GCSE Business
Business Activity

Business Growth

Why do some businesses decide to grow?

- **Increase market share ➔** increase number of customers in comparison to competition ➔ increase sales revenue
- **Increase sales ➔** potential to increase profits
- **Potential economies of scale ➔** reduces costs ➔ increase profit ➔ examples such as purchasing, technical, financial and marketing
- **Gain competitive advantage ➔** example of how the business may gain an advantage such as; reducing costs, extensive advertising, access to more resources, etc.
- **Opportunity to spread risk ➔** selling a wide range of goods/services to wider market

Internal (Organic) Growth

Definition: Where the business grows by increasing the size of a business by increasing its sales, revenue, profits and workforce.

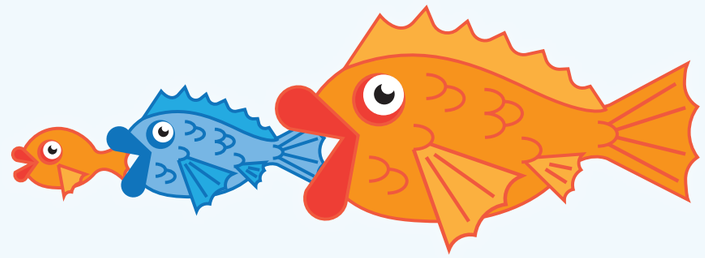
Advantages:
- ☑ Less risk than external growth (e.g. through mergers and takeovers)
- ☑ Can be financed through internal funds (e.g. retained profits)
- ☑ Builds on a business' existing strengths (e.g. brands, customers)
- ☑ Allows the business to grow at a more sensible rate in the long run

Disadvantages:
- ☒ Can take a long time ➔shareholders may prefer more rapid growth of revenues and profits
- ☒ Requires the owners to reinvest profits into the business
- ☒ Growth achieved may be dependent on the growth of the overall market
- ☒ Hard to build market share if business is already a leader

External Growth

Definition: Involves increasing the size of a business by buying other businesses.

1. **Merger ➔** When two or more businesses join together to form a new business.
2. **Takeover (or Acquisition) ➔** When one business gains control of another.



Advantages:
- ☑ Faster growth
- ☑ Speed of access to new products or markets
- ☑ Increase market share and market power
- ☑ Economies of scale
- ☑ Make use of the strengths of each business
- ☑ Invest in fast growing emerging markets

Disadvantages:
- ☒ The merger or takeover does not always work ➔ it is difficult to make two different businesses work as one
- ☒ A takeover can result in creating a bad feeling between the new workforce ➔ some takeovers are hostile (where the business being taken over does not want to be) ➔ the takeover can often result in redundancies
- ☒ The cultures of the two businesses may be very different ➔ it will be very difficult to agree on the new culture of the business

Diversification

Definition: Allows a business to enter a different market in addition to the one they are already involved in. This enables the business to spread its risks should the original business fail.

How can the size of a business be measured?

- **Value of sales ➔** the value of a firm's sales is also called its revenue or turnover ➔ the bigger the turnover, the bigger the business
- **Value of the business ➔** how much is the business worth ➔ has the value of the share price increased?
- **Number of employees ➔** how many employees do they employ ➔ has this number increased?

Effect of a takeover on various stakeholders

Workers:
- Loss of jobs ➔ if closure of factories/offices ➔ redundancies
- New skills may be needed ➔ need to retrain
- Higher incomes ➔ larger firm ➔ more responsibility posts ➔ promotion
- Relocation ➔ need to move to keep jobs ➔ e.g. problems of relocation
- Re-apply for jobs ➔ application forms/CV's ➔interviews

Customers:
- Bigger business ➔ economies of scale ➔ lower costs ➔ lower prices
- Less choice ➔ possible reduction in outlets ➔ higher prices
- Less development/innovation

Shareholders
- Economies of scale ➔ lower costs ➔ increased revenue ➔ greater profits
- Higher dividends ➔ higher share value
- Error in takeover ➔ may lead to lower profits
- Fall in share value ➔ lower dividends
- Increased market share ➔ resulting in larger profits

