1 Business activity

Providing goods and services (page 8)
1 Businesses can compete on price and quality.
2 Durable goods last a long time and usually have a second-hand value. Non-durable goods are used up quickly and so are hard to sell on.
3 Personal services include hairdressing and commercial services include banking.
4 Health care and education are provided by both the private and public sectors.

Business enterprise (page 10)
1 Three important characteristics of being an entrepreneur are:
   (i) being a risk taker
   (ii) being able to show initiative
   (iii) being a decision maker.
2 A non-financial reason for wanting to be an entrepreneur is that the person can be their own boss so that they can make their own decisions about how and when they work.
3 Two risks faced by entrepreneurs are:
   (i) Sales may be less than expected.
   (ii) Costs may be higher than expected.
4 Apart from earning profits entrepreneurs have the satisfaction of knowing that they own and control their own businesses. This satisfaction will be increased with the survival and growth of the business.
   (iii) Free business banking means that new businesses do not need to worry about bank charges in the short term so their banking costs are low.

Business planning (page 11)
1 A business plan sets out the current state of a business and where it is aiming to be at some stage in the future. It shows lenders and other investors that care has been taken in planning business growth.
2 Banks will need to know the type of ownership as the existence of limited liability may have an impact on how they will be able recover debts following the failure of a business. Debts cannot be recovered from the personal wealth of the owners if the business has limited liability.
3 (i) Cash-flow forecast
   (ii) Profit and loss account
4 It is important for an entrepreneur to have a business plan for many reasons including:
   (i) It helps in decision making on how the business is to develop.
   (iii) It helps when looking for finance.
   (iii) It helps to show others the aims of the business.

Business aims and objectives (page 13)
1 Profit maximisation is important as profits help the business to continue during downturns. Profits also provide the money for future investment and therefore growth.
2 Market share is about the percentage of the whole market that is taken up by a particular business.
3 The success of a business can be measured by:
   (i) the growth in sales
   (ii) the growth in profit.
4 As people have more money to spend, they will want more products. This should lead to the sales, income and profits of businesses rising.

Business aims and objectives (page 14)
1 Local communities may support the expansion of a factory if they feel it will be bringing jobs to an area. They will object if they believe that extra pollution and congestion may result.
2 Two ways in which employees may be affected by business owners are:
   (i) Their jobs may be made more secure or threatened by decisions.
   (ii) Their incomes may be affected. Decisions to grow may lead to promotions and higher incomes.
3 Two stakeholders likely to be in favour of increased output will be:
   (i) shareholders
   (ii) managers.
4 Employees are likely to be affected by a decision to introduce new machinery.

Business ownership (page 15)
1 Unlimited liability means that if a business is in debt, the owners are responsible for paying that debt even if this means selling personal possessions.
2 The capital of sole traders may be limited because:
   (i) They will have limited savings.
   (ii) Banks are less likely to lend money.
   (iii) There is limited retained profit.
3 The Deed of Partnership is a legal document that sets out the rules of the partnership so there can be no doubt about the relationship between the partners.
4 Two advantages partnerships have over sole traders are:
   (i) They will usually have access to more capital.
   (ii) More skills can be shared within the business.

Business ownership (page 16)
1 The main advantage that shareholders in limited companies have is that they have limited liability. This means that if the business is in difficulty, they may lose money invested in the first place but personal possessions are not at risk.
2 Businesses benefit from having limited liability because they are more able to raise money from shareholders who know that their possessions are not at risk if the business gets into debt.
3 Separate legal entity means that individual owners are not responsible for what the business does.
4 Public limited companies can raise more money by selling shares to the general public on the Stock Exchange. Private limited companies can only sell shares to new shareholders who are acceptable to existing shareholders.

Business ownership (page 17)
1 The customers who pay their subscription are the owners of co-operative shops.
2 Even if they do not aim to make large profits, charities still need to earn profits to pay for their charitable work.

Business growth (page 18)
1 When a business takes over one of its suppliers, this is known as backward vertical integration.
2 (a) Acquisitions involve one business buying or taking over another.
   (b) Internal growth involves a business selling its own products and using the profits to expand.

Business growth (page 19)
1 Businesses benefit from integration as they become larger. This helps them to become better known in the market to be able to attract more customers. The increased scale will also help them to cut costs. Both combined will help them to earn greater profits.
2 The Government will benefit from the higher tax revenues on profits but the merged businesses may dismiss surplus workers who will be entitled to unemployment benefits paid by the Government. Whether the Government benefits or not therefore depends on greater profits or fewer job cuts.
3 Local people may find that the larger business can afford to build more efficient factories, perhaps elsewhere or with more efficient pollution controls.
4 One effect for workers who remain with the business is that there may be greater opportunities for promotion with the bigger business. This means that workers will receive higher pay and status.

Business growth (page 20)
1 A franchisor allows others to use its name in return for royalty payments.
2 An advantage of offering franchises is that greater profits can be earned with the minimum of effort. The franchisor receives the royalty payments from the franchisee, who is responsible for most of the work in setting up and running the franchise outlet. A disadvantage, however, is that some costs – such as training – will still have to be paid, despite the franchisor losing day-to-day control over the business.
3 The advantages a sole trader will gain from becoming a franchisee are:
   (i) By using the name of the franchisor, the business will be better and more able to attract more customers to potentially earn greater profits.
   (ii) The franchisee is not responsible for national advertising campaigns but still benefits from the extra customers attracted by the campaign.
4 Costs for the franchisee may be higher as:
   (i) Royalties will have to be paid to the franchisor.
   (ii) Materials will have to be bought from the franchisor. These may be more expensive than if they had been provided by other suppliers.

