Sources of Finance

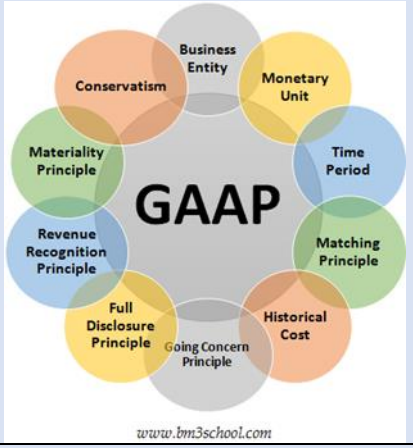
Selling unwanted assets	the business can sell assets (items it owns) that are no longer really needed to free up cash, a problem if the assets are needed in the future.	Internal
Retained profit	This is the cash that is generated by the business when it trades profitably , using the retained profit's has an opportunity cost and shareholders/owners may not be pleased.	Internal
Share issue	Share capital is the money invested in a company by the shareholders. Share capital is a long-term source of finance. In return for their investment, shareholders gain a share of any profits	External Long Term
Overdrafts	An overdraft facility, where a bank allows a firm to take out more money than it has in its bank account, interest rates are typically higher than loans.	External Short Term
Loan	Loans from a bank (or from family and friends). Usually paid with interest. Interest rates could be fixed or variable rate.	External Med/Long term
Trade credit	Trade credits, where suppliers deliver goods now and are willing to wait for a number of days before payment. This does not incur interest so can benefit cash flow.	External Short term
Factoring	Selling of debts to a factoring company, who will offer a percentage of the debt to the business and will take legal ownership of the debt.	External Short Term
Hire purchase	Hire purchase where monthly payments are made for use of equipment such as a car. Hired equipment is owned by the firm after the final payment.	External Long term
Leasing	Allows for payment of an item in installements however the item is never owned and remains the property of the leasing company so they are responsible for any maintenance or repair.	External Medium Term
Debentures	Type of long term loan that are only available to a public limited company. Debentures are sold to investors in order to raise finance and the company pays a fixed rate of interest to the debenture holders.	External Long Term
Government Grant	Grants from charities or the government to help businesses get started, especially in areas of high unemployment.	Exterrnal Long Term
Venture Capital/ Business Angels	Individuals or firms that lend money, known as venture capital, to small and medium sized businesses that require finance for start up or expansion. Business angels are similar to venture capital but they usually offer advice and support, and may insist on taking an active role in the business.	External Long Term
Depreciation	An allowance for the fallin value of assets as a result of wear and tear.	Internal

OCR A Level Business Accounting & Finance

Accounting Principles

- Consistency
- Going Concern
- Matching (Accruals)
- Materiality
- Objectivity
- Prudence
- Realisation

Generally Accepted Accountancy Practice



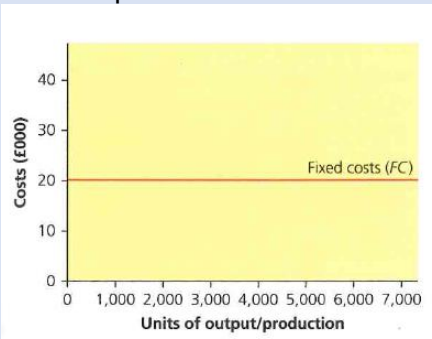
Financial Objectives

When setting financial objectives it is important to consider the following:

- The legal status and size of the business.
- Other objectives of the business
- Does it fit in with the budget set
- State of the economy
- Level of competition in the market
- PESTLE factors
- Timescale to fit in with the decision making process.

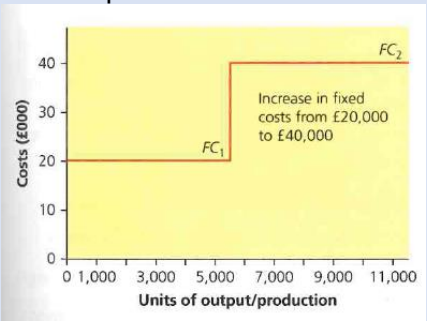
Fixed Costs

Do not vary with output.



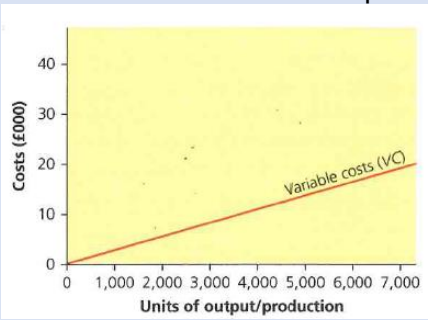
Stepped Costs

Fixed costs increase due to an increase in production.



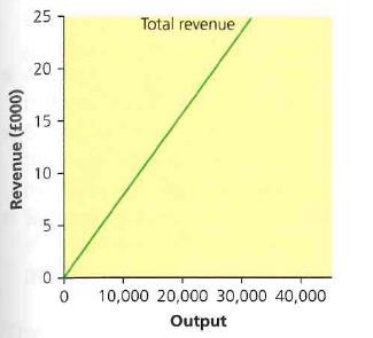
Variable Costs

Directly related to the level of output or sales.



OCR A Level Business Accounting & Finance

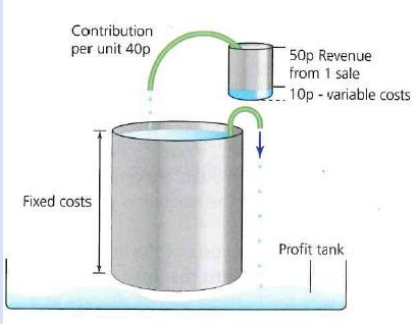
Revenue



Revenie is the cash that flows into a business from the sale of goods and services.

Contribution

Contribution per unit = price – variable costs



Calculating profit using contribution

Product: Sunshield glasses	Value (£)
Price	100
Variable costs	30
Contribution per unit (price – variable costs)	70
Sales = 520	
Total contribution (Sales × Cpu)	36,400
Fixed costs	35,000
Profit (total contribution – fixed costs)	1,400

Marginal costing

The marginal cost of an item is its variable cost.
Therefore the Marginal Cost of production is the cost of one extra unit of production IGNORING fixed costs (as these do not change!)

Absorption (total) costing

Absorption costing is a method of building up a full product cost (both fixed and variable costs) to get the TOTAL COST of production and then using this total to calculate the average cost of each product made. By doing this absorption costing "spreads" the fixed costs over all of the products produced.

Break Even Chart

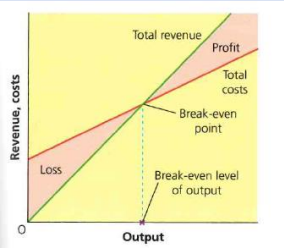
Break even can be found using a chart

Units of output	Sales revenue	Fixed costs	Variable costs	Total costs	Profit/ loss
0	0	50,000	0	50,000	–50,000
100	12,000	50,000	2,000	52,000	–40,000
200	24,000	50,000	4,000	54,000	–30,000
300	36,000	50,000	6,000	56,000	–20,000
400	48,000	50,000	8,000	58,000	–10,000
500	60,000	50,000	10,000	60,000	0
600	72,000	50,000	12,000	62,000	10,000
700	84,000	50,000	14,000	64,000	20,000

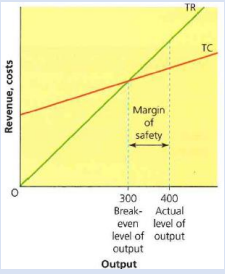
Break Even Formula

$$\text{Break-even} = \frac{\text{Fixed costs}}{\text{Contribution per unit}}$$

Break Even Graph



Margin of Safety



Benefits of Break Even; Tables & graphs are easy to view and interpret, Aids decision making, Show level of profit at given output levels, Margin of safety can be established, Can assess impact of changes in circumstances

Disadvantages of break-even: Based on predicted figures. May be inaccurate, Variable costs may change, As output increases may gain benefits from economies of scale – reduce unit costs, Difficult if multiple products produced, Doesn't factor in changes in price or discounts, Assumes that if price increases then revenue will also increase – not always the case, No certainty that all goods will be sold.

