock exchange.

DIVIDEND – That part of the company's profit paid out to shareholders of limited companies.

MORTGAGE –Allows a business to borrow a large sum of money to purchase or improve a building.

PROFIT –Money left over from sales after all costs have been paid.

GROSS PROFIT – Sales revenue minus cost of sales (variable costs).

NET PROFIT – Gross profit minus all expenses

NET PROFIT MARGIN – Net profit / sales revenue x 100

GROSS PROFIT MARGIN – Gross profit / sales revenue x 100

OPPORTUNITY COST – The cost of having to miss out on something else.

CASH FLOW FORECAST – A statement showing the expected flow of money into and out of the business over a period of time.

PERFECT COMPETITION – A market in which there are a large number of sellers, all competing for customers.

MONOPOLY – When one single business has least a 25% share of the market.

MARKET SHARE – The percentage of the total sales in a market accounted for by a firm.

BUSINESS ETHICS – When businesses act in a morally correct way.

RECESSION – A period of falling consumer incomes, demand and output.

INWARD INVESTMENT – When foreign firms set up in the UK. This brings wealth and jobs to an area and can lead to the multiplier (see below).

MULTIPLIER – The amount by which an increase or decrease in spending on a specific item is multiplied in its effect on total spending in the economy.

INFRASTRUCTURE – The provision of roads, railways, ports and airports in an area or country.

TARIFF – Taxes on imports that raise the price of imports so that it will be harder for foreign firms to sell their goods.

QUOTA – Limits on the amounts of a good or service that can be imported. This restricts competition from foreign firms.

EXCHANGE RATES – The amount of one currency that another can buy.

INFLATION – When prices of a range of goods and services increase throughout the economy.

GLOBLISATION – The process by which business activities in different countries are becoming more and more connected with each other.

EUROPEAN UNION – A collection of 27 countries in Europe which trade together without restrictions such as tariffs and quotas.