Business growth (page 21)
1 Many small businesses are sole traders or partnerships. They will have limited personal savings, banks will be reluctant to lend them the capital and they do not earn sufficient profits to plough back into the business.
2 Large businesses threaten the survival of smaller businesses because:
   (i) They are able to charge lower prices.
   (ii) They have a greater range of goods.
   (iii) They can afford to advertise more widely.
3 Small businesses are able to compete with larger business by:
   (i) offering personal services to their customers
   (ii) opening at convenient times for their customers.
4 It is important particularly when customers are unable to travel to buy their needs. Being close will reduce the costs of transport. Also, by being close the business will understand the needs of the local community.
Business location and site (page 22)
1 Businesses that require heavy resources that are reduced in size are better placed close to the source of those materials.
2 Infrastructure involves all those services that help businesses to operate. It includes transport facilities, sewerage systems and broadband facilities.
3 The stakeholders who benefit from an accessible site are:
   (i) the suppliers of materials
   (ii) the workers at the site
   (iii) the customers who want to buy the goods.
4 Competitors who are close to a business will attract customers to the area. These customers may be willing to try different outlets to the benefit of all. However, the competitors may sell at lower prices or sell a larger range of goods so customers will be attracted to them.

The interdependent nature of business (page 23)
1 The marketing department is responsible for:
   (i) advertising
   (ii) promoting goods and services.
2 In all sections of the business workers will be required. It is the responsibility of the HR department to recruit the appropriate workers and to ensure that they are trained.

2 Influences on business

Technological influence on business activity (page 24)
1 Information technology involves the use of computers in the management of the movement of information around a business and with others.
2 (a) Spreadsheet
(b) Database
(c) Word processor
(d) Video conferencing
3 Business can be carried out at a faster speed with records being kept and retrieved more easily.
4 IT is forever changing. This will add to the costs paid by businesses.

Technological influence on business activity (page 25)
1 An advantage of using CAM is that production is more accurate as measurements are controlled by computers rather than human judgements. However, highly trained and skilled engineers and technicians are needed to set up the machines. These may be paid high wages so the process is expensive.
2 Two benefits of using technology in communication with customers are:
   (i) Contacts can be made quickly with customers through texts and emails. The customers can respond just as quickly to speed up transactions between businesses and their customers.
   (ii) The use of technology is now worldwide. Businesses are able to extend their markets by having their own websites and by using social media.

Technological influence on business activity (page 26)
1 E-commerce involves businesses selling their goods and services using the internet.
2 E-commerce tends to be carried out in a set place such as in the office or at home using desktop and laptop computers, whereas m-commerce allows customers to buy goods and services anywhere through the use of smartphones and tablets.
3 Businesses do not have to rely on renting expensive shops and employing well-trained sales staff. With technology businesses can sell goods online. These are delivered from less expensive warehouses using fewer and less well-trained workers. Costs are therefore lower.
4 Two effects of e-commerce on stakeholders are:
   (i) Customers do not have to travel to shops to buy goods, which are then delivered to their homes. This saves them the cost of shopping as well as being able to buy, in the main, less expensive goods.
   (ii) However, as the goods cannot be seen physically until they are delivered, there is no opportunity to try, for example, clothes on. Goods may have to be returned and there are delays in obtaining what is wanted.

Ethical influence on business activity (page 27)
1 Fair trade products are those bought directly from the producers usually in developing countries. They are bought at fair prices so the producers are less likely to be exploited.
2 It may be considered to be ethical if it pays the producers a fair price and payments for goods are made as soon as possible so the farmers do not have to wait for their money.
3 Some businesses are considered to be unethical if they do all they can so they do not pay the right taxes to the government.
4 Being ethical adds to the costs of a business. The costs of material may be higher for ethical businesses. This may affect their prices, sales and profits.
Environmental influence on business activity (page 28)
1 Sustainability involves businesses producing goods in such a way that they do not cause harm to the environment.
2 Two problems for environmentally friendly businesses are:
   (i) Costs will tend to be higher from environmentally friendly sources. The addition to price will not be welcomed by some customers who will buy from cheaper competitors.
   (ii) It is difficult to maintain standards. Mistakes in buying so-called environmentally friendly resources can give a business a bad reputation and can lose it customers.

Economic influence on business activity (page 29)
1 (a) A fall in consumer incomes might lead to a fall in sales for the business, which may reduce prices to sell more goods. Business revenues will fall and this may reduce profits leading to a fall in shareholder dividends.
   (b) The effect on workers might depend on the goods being produced. For necessities little might change but for non-essential goods, the fall in incomes may lead to a fall in sales and worker jobs may be under threat.
2 A rise in consumer incomes may lead to an increase in sales, prices and business income. As a result, businesses might grow and managers may be paid higher salaries and some may gain promotions.
3 The people in local communities may be employed in local factories. As unemployment rises, fewer goods are sold so local people may lose their jobs.
4 A fall in unemployment means that there are more people at work paying their taxes, which means that the Government has more money to be able to reduce taxes for everyone or to improve services with more government spending.