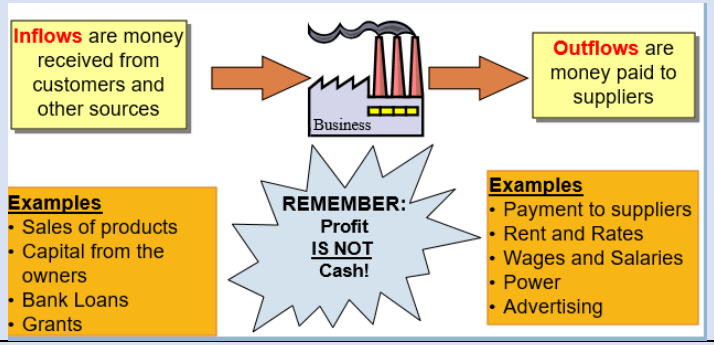
OCR A Level Business Accounting & Finance

Variance Analysis

Department	Budgeted figure (£)	Actual Figure (£)	Variance
Sales	20000	22000	(+) Favourable
Sales	20000	17000	(-) Adverse
Labour	7000	7500	(+) Adverse
Raw Materials	3000	2900	(-) Favourable

Cash Flow

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



Cash Flow Forecast

Cash Inflows (*Receipts*)	Jan	Feb	Mar	Apr	May	Jun
Cash Sales	1200	1300	1600	1550	1700	1800
Credit Sales	0	500	700	650	600	650
Total Inflows	**1200**	**1800**	**2300**	**2200**	**2300**	**2450**
Cash Outflows (*Payments*)						
Rent	500	500	500	500	500	500
Raw Materials	200	300	700	100	400	300
Wages	800	800	800	800	800	800
Loan Repayment	100	100	100	100	100	100
Total outflows	(1600)	(1700)	(2100)	(1500)	(1800)	(1700)
Net Cash Flow	(400)	100	200	700	500	750
Bank B/Fwd	0					
Bank C/Fwd	(400)	(300)	(100)	600	1100	1850

Months
Monthly Inflows
Total Monthly Inflows
Monthly Outflows
Total Monthly Outflows
Net Cash flow for month
Bank Balance *(at beginning end of the month)*

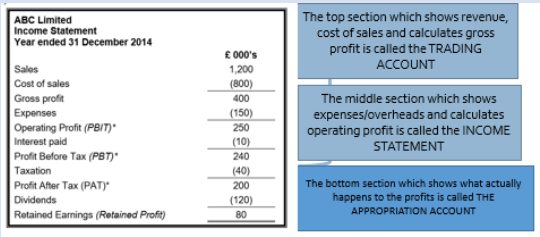
- **Benefits of Cashflow Forecasts:** Valuable Planning tool, identifies potential cash shortfalls, can monitor actual against forecast, support applications for borrowing, aseess payment terms, help set targets.

- **Problems of using Cashflow:** Changes in external environment, forecasts are estimates – based on assumptions, difficult to forecast for seasonal demand, behaviour of competitors.

Working Capital

Working Capital = Current Assets *(Stock, Debtors and Cash)* less Current Liabilities *(Creditors and Overdraft)*

Income Statements



ABC Limited
Income Statement
Year ended 31 December 2014

	£ 000's
Sales	1,200
Cost of sales	(800)
Gross profit	400
Expenses	(150)
Operating Profit *(PBIT)**	250
Interest paid	(10)
Profit Before Tax *(PBT)**	240
Taxation	(40)
Profit After Tax (PAT)*	200
Dividends	(120)
Retained Earnings *(Retained Profit)*	80

The top section which shows revenue, cost of sales and calculates gross profit is called the TRADING ACCOUNT

The middle section which shows expenses/overheads and calculates operating profit is called the INCOME STATEMENT

The bottom section which shows what actually happens to the profits is called THE APPROPRIATION ACCOUNT

Usefulness of Income Statements: Enables business to make decisions based on amount of profit made, Monitor progress of the business in terms of targets, Allows for comparisons between years, Used to assess performance of the business with the use of ratios, Help formulate objectives, Encourage expansion plans if profit healthy, Provides valuable information to stakeholders – such as investors, Used by HMRC to check correct amount of tax is paid, Legal requirement for certain business types (Limited companies)

OCR A Level Business Accounting & Finance

Statement of Financial Position

XYZ Ltd
Balance sheet as at 31 December 2006

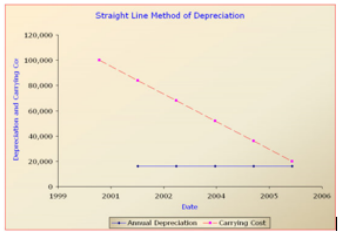
	£	£
Fixed Assets		
- Land & Buildings	1,000,000	
- Plant & Machinery	500,000	
- Motor Vehicles	100,000	
		1,600,000
Current Assets		
- Stock	70,000	
- Debtors	45,000	
- Cash and bank	15,000	
		130,000
Current Liabilities (<12mths)		
- Trade Creditors	80,000	
		(80,000)
Long Term Liabilities (>12mths)		
- Bank Loan	300,000	
		(300,000)
NET ASSETS		1,350,000
Capital and Reserves		
Share Capital		500,000
Retained Profit		835,000
		1,350,000

Depreciation

Straight Line Depreciation (Easiest)

This approach happens when the value of the asset will end at £0.00 at the end of a certain period and it reduces in value the same amount each year.

If a piece of machinery is reduced at a straight 20% rate it would look like this

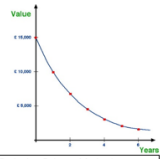


Method Two

Reducing Balance Depreciation (More Realistic)

This approach happens when the business reduces the *current* value of the asset at the same percentage each year.

A business depreciates its value using the two methods at 20%



	Straight Line Method		Reducing Balance Method	
Year	Current Value of Asset	Depreciation Value	Current Value of Asset	Depreciation Value
0	£10,000	£2,000	£10,000	£2,000
1	£8,000	£2,000	£8,000	£1,600
2	£6,000	£2,000	£6,400	£1,280
3	£4,000	£2,000	£5,120	£1,024
4	£2,000	£2,000	£4,096	£819
5	£0	£2,000	£3,277	£655
6			£2,621	£524
7			£2,097	£419
8			£1,678	£336
9			£1,342	£268
10			£1,074	£215

Payback - The time it takes for an investment to repay its initial cost

Year	Project A £	Project B £
0	(50,000)	(35,000)
1	15,000	10,000
2	20,000	10,000
3	20,000	10,000
4		10,000
Payback =	2 Year + 9 months	3 Year + 6 months

Average rate of return (ARR)

ARR is the total annual average return of an investment expressed as a percentage

$$\text{ARR (\%)} = \frac{\text{Total net profit / No years}}{\text{Initial cost}} \times 100$$

Net present value (NPV)

CALCULATING THE NET PRESENT VALUE

To calculate the net present value we carry out two steps:

1 Multiply the net cash flows for each year by the discount rate for that particular year, including year 0

2 Add all the discounted net cash flows together, including year 0

Year 0 = (£400,000) x 1 = (£400,000)