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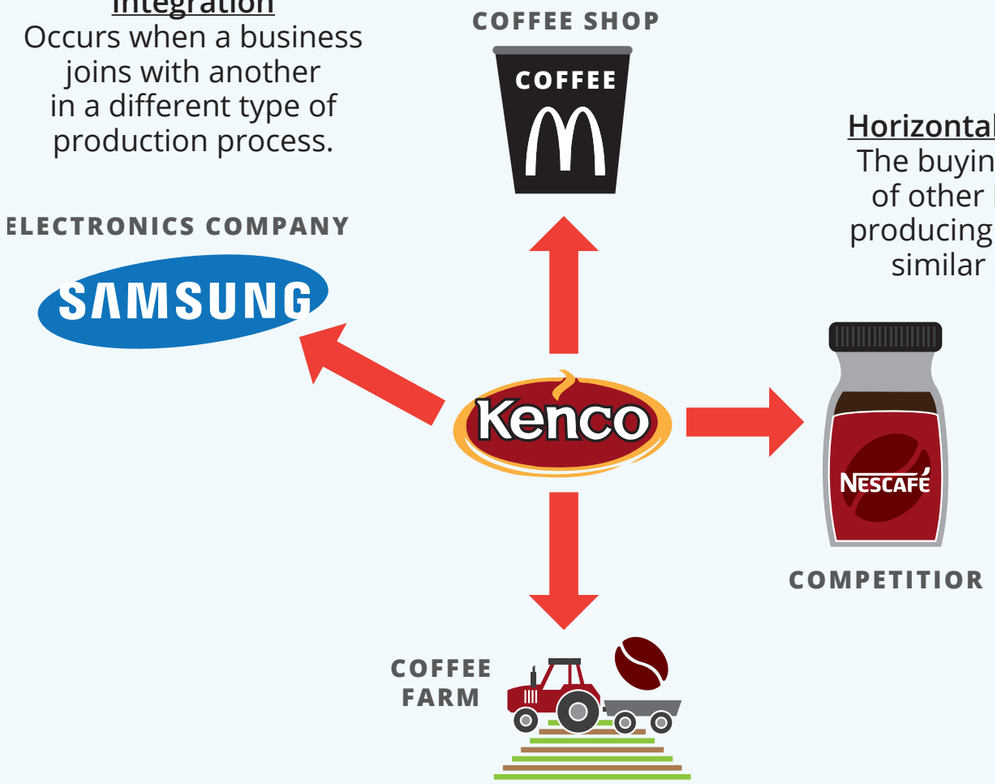
Types of Integration

Vertical Forwards Integration

Occurs when a business takes over another business to control the direct distribution of a business' products.

Conglomerate Integration
Occurs when a business joins with another in a different type of production process.

Horizontal Integration
The buying or merger of other businesses producing the same or similar products.



Vertical Backwards Integration
Occurs when the suppliers of a business are taken over by that business.

Benefit from owning businesses at different stages of production

- Control over production ➔ type e.g. petrol or diesel ➔ quality and quantity ➔ can decide on how much to produce ➔ control over costs
- Control over sales ➔ where to sell ➔ type of advertising ➔ amount of advertising ➔ price ➔ based on competition or market
- Take money at each stage of production ➔ added value ➔ earn greater profits
- Economics of scale ➔ lower unit costs, example in context
- Rationalisation
- Diversification ➔ reduced risks

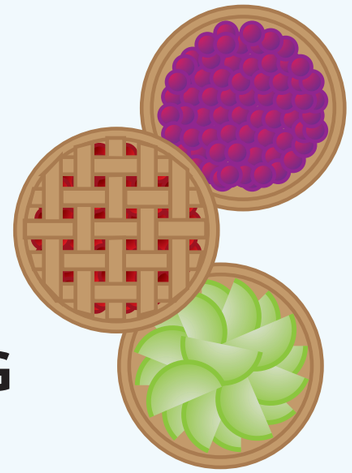
Internal Economies of Scale

Definition: The benefits a business gains as a result of being large. All costs can be spread between the large number of goods produced so the cost per good is lower than for smaller businesses.