Economic influence on business activity (page 30)
1 Customers will be affected by a fall in interest rates by:
   (i) making it less worthwhile to save money so they will spend more
   (ii) paying lower rates of interest so spending is encouraged.
2 Shareholders will be concerned about the effect of increased interest rates on the sale of goods. If this falls, so too will profits and shareholder dividends will be reduced.
3 Direct taxes are paid by people on what they earn: such taxes include income tax. Indirect taxes are added to the price of goods so they are paid when people spend money. VAT is an indirect tax.
4 A fall in direct taxes means that workers can take home more of their income so they have more to spend on goods and services. If indirect taxes fall, goods will be cheaper, so more goods can be afforded.

Economic influence on business activity (page 31)
1 Over the years industry in Wales has changed from the heavy industries produced by large businesses to smaller scale business producing car components or in travel and tourism.
2 Consumer incomes are lower in Wales than in the rest of the UK because workers tend to be employed in low-paid jobs and the average age is higher so there are more retired people.
3 The Welsh Government can persuade more businesses to set up in Wales by:
   (i) giving financial support to businesses setting up in Wales
   (ii) offering tax cuts to businesses setting up.
4 It is difficult for industry to grow in Wales because:
   (i) Wales is far away from markets in Europe.
   (ii) The geography of Wales makes it difficult to transport goods to markets.

The impact of globalisation on businesses (page 32)
1 International trade means that if goods are not selling well in home markets, they may continue to be purchased abroad, so risks are spread.
2 Different legal systems around the world mean that countries have their safety standards for manufactured goods and their own quality standards for food. Goods have to be produced to meet the standards of different countries: this will be expensive.

The impact of globalisation on businesses (page 33)
1 Globalisation means that markets are not local or national but are also found around the world.
2 Multinationals take advantage of globalisation by setting up their operations in many countries.
3 Worldwide markets are enormous so the potential for sales and profits is enormous. Shareholders benefit from the greater security of holding shares in big companies and the increased dividends.
4 Workers face disadvantages with globalisation because:
   (i) Local firms may be taken over by global businesses. This could mean a loss of jobs for local employees.
   (ii) Workers may be faced with lower wages as global businesses move to areas where wage costs are at their lowest.
The impact of globalisation on businesses (page 34)
1 Two effects of having a global brand are:
   (i) It is easier to compete on international markets as customers know the brand.
   (ii) There are more customers on the global market leading to higher sales and profits.
2 Multinational businesses benefit from setting up in countries where labour and land costs are at their lowest so that costs are kept low.
3 Multinational companies can keep their costs down as a result of the economies of scale gained from bulk buying for their businesses around the world.
4 Problems faced by multinational businesses include:
   (i) They may be difficult to manage because of their size and because of the distances involved.
   (ii) They must be aware of the different legal and political systems around the world. It may be difficult to conform with these in the different countries in which they operate.

The impact of globalisation on businesses (page 35)
1 Multinationals setting up their factories and offices need workers. Jobs are created so unemployment will fall and standards of living will be improved.
2 Disadvantages for employees include:
   (i) Workers may be exploited with the introduction of practices not covered by laws with, for example, the gig economy.
   (ii) Workers will lose skills as many of the jobs are related to assembly of products, which requires few skills and limited training.
3 An advantage of a multinational setting up in an area is that the community benefits from the improved infrastructure as the company builds roads to access its factories. However, a disadvantage is that it may have little concern for the impact developments have on the local environment.
4 Problems faced by governments paying incentives to attract multinationals include:
   (i) The cost of the incentive, which may not produce the number of jobs promised.
   (ii) Better incentives given by other countries may attract multinationals away so government incentives may be short-lived.

The impact of globalisation on businesses (page 36)
1 Membership of the European Union has meant that businesses have been able to reach an enormous market for their products without having to pay customs duties. They have also been able to recruit workers from around Europe when there have been shortages in this country or if they want to reduce costs by employing workers who want lower wages.
2 British workers are affected by membership of the European Union with:
   (i) opportunities to be able to work anywhere within the European Union
   (ii) a reduction in the number of jobs available as they may be taken up by workers from other EU countries, sometimes at lower wage rates.

The impact of legislation on businesses (page 38)
1 Workers can insist on a contract of employment within two months of starting a job.
2 It is difficult for employers to dismiss workers as there are laws against unfair dismissal that make it illegal to dismiss an employee without good reason.
3 Laws protect customers from the suppliers of goods who might be selling inferior quality products that have been badly described and that may be unsafe for consumers to use.
4 Product designs can be protected for businesses that take out patents on those designs so competitors are not able to produce similar products for twenty years.

The impact of legislation on businesses (page 39)
1 Laws may affect the costs of a business as:
   (i) Workers must be paid at least the hourly rate set by the Government.
   (ii) Checking products for quality will be expensive.
2 Businesses are affected by consumer protection laws because:
   (i) The extra confidence customers have in products makes selling goods more certain.
   (ii) The costs of ensuring that laws are kept and of correcting mistakes in production may be expensive.
3 The laws encourage such businesses to produce books as they can be more certain that no one will copy their products.
4 Customers can be more certain that they have not been cheated by producers but prices will be higher as producers spend money to ensure quality and that their products are not copied.