Year 1 = £80,000 x 0.95 = £76,000

Year 2 = £100,000 x 0.91 = £91,000

Year 3 = £330,000 x 0.86 = £283,800

Year 4 = £450,000 x 0.82 = £369,000

NPV = £419,800

OCR A Level Business Accounting & Finance

Formulas

Total Costs	Fixed Costs + Variable Costs (Direct costs + Indirect costs)
Unit Costs	Total Cost / Output
Revenue	Price x Quantity Sold
Contribution per unit	Price - Variable Costs
Break even	Fixed Costs / Contribution per unit
Margin of Safety	Actual Sales - Break even sales
ARR	Annual Average Profit / Cost of Investment
Net Cash Flow	Total Inflows - Total Outflows
Gross Profit	Sales Revenue – Cost of Sales
Operating Profit	Gross Profit - Expenses
Profit before tax	Operating Profit - Finance costs
Profit for the year (Retained profit)	Net Profit - Tax and Dividends
Net Current Assets (Working Capital)	Current Assets - Current Liabilities
Net Assets	(Non – Current Assets + Net Current Assets) - Non- current Liabilities
Straight Line Depreciation	Initial cost – residual value / life of asset
Current Ratio	Current Assets - Current Liabilities
Acid Test	Current Assets - Inventory / Current Liabilities
Gearing	(Non – current Liabilities / capital employed) X 100
Debt to Equity Ratio	Debt / Equity x 100
Interest Cover	Operating Profit / Interest Payable
Asset Turnover	Revenue / Non –Current Assets
Stock Turnover	Cost of Stock / Average Stock
Debtor Days	Debtors / Revenue x 365
Creditor Days	Creditors / Cost of Sales x 365
Gross Profit Margin	Gross Profit / Sales x 100
Net Profit Margin	Net Profit / Sales x 100
ROCE	Operating Profit / Captal Employed x 100
Return on Equity	Profit for the Year / Shareholder's Equity
Dividend per Share	Dividends / No. of shares issued
Dividend Yield	Dividend per share / market price of share x 100
Earnings per share	Profit for the year / number of shares issued
Price Earnings Ratio	Market Price of Share / Earnings per Share

OCR A Level Business Accounting & Finance

Key Terms & Definitions

Term	Meaning
Source of finance	A method via which a business can raise cash / money required to run the business
Working Capital	Short term finance for the day to day running of the business.
Cashflow	The movement of cash into and out of the business.
Overdraft	Where a bank allows a firm to take out more money than it has in its bank account, interest rates are typically higher than loans.
Interest	The cost of borrowing money and also the reward for saving money.Lo
Loan	A sum of money borrowed from a bank that is expected to be paid back with interest.
Trade Credit	Where suppliers deliver goods now and are willing to wait for a number of days before payment.
Factoring	Where a business sells its debts to raise finance.
Hire- Purchase	Paying for an item in installemnts over a period of time. The item is not purchased until the last payment is made and remains the property of the hire purchase company until that point.
Leasing	Payment for an item is made in instalments but the item is never purchased and remains the property of the elasing compnay
Debentures	Type of long term loan that are only available to a public limited company. Debentures are sold to investors in order to raise finance and the company pays a fixed rate of interest to the debenture holders.
Issue of Shares	Share capital is the money invested in a company by the shareholders. Share capital is a long-term source of finance. In return for their investment, shareholders gain a share of any profits
Retained Profit	This is the cash that is generated by the business when it trades profitably
Venture Capital	Indiviuals or firms who lend money, known as venture capital, to small and medium sized businesses.
Business Angel	Similar to venture capitalists but usually offer management advice as well.
Going Concern	Accounting principle that assumes that the business is operating as normal and will continue to do so in the foreseeable future.
Matching (accruals)	An accounting principle that relates to the timing information is recorded, so that transactions are recored when they occur and not when the actual payment is made.
Materiality	Accounting principle that requires realistic figures to be used in the accounts. Whereby any information that is of little or no value and would therefore make no real (material) difference to its financial statements is omitted .
Objectivity	Accounting principle that is based on the idea that the accounts must be realistic and therefore based on facts.

OCR A Level Business Accounting & Finance

Prudence	Accounting principle that states that a company's financial situation should not be overstated. Where there are anu uncertainties in the level of profits or losses then it is right to understate the profits and overstate the losses.
Realisation	Principle similar to matching in that when legal ownership changes hands, e.g. for an asset then it is recorded when this takes place and not when payment is made.
GAAP	Generally Accepted Accountancy Practice is a framework of accouting rules or principles.
Fixed Costs	Costs that do not vary with the level of output
Overheads/ Indirect Costs	Costs that can not be attributed to a particular unit of output.
Direct Costs	Costs that are directly attributable to a unit of output (raw materials)
Variable Costss	Costs that change in proportion to the level of goods or services a business produces
Total Costs	Fixed costs + variable costs
Unit cost	The cost of producing one unit = total costs / output
Marginal cost	The cost of producing one extra unit
Standard Costing	The cost that a business would normally expect for the production of a particular product or to complete a particular activity.
Cost Centres	A specifici part of a business where costs can be identified and allocated
Profit Centres	Profits are attributed to dfferentparts of the business.
Absorption Costing	Costing methos where all the indirect costs or overheads are absorbed by different costs centres
Contribution or Marginal Costing	Costing method whereby fixed costs or overheads are ignored and the business only considers the variable costs of production.
Contribution	The selling price of a product minus the variable cost or producing it. Revenue – variable costs
Contribution per unit (cpu)	Price – variable costs
Profit	Total contribution – fixed costs
Break even	The point where total revenue is equal to total costs (TR = TC)
Total Revenue	Price multiplied by sales or output
Margin of Safety	The difference between the actual level of output and the break even level.
Investment Appraisal	Quantifiable methods to decide if an investment should go ahead.
Payback	Investent appraisal method that measures how quickly the cost of an investment can be paid back.
Accounting Rate of Return	Method of investment appraisal that measures the profitability of an investment.

OCR A Level Business Accounting & Finance

Opportunity Cost	Considieration of the next best alternative the money could have been used for.
Net Present Value	Method of investment appraisal that considers the value of money over time.
Internal Rate of Return	The discount rate at which the NPV is equal to zero.
Budget	Plans that outline how money will be spent
Variance Analysis	Identifying and analysing the difference between the planned and actual figures
Cashflow Forecast	Identifies the money that should be coming into the business (inflow) and the money going out of the business (outflow) over a period of time
Inflow	Money that flows into the business
Outflow	Money that flows out of the business
Liquidity	A measure of the ability of a business to pay their debts as and when they fall due.
Insolvent	Where a business is incapable of paying debts
Credit Sales	Where you sell the goods and collect cash at a later date per agreement with customer.
Credit Purchases	Any items/goods that have been purchased but will not be paid until an agreed later date, e.g. at the end of the month.
Gross Profit	Profit figure that only considers the direct costs of production. Revenue minus cost of sales.
Operating Profit	A more realist profit figue in that it accounts for both direct and indirect costs. Gross Profit - expenses
Profit before tax	Operating profit minus finance costs
Profit for the year	The money that the business can use after all deductions have been made. Profit and dividends minus tax.
Income Statement	A document stating the level of profit or loss that a business has made in a given period of time.
Statement of Financial Position	A document recording the value or wealth of abusiness at a given moment in time.
Assets	What the business owns
Non Current (Fixed) Assets	Assests that are necessary to enable the business to function and will remain in the business for a long period of time.
Tangible Assets	Assets which can be seen, e.g. factory
Intangible Assets	Assets which are not visible, e.g. brand name or reputation
Goodwill	The value of a company's brand name, solid customer base, good customer relations, good employee relations, and proprietary technology represent some reasons why goodwill exists.

OCR A Level Business Accounting & Finance

Patent	The legal right to be the only user or producer of a specified product or process. A patent has real value and therefore needs to be presented in the SOFP.
Depreciation	Allowance for the wear and tear on the fixed tangible assets. Depreciation reflects this, usually as a percentage of the assets value, to give a realistic value at that time.
Current Assets	Items owned by a business that will change in value on a regular basis.
Inventory	The value of stock held at that moment in time
Trade receivables (debtors)	People who owe the business money
Liabilities	What the business owes
Current Liabilities	Something owed by the business that should be paid back in under one year.
Trade payables (creditors)	People or businesses the business owes money to
Non-current liabilities	A liability that the business will pay it back in more than one year.
Net Current Assets (Working capital)	Show's the business's ability to meet short-term debts. Current Assets – Current Liabilities
Net Assets	The figure that represents the total value of all the assets minus the value of the liabilities. Net assets are calculated as follows. Non-current assets + current assets – (current liabilities + long term liabilities)
Capital	Money invested in the business from the owners
Drawings	Withdrawals made by owners from the business
Net Book Value	The net book value of an asset is its cost minus the amounts that have been written off as it wears out (depreciates).
Dividend	The share of the profit that is distributed to the shareholders.