- **Risk Bearing** ➔ selling the product to wider / more markets ➔ if one market fails then they can still get sales from other markets
- **Financial** ➔ can borrow large sums of money ➔ can negotiate lower rates of interest ➔ obtain more investment reducing costs and increasing profits
- **Managerial** ➔ as a business increases its output there is a need for large administrative / hierarchy / specialist departments so can spread cost over all goods sold / produced
- **Technical** ➔ can use machinery 24/7 ➔ efficient costs spread over all goods produced so cost of each good produced is lower
- **Marketing** ➔ as a business increases its output it can afford more expensive advertising campaigns e.g. on TV which are seen by more people, so sales increase or cost of advertising can be spread over more goods so the cost per view is lower
- **Purchasing/Bulk Buying** ➔ the more goods bought the lower the average cost of each good / cost per unit

INTERNAL ECONOMIES OF SCALE

REALLY
FUN
MUMS
TRY
MAKING
PIES



RISK
FINANCIAL
MANAGERIAL
TECHNICAL
MARKETING
PURCHASING

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Franchise

Definition: The right given by one business to another to sell goods or services using its name. They should be seen as a method of growth for the franchisor and a business opportunity for the franchisee rather than a type of business organisation.



Franchisor

Definition: A business which allows a franchisee to sell using their processes, experience and name in return for royalties.

Advantages:

- ☑ **Enables growth ➜** with less risk to franchisor **➜** becomes more widely known **➜** quicker than internal growth
- ☑ **Franchisor receives money ➜** as franchisees pay royalties **➜** start up fees
- ☑ **Franchisee must buy stock from franchisor ➜** increased revenue/profit for franchisor
- ☑ **Franchisee may be more enthusiastic than company manager ➜** benefits sales **➜** profits **➜** reputation **➜** of franchisor
- ☑ **Franchisee organises outlet ➜** finds location/site **➜** planning permission **➜** pays rent **➜** pays for fittings/decoration **➜** so costs lower
- ☑ **Franchisee organises workforce ➜** recruits **➜** pays wages **➜** complies with employment law etc.

Disadvantages:

- ☒ **Franchisor pays some costs ➜** training **➜** advertising **➜** design
- ☒ **Less control over franchised outlet ➜** as run by franchisee
- ☒ **Franchisor may suffer ➜** badly run by franchisees **➜** bad publicity for one affects all

Franchisee

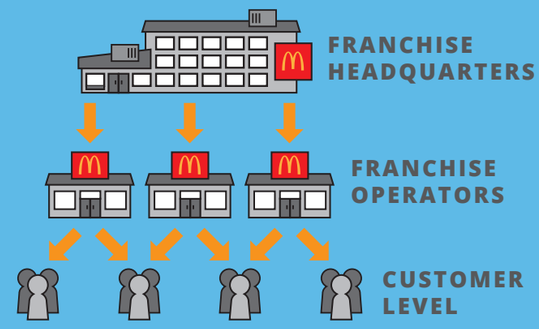
Definition: A business which pays royalties for the right to sell goods or services using established processes and under the name of another business.

Advantages:

- ☑ **Business model ➜** well-known name **➜** more customers for franchisee based on reputation of franchise
- ☑ **Training received ➜** franchisor able to pass on knowledge / skills to franchisee **➜** to give quality of service
- ☑ **Advertising by franchisor ➜** sometimes on national scale **➜** franchise becomes better known
- ☑ **Well known name ➜** means more customers for franchisee **➜** based on reputation of franchise
- ☑ **Equipment provided by franchisor ➜** to have quality / corporate image
- ☑ **Advice ➜** from franchisor with experience in the business
- ☑ **Finance may be provided ➜** sometimes at favourable interest
- ☑ **Exclusive area ➜** so franchisee does not face competition from similar business
- ☑ **Goods to sell bought from franchisor ➜** so no need to find supplier **➜** common standard
- ☑ **Process of making ➜** as efficiently as possible/ expertise

Disadvantages:

- ☒ **Set up cost paid to franchisor ➜** to be able to join franchise
- ☒ **Monthly royalties / fee paid to franchisor ➜** may reduce profits
- ☒ **Little freedom to operate ➜** as area **➜** and goods sold chosen by franchisee
- ☒ **May suffer from bad reputation of other franchisees ➜** who may provide bad service
- ☒ **Difficult to go through qualification ➜** selection process