3 Business operations

Production (page 40)
1 Job production involves producing goods to meet the needs of individual customers.
2 As the work is highly skilled, workers will tend to be paid higher wages. They will also probably have greater job satisfaction as they were involved in the entire production process.
**Production (page 41)**

1. Batch production involves producing a quantity of one type of good before switching production to a quantity of another good.
2. Mass production involves producing goods in very large quantities along a production line where workers are employed to add parts as the partly produced product moves along the line.

**Quality (page 42)**

1. Quality involves producing goods and services to meet the standards expected by customers.
2. Quality assurance means that the highest standards are met during the production of goods so that materials and workers are of the best quality. Quality control means that goods are inspected at the end of the process to ensure that they are of the highest quality for customers.
3. Businesses gain from producing quality products as:
   - (i) Customers are satisfied with the products, so they are more likely to return for other goods produced by the manufacturer.
   - (ii) More goods are sold as possible customers become aware of the quality of goods produced.
   - (iii) There is less wastage, and therefore costs are kept down, as fewer lower quality goods are thrown away.
4. Quality is expensive to maintain as the best suppliers and workers will require higher payments and as quality control measures are carried out.

**The supply chain (page 43)**

1. The supply chain begins when materials are bought from suppliers and ends when the goods reach the customers.
2. Sourcing involves finding the suppliers of materials. It is the first stage in procurement where the producer can find the right goods at the right price with the right delivery terms.
3. It is necessary to have full details about the suppliers of goods to find their reputation for quality and reliability. Poor quality suppliers can lead to poor quality materials, which may not be available when they are required by the producer.
4. Procurement is about finding the correct resources for production. Once they have been found, they need to be moved as efficiently, quickly and cheaply as possible so that production can take place.

**The supply chain (page 44)**

1. Stock is important to businesses as:
   - (i) Materials need to be available for production to take place.
   - (ii) Finished goods need to be available when they are demanded by customers.
2. Two benefits of traditional stock control are:
   - (i) Materials are available on site when required for production.
   - (ii) Large quantities of stock are ordered to take advantage of discounts for bulk buying.
3. Many businesses have adopted just in time because they are saved the costs of storing stock. Also, more up-to-date materials may be made available so wastage is reduced using just in time.
4. Computerised stock control means that stock numbers are automatically checked as materials are being used up. The computers can then re-order new stock directly from suppliers as required. Chances of human errors are reduced.

**The supply chain (page 45)**

1. The Finance Department is important in the supply chain as it monitors costs and pays the suppliers for the materials used in production.
2. The Sales Department will have located customers for products and will have agreed delivery dates. Delays in the supply chain will affect the production time, so delivery dates may not be met.
3. Customers will expect to pay a certain price for products and will expect these to be of a certain quality. Changes in the suppliers of materials may lead to higher prices and/or reduced quality goods.
4. Suppliers may be concerned about getting materials to a business on time as they may be in a competitive market and their customers may look for other suppliers if there are delays in delivery.

**Sales process (page 46)**

1. Good knowledge of products by employees will enable them to know and understand the products that they sell to show the suitability of these to customers.
2. The sale is closed when the customer agrees to buy the product.

**Sales process (page 47)**

1. Customers benefit from buying goods in store as they can:
   - (i) make comparisons between goods in the shop.
   - (ii) pay for and take immediate possession of the goods.
2. Disadvantages of selling goods in store are:
   - (i) Shops are expensive to rent, maintain and staff.
   - (ii) The shops can be subject to nearby competition, which enables customers to make immediate comparisons.
3. Small businesses have benefited from e-commerce as they have been able to sell goods to a wider market without the need for expensive shops.
4 High-value customers are the wealthiest of customers and are willing to buy more goods that are generally more expensive than others. By developing the customer loyalty of such buyers, businesses can increase revenues and therefore profits.

Sales process (page 48)
1 Customers expect workers to be:
   (i) clean and tidy
   (ii) knowledgeable
   (iii) polite.
2 Customer loyalty is important to a business because:
   (i) it leads to increased sales
   (ii) it leads to increased reputation as the customers tell others about the business.

Sales process (page 49)
1 The greeting of customers is important as it sets the tone in the sales process. If customers feel welcome they are more likely to remain in the shop and are more likely to buy products.
2 Employees can make customers feel confident in the products offered by a business by having good product knowledge and by responding to customer questions.
3 The feedback may be positive, so the business can use this to promote itself to other customers, but negative feedback can lead to a bad reputation for the business. Rapid response to feedback may reduce the bad effects on business reputation.
4 Two differences between customer service in shops and online are:
   (i) In store the service is generally person to person but online it is not. Online sellers must try to convince customers that they are receiving personal service.
   (ii) In store returning customers may be served by different employees. Online the technology recognises previous customers and will offer products similar to previous purchases.

4 Finance

Sources of finance (page 50)
1 A disadvantage of using personal savings as a source of business finance is that the money may not be sufficient to set up a business. It may take time to save enough to meet start-up costs.
2 Ploughed back profits are also called retained profits. They are the profits kept by the business from previous trading to be used to invest in the business.