A Level Business External Influences

Key Terms & Definitions

Term	Meaning
Market	Any situation where buyers and sellers are in contact in order to establish a price.
Competitve Market	A market structure where there are a large number of frms producing identical products who are competing to meet the needs of a large number of consumers.
Monopoly	A market controlled by a single business.
Monopolistic Competition	A market with a large numer of businesses selling similar products, usually a lot of non- price competition.
Oligopoly	A market dominated by a few large firms.
Barriers to Entry	The factors that could prevent a business from entering and competing in a market.
Barriers to Exit	The factors that could prevent a business from leaving a market, even ifit would like to.
Demand	The quantity that people in a particular market actually can and will purchase at each price
Supply	The quantity that a supplier is willing to provide at different prices.
Equilibrium	Where demand is equal to supply.
Equilibrium Price	The price at which the consumers' demand coincides with what business are prepared to supply.
Substitute	An alternative product that serves the same function
Complement	A product that is used, and is therefore bought, in conjunction with another.
Subsidy	A payment from the government to encourage a business to increase supply.
Price Elasticity of Demand	How responsive demand is to a change in price.
Elastic	Where the change in demand that results from a price change is greater than the change in price that caused it.
Inelastic	Where the change in demand that results from a price change is less than the change in price that caused it.
Free Trade	Trade without tariffs or quotas being imposed when products are traded.
Single Market	A market in which there is a single set of laws and regulations relating to the movement of products, people and money.
Globalisation	The process of growth in world markets through a process of integration where it is possible to trade in a global market in the same way as one would in a domestic market.
Exchange Rate	The value of the pound in terms of another currency.

A Level Business External Influences

Hot Money	The flow of money from country to country, chasing the highest rate of interest it can possibly get.
Fiscal Policy	The use of government spending and taxation, through the government's annual budget to influence the level of demand in the economy.
Privatisation	The act of passing ownership of a business from the public to prvate sector.
Deregulation	The removal of lots of regulations that surrounded employment practices and operating practices
Supply Side Policies	Governemnt intervention to increase the number of people in work and to improve the skills and quality of that labour.
Demographics	This means the make-up of the population: age, gender, ethnicity, etc.
Ethics	Judgements about what is the right or wrong thing to do in a particular situation.
Corporate Social Responsibility	Business objectives that focus on their wider responsibility to other business and society in general.
Macroeconomics	The study and analysis of the behaviour of the whole economy.
Economy	The collective behaviour of business, employees, consumers and the government.
Economic Activity	The level of output in all sectors of the economy – primary, secondary and tertiary
Gross Domestic Product	The total value of all of the economy's output.
Circular Flow of Income	The flow of income from businesses to households, as payment for work, and from households to businesses as payments for products.
Imports	Purchase of goods from abroad
Leakages	Income that leaks away from the economy and so does not get passed back to firms from households, e.g. taxes, savings
Injections	Income coming into the UK economy that does not come from UK households, e.g. government spending & exports.
Direct Taxation	Taxes imposed directly on households/firms' income, e.g. income tax.
Indirect Taxation	Taxes imposed when consumption/spending takes place
Exports	The sale of goods to other countries by UK businesses.
Investment	The purchase of capital equipment and/ or buildings by businesses.
Business Cycle	Rises and falls in economic activity.following a pattern of boom, recession, slump and recovery.
Boom	Stage of the business cycle where there is a high level of employment and consumption.
Recession	Two consecutive quarterly falls in the elevel of economic activity. Sales and employment are falling.
Slump	A prolonged recession. High levels of unemployment, low levels of sending and business confidence.

A Level Business External Influences

Recovery	Phase of the business cycle where spending, employment and demand rises
Inflation	A persisient general tendancy for prices to rise.
Economic Growth	An increase in the volume of goods and service (GDP) produced each year.
Balance of Trade	Difference between the value of exports and imports.
Monetary Policy	Manipulation of the level of demand in the economy using the rate of interest.
Multiplier	The effect of changes in economic activity in one sector on other sectors.
Civil Law	Law concerned with the rules that govern the relations between businesses and/ or people, e.g. consumer rights.
Criminal Law	Law that defines the actions that the state has decided are wrong and the subsequent punishment.
Discrimination	Where an employer treats a person less favourably than another employee without any justification.
Employment Tribunal	A special type of court that only deals with employment related issue, such as unfair dismissal
Obsolescence	Exisiting capital equipment is replaced by new developments in technology.
Digital Revolution	The advancement from mechanical and analogue electronic technology to digital electronics
Negative Externality	A cost that arises out of production or consumption which is not paid for by the producer orconsumer, e.g. pollution, congestion or litter.
Sustainability	The endurance of systems and processes to prevent them having a negative impact on the earth and the environment.
Change Management	Ensuring change is implemented smoothly and with lasting benefits, by considering its wider impact on the organisation and people within it.

A Level Business External Influences

Possible Assessment Questions

- Define the term 'entrepreneur'
- State the two meanings of the term 'enterprise'.
- Identify 3 likely characteristics of an entrepreneur
- Identify two likely constraints on a business
- Which of the following is unlikely to be a characteristic of a successful entrepreneur?
  (a) Creativity
  (b) Persistence
  (c) Risk aversion
  (d) Self-confidence
- The factor of production 'capital' includes:
  (a) all of a firm's non-revenue expenditure
  (b) buildings, machinery and tools used by a firm
  (c) current investment in a firm by owners and financiers
  (d) the amount of money in a firm's bank account
- Which one of the following business functions is primarily concerned with advertising the organisation?
  (a) Customer service
  (b) Finance
  (c) Marketing
  (d) Sales
- Which of the following is the best example of organic growth at a bakery?
  (a) Buying a wheat farm
  (b) Installing ten additional ovens
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  (a) Managed under licence by a franchisee
  (b) Operated for the benefit of a charitable cause
  (c) Owned by partners who share the profit equally
  (d) Run by members for the benefit of members

- Identify the 3 sectors of economic activity.
- Explain the difference between the private and public sector
- Explain the difference between 'unlimited' and 'limited' liability
- State 2 advanatges of operating as a sole trader
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- State 2 advanatges of operating as a partnership
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- Explain what is meant by the 'third sector'.
- State four reasons why a business might undertake a joint venture.
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A Level Business External Influences

A Level Business Human Resource Management

Key Terms & Definitions

Term	Meaning
Organisationl Structure	The way in which a business is organised
Span of Control	The number of employees (subordinates) that a manager is responsible for.
Chain of Command	The way in which responsibility for employees is organised within a business
Hierarchy	Thenumber of levels or layers in an organisation
Delayering	Reducing the numer of levels in the hierarchy of an organisation.
Delegation	The process of a manager giving authority to a subordinate to make decisions for which the mnager is responsible.
Empowerment	Giving employees responsibility for the tasks they perform.
Organistic structure	A flexible, flat organisational structure, with a wide span of control.
Mechanistic Structure	A bureaucratic, vertical structure, with a narrow span of control
Centralised Structure	The decision making process is undertaken by the leader at the top of the hierarchy.
Decentralised Structure	The decision making process is delegated and undertaken on a regional or product basis.
Matrix Structure	Type of organisational structure where employees with similar skills are put together to complete tasks or projects.
Organisational Culture	A reflection of the values, attitudes and beliefs of a business.
Communication	The transmission of information from one person to another.
One Way Communication	Where the receiver of information has no right of reply.
Two Way Communication	Communcation involving both a sender and receiver of information.
Formal Comunication	Where information is communicated using agreed rules or procedures.
Informal Communication	Communication which has little or no established rules for how it should take place.
Open Communication	The use of language that is understood by the vast majority of the population.
Closed Communication	The use of terminology that is understood by those within a business but not by those outside of it.
Vertical Communication	Communication from managers down to employees.
Horizontal Communication	Communication between people on the same level of the organisational structure.

A Level Business Human Resource Management

Human Resource Management	The process of using and developing an organisation's personnel in the most productive way"
Outsourcing	Contracting jobs to external labour.
Flexible Working	Allowing employees to work hours that suit their lifestyles
Remote Working	Allowing employees to work away from the business premises
Zero Hours Contract	Allws to employers to hire staff with no guarantee of work. Staff only work when they are needed, often at short notice.
Recruitment	The process bringing new workers into a business
Internal recruitment	The process of finding a suitable employee from the existing workforce within the business
External Recruitment	The process of finding a suitable employee from outside of the business
Job Description	A document is written by the firm and outlines the details of the job and the work it entails
Person Specification	A document written by the firm, and sets out the qualities, skills and attributes that the person needs to be effective at the job
Training	Short term teaching focused on helping a worker do his job well
On-the-job Traing	Training while working
Off-the-job Training	Training away from the job
Induction training	Training to introduce the worker to the business
Appraisal	An assessment of an employee's performance.
Labour Turnover	A measure of the number of employees who have left the business, relative to the number employed in the same period.
Absenteeism	Employees who are absent from work with minor medical ailments.
Productivity	A measure of output per employee in a particular period of time
Management	The process of dealing with or controlling things or people
Leadership	A higher level skill than management focused on helping organisations and people to change
Autocratic Leadership	A leadership style where the leader makes all the decisions independently
Democratic Leadership	A leadership style where the leader encourages others to participate in decision making.
Laissez Faire Leadership	A leadership style where employees are encouraged to make their own decisions within limits
Paternalistic Leadership	A leadership style where employees are consulted and the manager wants the workforce to feel involved in decision making
Motivation	A strong desire to act in a particular way and to achieve a certain result.

A Level Business Human Resource Management

Scientific Management	The concept that a set of principles could be developed and applied by managers to motivate employees.
Content Theories	Look at what motivates employees by identifying a person's individual needs and then using motivation to fulfil those needs.
Process Theories	Look at the process of motivation and are concerned with the issue of how motivation occurs.
Job Enlargement	Redesigning and broadening the nature of a job so that employees can take on new and more challenging tasks.
Job Enrichment	Making sure that a job is interesting and enriching to an employee.
Trade Union	An organisation of employees that seeks to protect and improve the interests of its members.
Work to rule	Employees do exactly what is stated in their contract and no more.
Industrial Action	The measures that a union can take to put pressure on management in a dispute in order to make them change their mind about a decision.
ACAS	The Advisory, Concilliation and Arbitration Service. It gives advice and guidance om how to improve employee/ employer relations.
Unfair Dismissal	Where an employee is dismissed without a valid reason or the employer fails to follow the proper procedures.
Employment Tribunal	A special sort of court dealing only with employment law.
Termination of Employment	An employee's contract of employment is ended due to redundancy or dismissal.

A Level Business Human Resource Management

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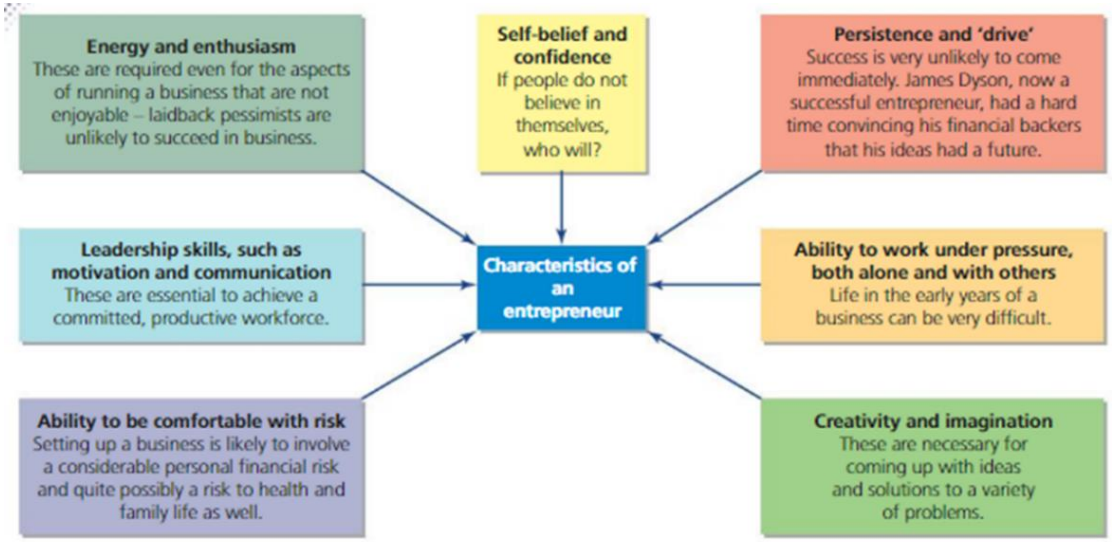
Enterprise and Business Functions

What is an entrepreneur?

An entrepreneur is an individual with an idea for a business

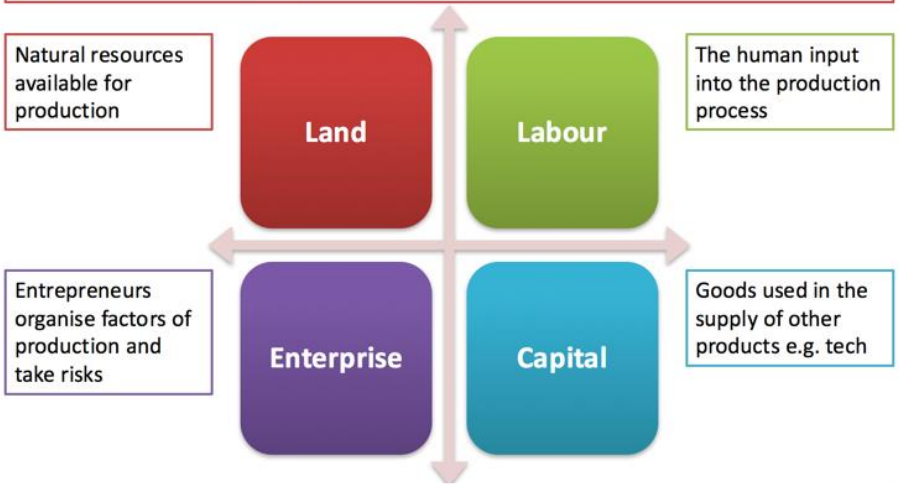
An entrepreneur risks his or her own money to start a business enterprise with the intention of making a profit

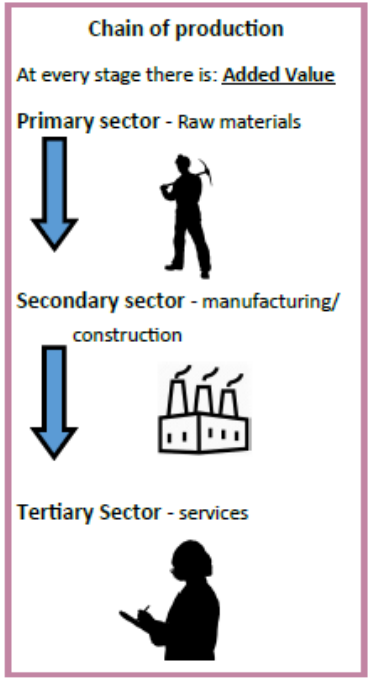
Enterprise is: seeing an opportunity to provide a product or service that people are willing to buy



Factors of Production (Factor Inputs)

Factors of production are the inputs available to supply goods and services in an economy.