Sources of finance (page 52)
1 By borrowing money from family members:
   (i) Interest may not need to be paid thereby cutting the cost of the finance.
   (ii) The money may not need to be repaid for a long time allowing the business to become established.
2 Taking on additional partners means that the new partners will want an input into decision making so control of the business is reduced.
3 An advantage of taking out a bank loan will be that interest rates may be fixed in advance so there is certainty on how much the loan will cost.
4 Collateral security involves the lender having control of an asset of a business. If the business does not repay its debt, the asset will be sold to recover the loan.
5 An overdraft is not suitable for expansion as it is generally used for short-term debt and for smaller sums of money. Factory expansion will require large amounts to be repaid over many years.
6 Trade credit is valuable to businesses as they have time to sell the items they have bought before they need to pay the seller.

Sources of finance (page 53)
1 Hire purchase is a type of loan in which the borrower can use an asset while repaying the loan over a period. The lender of the money still owns the asset until the debt has been repaid.
2 One disadvantage of hire purchase is that interest rates are usually higher than for a bank loan. This means the business has higher costs.
3 The main difference between hire purchase and leasing is that with the former the asset may eventually become the property of the borrower but with leasing it is always owned by the leasing company.
4 Businesses may be reluctant to apply for government grants because of the complicated application process that imposes conditions on the businesses.

Sources of finance (page 54)
1 Many entrepreneurs will rely on external sources of finance when setting up a business because internal sources may not provide them with enough money. Savings may be limited and there will be no scope to use retained profits.
2 Business angels will be willing to finance start-up businesses because they see potential for growth for them to earn more money in the future.
3 Retained profits cannot be used to meet cash flow issues when a business begins as the business has not been able to generate profits.
4 Businesses can sell assets that it may no longer require to finance other investments. These assets may involve machinery that is not being used, land that is greater than it needs or stock that is no longer required.
Revenue and costs (page 55)
1 The business is making a loss even though no goods are being produced or sold because it will still have to pay fixed costs.
2 For there to be no profit and no loss total cost = total revenue. This happens when 50 goods are made and sold.

Revenue and costs (page 57)
1 A variable cost changes as output increases. Variable costs are usually spent on materials such as the fruit juice used by Alison.
2 Fixed costs must be paid no matter how many goods a business produces. Fixed costs include the cost of buying machinery, such as the blenders Alison might use.
3 Contribution is the sales revenue minus the fixed cost. It shows how much of the price of a good includes a payment to fixed costs.
4 Break-even output = fixed cost / selling price –variable cost = 1000 / 3 – 2 = 1000

Revenue and costs (page 58)
1 Profits are an important source of finance as they do not have to be repaid to an outside investor and no interest is payable to them.
2 A business may use its profits by:
   (i) building an extension to the factory
   (ii) buying new machinery.
3 [Eduqas only] Average profit is the total profit expected from an investment divided by the number of years the investment will be earning those profits.
4 [WJEC only] ARR is important to a business deciding whether to buy a new machine as it will estimate the return from the output from the machine compared with the return from using the money elsewhere.

Profit and loss accounts (page 59)
1 The turnover of a business is the value of its sales revenue. It is the amount of money entering the business before costs have been paid.
2 Expenses include:
   (i) salaries paid to managers
   (ii) the rent paid for buildings.

Profit and loss accounts (page 60)
1 A comparison of profits over time will show whether previous objectives have been met and will help to establish realistic targets when setting future objectives.
2 Lower than expected profits will mean that shareholder dividends will be reduced. Some disappointed shareholders will want to sell their shares so the value of shares will fall.
3 A rise in profits over several years will mean that workers are more secure in the continuation of their jobs and that they are in a stronger position when negotiating higher wages.
4 Businesses are keen to know the profit and loss figures of competitors as they will help them to plan their own objectives.

Profit and loss accounts (page 61)
1 Net profit is the final profit made by a business. Net profit margin is net profit expressed as a percentage of sales revenue.
2 Increased use of machinery will make workers less certain about keeping their jobs. This may affect morale and impact on the number and quality of products produced.

Cash flow (page 63)
1 Cash is important to a business as without cash, it is unable to pay its short-term debts such as those for materials and wages. Not being able to pay for these will make it more difficult to obtain materials or to have the employees to work.
2 Cash is money in the form of notes and coins kept in bank accounts. Profit is the money left over from selling products after the costs have been paid.
3 Cash flow is the money coming into the business from selling products and the money leaving the business to pay for the costs of producing goods and services. A cash-flow forecast is a prediction or estimate of the amount of money entering and leaving a business during future trading.
4 Banks want to see a cash-flow forecast as part of a business plan. It will show that the business has estimated its income and expenditure and how much cash it is predicted to have at certain times. The banks will be more confident that the business will be able to cover its debts and repay the loan.

Cash flow (page 64)
1 An overdraft involves the bank customer drawing more money from a bank account than is in the account. It is important to a business as there are times when money flowing into the business will be less than the cash flowing out of the business. Banks will cover the short-term debt by allowing an overdraft.
2 Customers who have paid a deposit for a product will be interested in the cash-flow situation of a business. If the business runs out of cash it may be forced to close and the customer may lose the deposit and will not receive the product.
3 A reduction in the number of workers will lead to a fall in the wages being paid and may improve cash flow but if the quality of service worsens or the number of goods produced falls this may affect cash flow in the future.
4 If a business chases up bad debts to improve its cash flow, this may cause problems for the person or business owing the money and the debt may never be paid.
Financial performance (page 66)
1 Businesses gather data:
   (i) to measure how effective past decisions have been
   (ii) to help to set objectives for the future.
2 Qualitative data describes what people have seen, felt and described.
3 Quantitative data is likely to be more reliable as it is supported by measurements and numbers. Qualitative data is based on ideas and beliefs that cannot be measured, will be based on the views of a few people and that may be easily changed.
4 Market share is best shown in a pie chart.

5 Marketing

Identifying and understanding customers (page 67)
1 Businesses aim to earn profits. To be able to do this they need to keep costs as low as possible and revenue as high as possible. By identifying who their customers are and to determine their needs and wants, goods can be produced and sold to meet customer demands.
2 Market segments involve the different types of customers within the total market for goods. These segments involve different genders, ages and so on. Each will demand different goods to meet their own needs and wants.
3 Income will affect the type of goods people buy. Customers with higher incomes will usually buy branded, higher priced and better quality goods as they are more able to afford these.
4 Customers in different market segments are likely to read different newspapers and magazines, watch different television programmes at different times. Advertisements will be shown where and when the targeted market segments are likely to be viewing the advertisements.

Market research (page 68)
1 Market research involves collecting information about the market for products to set objectives for marketing and selling goods and services.
2 The three stages of market research are:
   (i) The collection of data. This involves the use of primary and secondary research to find out what the market wants and what customers think about new and existing goods and services.
   (ii) The presentation of the research findings in the form of reports containing charts and graphs.
   (iii) The analysis of the research to decide what the research means and to set objectives based upon what the research has found.

Market research (page 70)
1 Field research involves going into the market to question existing and possible customers about their views on products. Such research is also called primary research.
2 Two sources of information for field research involve the use of:
   (i) surveys
   (ii) focus groups.
3 Businesses are using online surveys more often because they are cheap to carry out as researchers are not used to question individuals. The extent of the internet also means that a wider area can be covered.
4 Focus groups allow those people taking part to discuss issues around a product rather than just answering questions set by the researcher. However, the views given are of a small number of people who do not represent the full market.

Market research (page 71)
1 Desk research involves finding and analysing existing research. Desk research is also known as secondary research.
2 Two sources of information for desk research involve the use of:
   (i) information from previous reports written by the business
   (ii) government reports and statistics.
3 Business will be cautious about using the data produced by rival companies because, although they will be supplying similar products, the size, organisation and structures of the businesses may be different. This makes comparisons difficult.
4 Businesses prefer to rely on primary rather than secondary data as field research is more up-to-date and is more specific to the needs of the business.

The marketing mix (page 73)
1 The marketing mix is the combination of factors that help customers to decide which products to buy. These factors are known as the four Ps and are product, price, promotion and place. Businesses will combine these factors to sell as many products as possible.
2 Business show their products are different from those produced by competitors with different designs and features.
3 Price is important to customers as if it is too high, they will be less likely to buy. For producers, if it is too low they will be less likely to cover their costs or make a profit so they will not be willing to supply the good or service.
4 The marketplace is changing for customers as fewer are now buying goods in shops; more are making online purchases.
Product (page 74)
1 Product range describes the variety of goods and services provided by a producer. It is also called product portfolio.
2 Innovation involves a business finding an idea for a new product, developing the product and putting it on the market.

Product (page 75)
1 A brand is a way in which one producer shows the difference between its products and those of its competitors. The brand may be in the form of a name, a logo or a trademark.
2 Customers gain from own brand products as they are usually cheaper than branded products as less money is spent on advertising and packaging.
3 Packaging is good for businesses as:
   (i) It protects goods when they are being transported or stored. There is therefore less wastage of products.
   (ii) It is used to include the brand of the product so it is recognisable and is more likely to be bought so sales will increase.
4 Packaging will use up resources when it is being produced. However, the main damage to the environment comes after the packaging has been taken off the goods. Litter has increased and the failure of packaging to degrade has caused much environmental damage.

Product (page 76)
1 The product life cycle shows how the sales of a product changes from before it is introduced on to the market until it is no longer demanded.
2 The development stage is costly as money is spent to research and test the product, to buy machinery and to train workers.
3 Chocolate will tend to have a longer life cycle than clothing, particularly for popular brands. Certain brands have been on the market for a long time. Clothing, however, is a fashion product for which demand will increase as more people want the new trends but when other fashions come onto the market, demand will fall.
4 Demand will not change by very much when the product life cycle has reached the saturation stage.

Product (page 77)
1 Extension strategies are the methods used by businesses to try to prevent the decline in sales on the product life cycle.
2 Managers will be concerned that sales will decline with the possible effects on profits and jobs.
3 Two possible extension strategies are:
   (i) developing different designs for the product so that customers believe it is new. This could apply to food products where different flavours may be introduced to the range.
   (ii) attempting to enter new markets either by appealing to different market segments or by trying to sell on international markets.
4 Extension strategies may not be used if:
   (i) it is believed that the costs of the strategies are equal to or more than the possibility of additional sales
   (iii) the business is developing new alternative products.

Price (page 78)
1 Price is important to the supplier of goods because:
   (i) It will help to determine whether customers will buy the goods and bring revenues into the business.
   (ii) It should be enough to cover the costs of production and to enable the business to earn a profit.
2 Cost plus pricing involves adding the percentage profit to the cost of each good.
3 Cost plus pricing may cause problems for businesses when:
   (i) Competitor prices are lower as they can produce the goods at lower costs.
   (ii) It is difficult to calculate the cost of producing each good. This is particularly so when a range of goods is being produced and the contribution to fixed costs is difficult to calculate.
4 (a) Competitive pricing is important to customers as the prices will often determine who will supply them with goods.
   (b) Competitive pricing is important to businesses as, if their prices are higher than those of competitors for similar goods, customers are more likely to buy from the competitors.