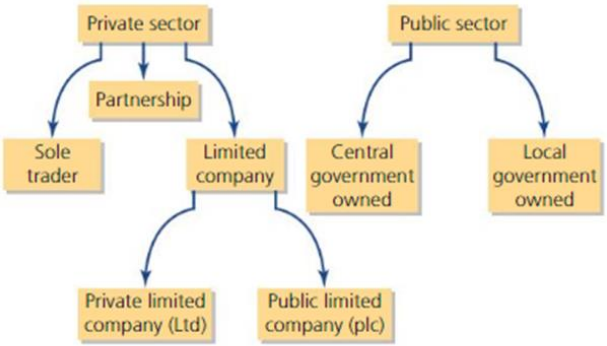


Figure 2.3 The private and public sectors

A Level Business Unit 1 – Introduction to Business

Sole trader		Partnership		Private Limited Company (LTD)		Public Limited Company (PLC)	
Advantages	**Disadvantages**	**Advantages**	**Disadvantages**	**Advantages**	**Disadvantages**	**Advantages**	**Disadvantages**
▪ Easy to set up ▪ Little finance required ▪ Full control ▪ Keep all the profits ▪ Financial information is private	▪ Unlimited liability ▪ Business stops if ill or on holiday ▪ Long working hours ▪ Shortage of capital ▪ Skills shortage ▪ No continuity	▪ More capital available ▪ Easy to set up ▪ More skills available ▪ Shared workload ▪ Financial information is private	▪ Shared profit ▪ Unlimited liability ▪ Shortage of capital ▪ Slower decision making ▪ No continuity	▪ Limited liability ▪ Continuity ▪ Can raise capital more easily ▪ Control over share sale	▪ Financial information available to the public ▪ Complex and expensive to set up ▪ Sale of shares is restricted ▪ Dividends to be paid	▪ Can raise large amounts of capital ▪ Easier to borrow money ▪ Limited liability for shareholders	▪ Possibility of a takeover ▪ Complex and expensive to set up ▪ Hard to manage as so large ▪ Financial information available to the public

Unlimited liability
Responsibility for the debts of the business rests with the owners

Capital
Money raised to start or develop a business

Deed of partnership
A document setting out the operations of the partnership

Sleeping partner
Someone who only invests in a partnership

Limited liability
Responsibility for the debts of the business is limited to the amount invested

Shareholders
Owners of a limited company

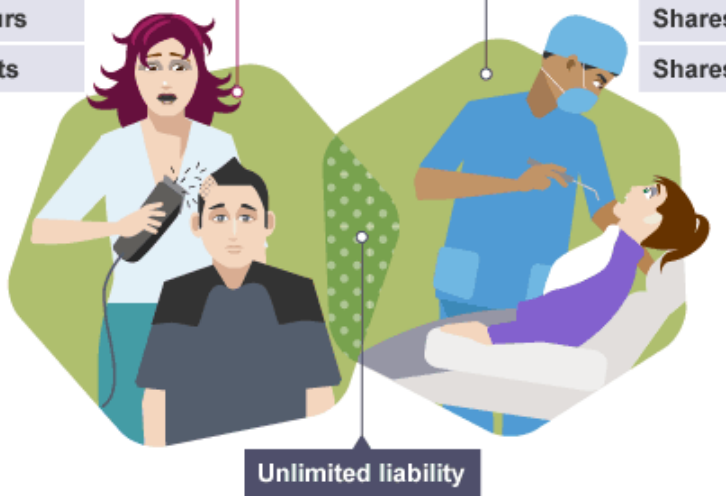
Dividend
Money paid to shareholders from business profits

Sole trader
eg Hairdresser

- Makes own decisions
- Works long hours
- Keeps the profits

Partnership
eg Dentist

- Shares experience
- Shares responsibility
- Shares the profits



Public Corporations

are organisations set up by an Act of Parliament and are run by a Board of Directors appointed by the Government.

E.g. The BBC

Government definition

Social Enterprise NI

- **A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners."**

Voluntary Organisations

Charities and non-profit organisations exist to help a particular cause. Charities aim to raise money to help their cause, or to raise awareness of an issue or the plight of a section of society.

Charities are run by a board or committee made up of trustees.

Charities raise funds from public donations, sales from the charities own high street shops, ecommerce sales, Government grants and lottery funding, as well as more traditional fundraising from raffles and sponsored events such as 10km walks.

A Level Business Unit 1 – Introduction to Business

Franchising: When a business grows by allowing other private businesses to use their brand name/advertising

Co-operative: A business that is owned and run by its members

Franchisor		Franchisee	
Advantages	**Disadvantages**	**Advantages**	**Disadvantages**
• Expands the business without more debt. • Regular royalty income • Keep control • Franchisees have better local knowledge • Applicants are carefully selected – should therefore lead to a continuous stream of revenue	• Control issues – Have to ensure franchises are following regulations • Bad publicity from a 'rogue' franchise. • Cost of supporting a franchisees • Possible conflict between franchisee and franchisor	• Using a tried and trusted brand name - greater chance of success. • Specialist advice and training • Market research has been carried out & marketing support is provided. • Easier to obtain finance.	• Supplies have to be bought from the franchiser – may be more expensive so lower profit margin. • Royalty payments – a certain % of turnover or profit is paid to the franchiser. • Less control • Business cannot be sold without franchiser's permission. • A franchise is not for a fixed time and is not automatically renewed

Organic growth
Internal growth using own resources i.e. opening more shops
Merger
Two or more businesses agreeing to join together
Takeover
One business takes control of another
Horizontal growth
Two businesses in the same production sector joining together
Vertical growth
Two businesses in different production sectors joining

There are two methods of business growth:

Organic growth

- **Increasing output**
  Selling more products
- **Gaining new customers**
  Reduce the price, open more shops
- **Developing new products**
  To target a wider range of customers
- **Increasing market share**
  Selling more than competitors

External growth

Merger | Takeover

Horizontal

Two businesses in the same production sector

Vertical

Two businesses in different production sectors

Diversification
Two businesses coming together with no connection

Business Size

We measure businesses in terms of:

- Number of employees, Number of factories, shops or offices, Turnover and Profit Levels, Stock market Value, Capital employed

	Employees	Turnover	Balance sheet total
Micro	<10	≤ EUR 2m	≤ EUR 2m
Small	<50	≤ EUR 10m	≤ EUR 10m
Medium-sized	<250	≤ EUR 50m	≤ EUR 43m

Source: European Commission (2016)

A Level Business Unit 1 – Introduction to Business

Key Vocabulary and Definitions

Term	Meaning
Enterprise	The actions of an entrepreneur in starting a business. Can also mean 'a business'
Entrepreneur	An individual who takes the risk of starting and running a business
Factors of production	The inputs that are used in the production of goods and services. They are Land, Labour, Capital and Enterprise.
Adding Value	The difference between the actual prices charged for a product or service and the actual cost of producing the good or service.
Business functions	The different departments of a business, each of which has a specific job or task to do, e.g. marketing, finance
Good	A physical, tangible item that once paid for is yours, e.g. a phone or a pair of shoes
Service	Intangible action that you pay for but don't keep, e.g. a haircut or a taxi ride.
Business constraints	A restraining factor that can limit how a business operates.
Chain of production	Stages that a product passes through until it reaches the final consumer.
Primary sector	Businesses that are involved in the extraction or producing of raw materials, e.g. farming
Secondary Sector	Business that are involved in the manufacturing process that is turning raw materials into semi-finished or finished products.
Tertiary Sector	Businesses involved in the output of services, e.g. shops.
Private sector	Businesses owned and run by private individuals – usually for profit.
Public sector	Businesses and organisations owned and run by local or central government, their objective is to provide a service rather than make a profit.
Deindustrialisation	Decline in the size of the secondary sector of the economy
Sole Trader	A business that is owned and controlled by one person. The owner has unlimited liability so is responsible for all the debts of the business.
Partnership	A business owned by 2 or more people.
Deed of Partnership	A legal document that is drawn up in the formation of a partnership. It states what type of partnership it is, how much capital each partner has contributed and how any profits or losses will be shared.
Limited Liability Partnership	A form of partnership that combines some features of a partnership with those of a limited company, such as Limited liability.
Liability	Being legally responsible for any debts or financial commitments of a business
Unlimited Liability	