Price (page 79)
1 Penetration pricing involves setting a low price when products are launched onto the market. It is hoped that customers will buy at the low price and get used to the product and continue to buy when the price rises.
2 Price skimming differs from penetration pricing as with the former prices are set at a high level when goods are launched. Once sales begin to decline prices are reduced to encourage further sales. With penetration pricing, prices are low to encourage early sales before increasing the price.
3 Psychological pricing aims at making customers believe they are getting a bargain by using terms such as ‘only’ and by pricing at, for example, £199 rather than £200. It is hoped that they will then decide to buy the product.
4 One disadvantage of psychological pricing is that customers will realise the motives behind the strategy and will not be tempted to buy.
Price (page 80)
1 Loss leaders may be used when:
   (i) businesses offer staple products at low prices to tempt customers into the shop
   (ii) the sellers offer technical goods at low prices to persuade customers to buy.
2 Price discrimination happens when businesses sell goods at different prices to different markets.

Promotion (page 82)
1 Advertising media are the places where advertising can be found.
2 Flyers are used to advertise products as they can be kept for reference by possible customers.
3 Newspaper advertisements can be large enough to contain more detail than can be written on flyers.
4 Directories can be kept for a long time and can be referred to by customers when they are looking for a good or service.

Promotion (page 83)
1 Sole traders may advertise on local radio because:
   (i) It is cheaper to advertise on local radio than it is to advertise on the television.
   (ii) The sole trader is able to advertise in the local area where the customers are likely to be found.
2 Few small businesses will advertise on television because:
   (i) Advertisements are expensive to produce and to show. Small businesses cannot afford the large sums of money required.
   (ii) National television appeals to a mass market across the country. The market for small businesses tends to be smaller and local.
3 Businesses benefit from advertising in cinemas as they can reinforce the message of television advertising to an audience that finds it more difficult to avoid watching the advertisement. Small local businesses can also benefit from the lower cost of the advertisement.
4 Point of sale advertising is that found in retail outlets often close to the tills to attempt customers to buy goods on impulse.

Promotion (page 85)
1 Social media uses websites and applications to allow users to share information with individuals, groups and businesses.
2 Blogs allow businesses to use social media to market their products by giving details about products and demonstrations of those products.
3 Search engine advertising is paid for by businesses that pay the engine provider to give them priority in lists when users are searching specific topics.
4 Businesses benefit from digital advertising as the advertisements show movement and change frequently to attract the attention of possible customers in busy locations, such as road junctions or sporting venues.

Promotion (page 86)
1 A discount is a reduction in the price of a good or service.
2 Competitions improve the sales of a product as they draw the attention of possible customers and often a proof of purchase is needed to be able to enter the competition.
3 Two forms of sales promotion a flower shop could use are:
   (i) Buy one get one free, so that two bunches of flowers are sold at the same price as one bunch.
   (ii) Coupons could be given to customers who buy flowers to give a discount on their next purchase.
4 Direct marketing involves marketing goods directly to customers using the post, loyalty cards or the internet. Information about the purchases of customers is kept so they can be targeted to buy similar goods in the future.

Place (page 87)
1 An intermediary involves those who help business by coming between the manufacturer and the customer. For most the main intermediaries are wholesalers and retailers.
2 Two differences between wholesalers and retailers are:
   (i) The wholesaler deals directly with the manufacturer whereas small-scale retailers deal with wholesalers.
   (ii) Wholesalers usually buy goods in large quantities and split these up to sell to their buyers – the retailers – in smaller quantities.

Place (page 88)
1 E-commerce, or electronic commerce, involves the use of the internet to sell goods and services to customers.
2 E-commerce usually involves the use of desktop computers and tablets to buy products from the home or in offices. M-commerce is similar, but it allows customers to buy goods anywhere using smartphones.
3 E-commerce allows businesses to keep their costs down as goods can be sold from out-of-town offices and warehouses where property rents are lower than those paid by retail shops in city centre locations.
4 Businesses still operate from shops in shopping centres because many customers still prefer to buy goods in this way. The shoppers are more able to compare goods and different suppliers when buying in shopping centres.
6 Human resources

Recruitment (page 89)
1 Businesses will need to recruit workers if their sales increase and the business will need to produce more goods or if workers are needed to replace those who have left.
2 External recruitment benefits the business as the new employees may have new skills and ideas.

Recruitment (page 90)
1 A job description shows the duties and tasks required for a particular job.
2 A person specification describes the kind of person the business requires regarding qualifications, experience and personality. The job description is about the work to be done.
3 As the internet is a worldwide form of media, businesses are more likely to use it when seeking new employees from anywhere in the world.
4 CV is short for curriculum vitae. It is written by people looking for work to detail their education, qualifications, experience and anything else they feel a possible employer might be interested in knowing about them.

Recruitment (page 92)
1 There may be many more applicants for a job than can be interviewed by the business. The recruiters will consider all the applicants to find a number who seem to be closest to the needs of the business. These will be included on the shortlist and will be invited to be interviewed.
2 As a school leaver is less likely to have had a job, a member of school staff could be asked for a reference. If the applicant has had a part-time job, an employer could be asked.
3 The main benefit of an interview is that the employer has a chance to meet shortlisted applicants face to face to be able to compare these and to find how they are likely to cope with questions and other situations.
4 Other methods such as tests may be used because interviews are not always a reliable means for selecting the right employees. Bad performance through the nervousness of the applicant or bad training for the interviewer may lead to the wrong person being chosen.

Training (page 93)
1 (a) Businesses benefit from training as they can be more certain that the employee has the right skills to be able to produce quality products.
(b) Workers benefit from the confidence that they are doing the job correctly. This improves their morale in the workplace.
2 Induction training is needed even for older, experienced recruits because every workplace is different, and they will need to be made aware of the operation of their new workplace.
3 Training for those who have been with the business for some time is important so that their skills are updated. This might happen if the worker has been working at below the standards the business expects or if new skills need to be introduced.
4 When new technology and processes are introduced in the business, workers need to be given instruction in these.

Training (page 94)
1 On-the-job training involves training being given in the workplace, often by the more knowledgeable and experienced workers to the less so.
2 Off-the-job training is likely to be more expensive than on-the-job training as external trainers must be paid to instruct workers, rather than relying on the training given by fellow workers who are being paid in any case. Also, workers absent from the workplace may need to be covered by others: this may add to the costs.

Motivation (page 95)
1 Well-motivated workers are more likely to enjoy their work and so are more likely to want to be in work. Absenteeism will therefore fall.
2 It is expensive for businesses to have high levels of worker turnover because the recruitment process is costly as is the training of new workers.
3 When there are good relations between managers and workers, the workers will be less resistant to change and will want to see the business grow. The workers will be more likely to accept newly recruited workers as the business grows.
4 A well-motivated workforce will work more efficiently so producing more quality products.

Motivation (page 97)
1 An urgent order for products means that additional output is needed. If the business is producing as much as it can in the normal day, the business can pay overtime rates to encourage the workers to work for longer hours.
2 Fringe benefits encourage workers to remain with a business as benefits such as health insurance may not be available at other businesses.
3 Job rotation gives workers experience of more of the business.
4 (a) Empowerment gives workers more control over how they do their work. This means that workers are motivated to do their best on behalf of themselves and the business.
(b) The business therefore benefits from the enthusiasm of the employee.
Organisational structures (page 99)
1 The owners of public limited companies are the shareholders. There will be so many of these in public companies that it is not possible for all to be in control of the businesses. They pass on this control to the Board of Directors and to the employed managers.
2 (a) Managers receive their instructions from the leaders of the business in the form of the Board of Directors.
   (b) Managers pass on instructions to supervisors.
3 Supervisors will usually understand the work and roles of operatives as many will have been promoted from their work on the factory floor to become supervisors.
4 Operatives may feel that they have no input in decision making as they receive instructions from higher up in the business rather than taking on responsibilities for themselves.

Organisational structures (page 101)
1 The span of control is the number of people a person in a business is directly responsible for.
2 Managers in flat organisational structures are likely to have greater responsibilities.
3 Reducing the number of layers means that each manager will have more work to do. This may not be possible to complete so tasks will need to be delegated to others.
4 Delayering will reduce the number of managers in a business so salary costs are likely to be reduced.

Organisational structures (page 103)
1 Business that are organised in departmental structures can employ specialist managers for their areas. They will be experts in their areas and should complete their work more efficiently.
2 Product-based structures may be wasteful as they will also have departmental structures so sometimes tasks will be duplicated.
3 Organisation on a geographical basis means that local needs can be met as there is ease of communication locally.
4 Even though there may be product-based and geographical structures, there may still be the need to manage the business in departments. Experts can be employed to be responsible for such areas as finance and human resources.

Organisational structures (page 104)
1 Internal communication takes place between employees within the business.
2 Communication that is not clear could lead to the wrong goods or the wrong quantities being delivered from suppliers. This may delay production and add to costs.
3 Workers are motivated by feeling that they are part of the business. Good communication will help them to understand the reasons for decisions within the business and will encourage them in their work.
4 Bad communication will result in workers being less motivated in their work, leading to poor quality output. Also, misleading communication will make operatives uncertain about what is required of them and poor quality work will follow.

Organisational structures (page 106)
1 Flexible hours mean that parents can plan their work time around the needs of their families, enabling perhaps children being taken to and/or picked up from school.
2 Managers and administrative workers are best suited to home working as tasks can be carried out on computers, using the internet either at the office or at home.
3 Zero hours contracts are best suited to businesses where the demand for goods and services changes. This will apply to those involved in leisure and tourism and catering.
4 (a) Flexible hours working and job sharing will probably add to the costs of businesses.
   (b) Home working and zero hours contracts will reduce business costs.

Organisational structures (page 107)
1 An individual worker trying to negotiate a wage increase will find it more difficult to persuade an employer than a trade union representing the entire workforce.
2 As well as working towards better pay for their members, trade unions also attempt to improve working conditions.
3 A go-slow means that workers will not be producing goods as quickly as they could. Output of the workplace is therefore reduced but, where time rates are being paid, the workers are still receiving their full pay.
4 Trade union members are reluctant to take strike action as they will lose pay. If the strike is lengthy, this will affect standards of living for the workers and may also threaten the survival of the business and their jobs.