A Level Business Unit 1 – Introduction to Business

Limited Liability	
Franchise	
Franchisee	
Franchisor	
Co-operative	
Business size	
Economies of scale	
Organic Growth	
External Growth	
Mergers	
Takeover	
Horizontal Integration	
Vertical Integration	
Joint Venture	
Strategic Alliance	

A Level Business Unit 1 – Introduction to Business

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A Level Business Marketing

Key Terms & Definitions

Term	Meaning
Market Share	The proportion or percentage of total sales within the market in question
Differentiation	Making your product/ service distinctive from the rest of the market.
Market Research	Systematic collection and analysis of data about a market.
Quantitative Research	Objective research involving the collection of numerical data
Qualitative Research	Subjective research to determine consumer's opinions
Primary Research	Involves collecting new information
Secondary Research	Collection of data using or information that has alredy been collected..
Probability Sampling	Where all members of the population a chance of being selected for inclusion in the sample.
Random Sampling	Individuals are randomly selected from a list of the population, every person has an equal chance of slection.
Systematic Sampling	Every 'nth' person on a list is selected. From a random starting point.
Quota Sampling	Splitting the population into sub grups according to their distribution in the population.
Convenience Sampling	Using those people who come to hand most easily to be questioned.
Stratified Sampling	Classifying the population into sub groups and then selection participants from within each sub group.
Cluster Sampling	Randomly selecting sub groups of the population.
Standard Deviation	How far away from the mean any finding, pbservation or response is.
Market Segmentation	Splitting a market into different groups with different characteristics and needs,
Niche Marketing	Targeting a clear and identifiable segment of the market.
Mass Marketing	Selling into a market containing many products that are similar.
Market Orientation	Targeting each of your products to the appropriate market sector.
Product Orientation	Businesses that are concerned with the product, it's design and specification.
Marketing Mix	The 4 Ps of Price, Product, Place & Promotion that help a business to formulate a marketing strategy
Unique Selling Point	Something that makes the business stand out from competitors.

A Level Business Marketing

Price Elasticity	The response of demand to a change in price.
Income Elasticity	The response of demand to a change in income.
Cross Elasticity of Demand	How a change in the price of one good will affect the demand for another.
Skimming	Setting a high price for a good or service to gain profits quickly.
Penetration Pricing	Setting an initial low price for a new product to attract customers
Premium Pricing	Setting a high price for a product or service in an attempt to create an image of high quality.
Psychological Pricing	Setting a price that sounds less than it is.
Loss Leaders	Reducing the price of certain products or services to attract consumers into a store in the hope they will also buy other products.
Comprtition Based Price	Setting a price below that of its competitiors.
Predatory pricing	When an established business reduces its prices in response to a new entrant in the market.
Market Based Pricing	When similar or identical products are sold in a market, a business will takes its price from the market.
Cost Plus Pricing	Setting a price based on the costs involved to make a product or service and then adding an amount or percentage on to that.
Contribution or Marginal Costing	Where fixed costs are ignored and the business only considers the variable costs of production.
Price Discrimination	When different prices are are charged for the same product or service within different markets.
Channel of Distribution	The method by which the goods travel from the producer to the consumer.
Wholesalers	Businesses that buy in large volume from manufacturers and sell on in smaller units.
Retailers	Businesses at the final stage of the chain of production that sell the final product to the consumer.
Promotion	A collection of techniques to inform and persuade potential customers to buy a product or service.
Above the line Promotion	Where a business uses media to promote their product or service where there is no direct contact with the consumer.
Below the Line Promotion	Uses media where the business can directly contact the consumer.
Advertising Elasticity of Demand	Shows the extent to which spending on advertising will affect sales.

A Level Business Marketing

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A Level Business Business Objectives & Strategy

Stakeholders

Mission Statement, Aims & Objectives

Mission Statements: gives a general idea of what the business exists to do
Aims: a long-term goal that a company wants to achieve
Objectives: short term goals a business sets to help them achieve their aim. E.g. Increase sales by 10% each week for a month.

Smart Objectives

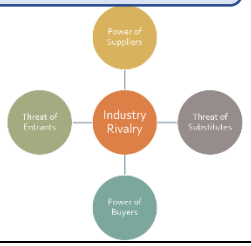
Specific	Objectives need to be **clear** so that everyone understands what the target is
Measureable	Objective needs to be quantitative so it is possible to measure if it has been achieved or not
Achievable	Objectives need to be possible. If the objective is unrealistic then no-one will try to achieve the target!
Relevant	Objectives been to be focused on the key activities / actions (and not something that his unimportant)
Time-bound	Objectives need to have a time frame so that people know when it should be achieved

Hierarchy of Objectives

Strategy & Tactics

Strategy: is the action plan that the business puts in place to reach it's objectives.
Tactics: a particular step that a business takes to achieve it's strategy

Porters Five Forces



PESTLE Analysis

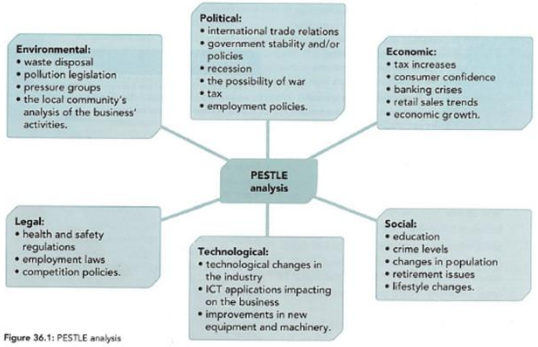


Figure 36.1: PESTLE analysis

SWOT Analysis

A Level Business Business Objectives & Strategy

Porters Generic Strategies

A competitive advantage is an advantage over competitors gained by offering consumers greater value

3 startegies:

1. Cost Leadership
2. Differentiation
3. Focus or Niche

Management by Objectives

Management by Objectives is a system by which managers and employees define and agree a series of objectives for the business.

Business Plan

Business Plan: is a formal written document that explains in detail how a business is going to achieve its objectives.

Key Issues to be included:

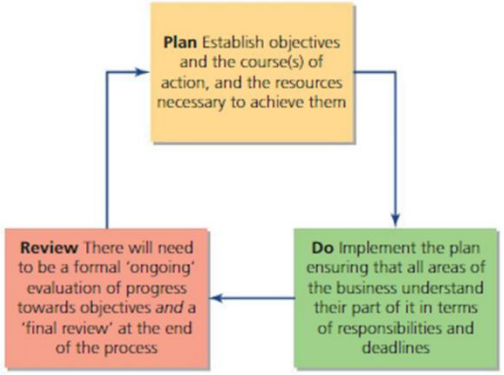
Marketing
- The target market segments
- Marketing strategy (*4P's*)
- Size of the market
- Who the competition is
- Market Research conducted

Personnel
- Organisational structures
- The role of key personnel including details about individual roles
- Workforce Planning *(recruitment, training needs)*

Finance
- Projected sales and revenue
- Gross & Net Profit Margins
- Costings / Budgeting
- Expected month of break even
- Sources of Finance

Operations
- Premises - now and in the future
- Production facilities / Capacity
- Suppliers
- Production Methods
- Business systems *(efficiency / quality)*

Plan-Do-Review Process



Contingency Planning

Contingency Planning: Is planning for 'what will happen if things go wrong?' This means that an agreed course of action is in place and is ready to be used if necessary.

Crisis Management

Crisis Management: The process by which an organisation deals with an event that threatens to harm the business and it's stakeholders.

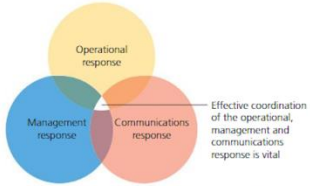


Figure 8.3 The elements of an effective crisis response

Risk & Uncertainty

Risk: the chance or possibility of an adverse occurrence

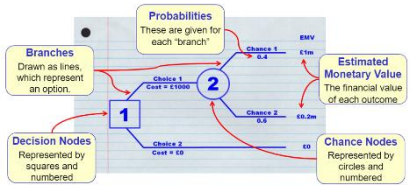
Uncertainty: where a business has imperfect knowledge about a situation so the business is unable to calculate the potential costs and benefits of a decision precisely.

Ansoff's Matrix

Ansoff's Matrix is a strategic tool used to help a business looking to grow.

Decision Trees

Decision Trees: method of tracing and comparing all the possible outcomes of multi-stage decisions



A Level Business Business Objectives & Strategy

Key Terms & Definitions

Term	Meaning
Stakeholder	A person or party with an interest in the success of a business.
Mission Statement	A general idea of what the business exists to do.
Aims	A long-term goal that a company wants to achieve
Objectives	Short term goals a business sets to help them achieve their aim. E.g. Increase sales by 10% each week for a month
Strategic Objectives	How a business plans to achieve its aims or goals, often a long term approach.
Tactical Objectives	The day – to – day objectives need to ensure the strategic objectives are achieved.
Strategy	The action plan that a business puts into place to reach its objectives.
Tactic	A particular step that a business takes to to achieve its strategy.
Internal Audit	Collecting information on the strengths and weaknesses of the business.
External Audit	Collecting information on the opportunities and threats in the trading environment of the business.
Business Plan	A formal written document that explains in detail how a business is going to achieve its objectives.
Opportunity Cost	The cost of the next best alternative foregone. The time / money spent on one activity that could have been spent elsewhere.
Contingency Planning	Planning for what will happen if things go wrong.
Risk	The chance or possibility of an adverse occurrence
Reward	The possible return that a particular activity may make.
Uncertainty	The inability to calculate the costs and benefits of a decision precisely.
Quantifiable Risk	The likelihood of a predictable risk occurring. A value can be put on the risk.
Unquantifiable Risk	The risk of an event that is unexpected. Not possible to put a value on this risk.
Forecasting	The use of existing data to predict future trends.
Qualitative Forecasting	Using views and opinions to reach decisions about the future.
Quantitative Forecasting	The use of numerical data to make decisions about the future.
Delphi Technique	A form of structured qualitative forecasting that relies on information from experts.

A Level Business Business Objectives & Strategy

Time Series Analysis	The use of a moving average using past data, calculated over a period of time, which is then projected to give forecast figures for the future.
Trend	Overall movement of data over time
Cyclical Variations	Varaiations in data that occur as a result of the business cycle, and recession and booms in the economy.
Seasonal Variations	Changes that occur over the year.
Line of best fit	A line drawn through the points on a graph so that the points are distributed as evenly as possible above and below the line.
Market Penetration	A situation where the firm tries to sell more of its existing product in existing market.
Market Development	Involves selling the existing product to a new market segement.
Product Development	Changes are made to the existing product, but it continues to sell in the same market.
Diversification	Selling a new product in a new market.

A Level Business Business Objectives & Strategy

Possible Assessment Questions

- Define the term 'entrepreneur'
- State the two meanings of the term 'enterprise'.
- Identify 3 likely characteristics of an entrepreneur
- Identify two likely constraints on a business
- Which of the following is unlikely to be a characteristic of a successful entrepreneur?
  (a) Creativity
  (b) Persistence
  (c) Risk aversion
  (d) Self-confidence
- The factor of production 'capital' includes:
  (a) all of a firm's non-revenue expenditure
  (b) buildings, machinery and tools used by a firm
  (c) current investment in a firm by owners and financiers
  (d) the amount of money in a firm's bank account
- Which one of the following business functions is primarily concerned with advertising the organisation?
  (a) Customer service
  (b) Finance
  (c) Marketing
  (d) Sales
- Which of the following is the best example of organic growth at a bakery?
  (a) Buying a wheat farm
  (b) Installing ten additional ovens
  (c) Merging with another bakery
  (d) Selling more bread to existing customers
- Which of the following is a characteristic of a co-operative?
  (a) Managed under licence by a franchisee
  (b) Operated for the benefit of a charitable cause
  (c) Owned by partners who share the profit equally
  (d) Run by members for the benefit of members

- Identify the 3 sectors of economic activity.
- Explain the difference between the private and public sector
- Explain the difference between 'unlimited' and 'limited' liability
- State 2 advanatges of operating as a sole trader
- State 2 disadvanatges of operating as a sole trader
- State 2 advanatges of operating as a partnership
- State 2 disadvanatges of operating as a partnership
- Explain what is meant by the term 'franchise'
- Identify 2 likely costs a franchisee will have to pay to the franchisor
- Identify 2 different methods of measuring a business's size.
- The Body Shop operates most of its stores as franchises.
  Outline two advantages to a business, such as The Body Shop, of operating as a franchisor
- Describe what is meant by the chain or production
- Businesses can be classified as private sector, public sector or third sector.
- Explain what is meant by the 'third sector'.
- State four reasons why a business might undertake a joint venture.
-

A Level Business Business Objectives & Strategy

A Level Business Operations Management

Key Terms & Definitions

Term	Meaning
Adding Value	The difference between the actual price charged for a product or service and the actual cost of all the components and assembly of the product or service
Product orientation	A business concentrates its activities on improving the quality or efficiency of the product
Morphological study	A method that generates a lot of ideas very quickly and therefore more cheaply
Job Production	Producing a single item or product that is bespoke, unique, tailor made – a one off.
Batch Production	A set procedure and stages that the production process needs to go through in order to create a product. One process has to be completed before the next stage of the process can be started
Flow Production	A continuous process where a product is assembled on a production line with employees undertaking specific repetitive tasks for each stage of the individual processes
Cell Production	A production system that employees working in teams responsible for a section of the production process
Division of Labour (specialisation)	A job or task is broken down into separate tasks
Critical Path analysis (CPA)	A process that allows for the overall time of a project to be calculated, and to allow a diagrammatic network to be drawn which shows when activities should start and finish
Gantt charts	A graphical representation of the order and duration of given tasks within a project. A tool for planning and monitoring progress of a project.
Productivity	The output per unit of input, applied to any factor of production. Number of goods produced / average number of employees Output / number of employees and machines Output / number of labour hours Sales revenue / number of machines Sales revenue / wage bill or number of employees
Internal growth	Natural growth of a firm achieved by increased production and sales
External growth	Growth achieved by takeover and merger
Capacity	The maximum that firm can produce in a given period with the available resources
Capacity utilisation	The percentage of total capacity that is actually being achieved in a given period
Economies of scale	A reduction in unit costs achieved as the scale of production increases
Diseconomies of scale	an increase in the unit cost as a result of an increased scale of production
Lean Production	An approach in which all employees are involved in putting into operation a series of working practices that will help the business to meet the demands of the consumer in an efficient and effective manner
Infrastructure	The structures that support a society, such as transport links, telecommunications, education and health facilities, water supply, sewers and so on

A Level Business Operations Management

Supply chain management	The strategic co-ordination of business functions within a firm and with other businesses in its supply chain, the aims being to co-ordinate supply with demand and lower costs
Logistics	The integration of procurement of supplies, production, warehousing and transportation to reduce costs
Offshoring	The relocation by a business of an operational process, such as the customer service support via a foreign call centre
Outsourcing	A business contracts a specialist company with expertise in a particular field to provide activities and/or services that would otherwise be performed 'in-house' by its own employees.
Reshoring	The returning of the operational process back to the original country
Rightshoring	The efficient mix of onshore and offshore operations
Distribution management	The process of managing the movement of goods to the point of sale. It includes activities such as stock control, warehousing and transportation
Quality Control	A process in which a business reviews the quality of all the factors of production involved in the process of production

A Level Business Operations Management

A Level Business Operations Management

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