Expanding via franchising or opening own stores

Benefits of expansion through franchising:

- many businesses already have a large number of franchises **➜** evidence suggests that they are successful
- receipt of royalties
- no need to find finance to set up **➜** role of franchisee
- no need to find sites **➜** role of franchisee
- able to expand the market and sales quickly
- expansion can be achieved relatively cheaply
- employees are responsibility of franchisee
- can take advantage of enthusiasm/ commitment of franchisees
- do not suffer losses of individual outlets
- do not have effort/cost of running individual outlets
- spreading of risks
- statistics tend to suggest that franchise businesses generally do well

Benefits of expansion through opening of own shops:

- retain independence and in control of expansion
- will keep all profits
- if set up franchises less control over quality **➜** need to monitor
- operations of franchisees
- avoids training and administration associated with setting up franchises
- can reap benefits from economies of scale

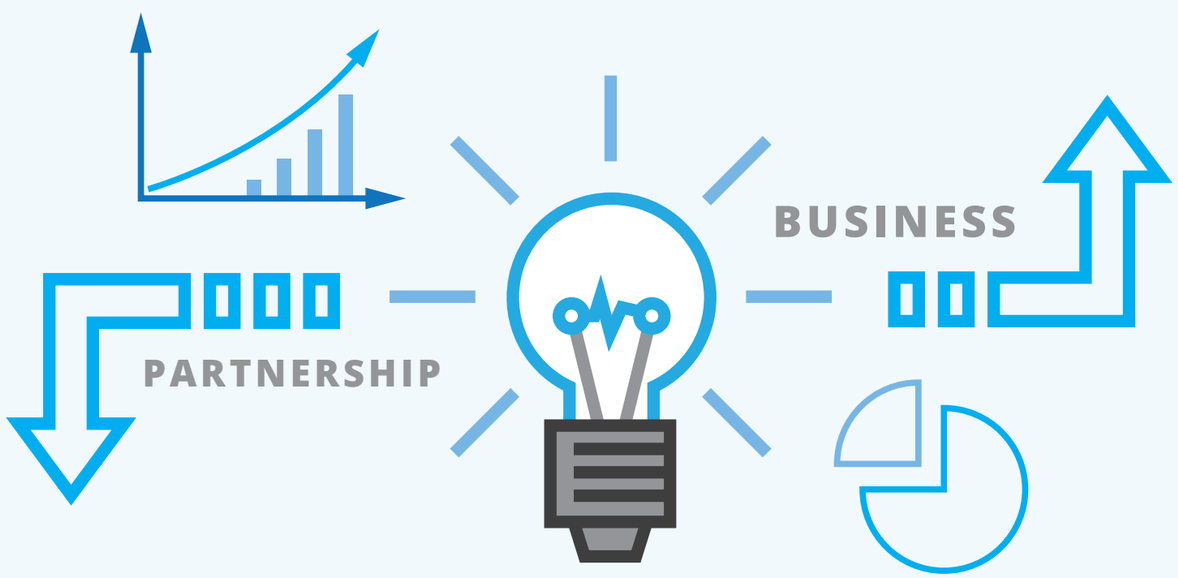
Suggest and explain one benefit and one problem the business has from owning its own shops rather than selling through shops owned by other businesses.

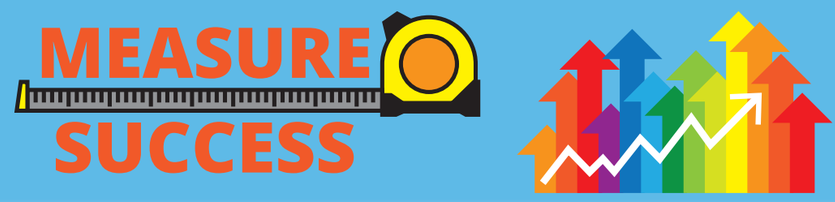
Benefits might include:

- ☑ **Control over how products are sold/ displayed** ➔ marketing /image
- ☑ **Control over selling price** ➔ customers not being charged too much ➔ or being charged too little
- ☑ **Maximise profit** ➔ made from sales ➔ as well as production
- ☑ **Immediate feedback from customers** ➔ on what is required ➔ on what is sold
- ☑ **Staff trained** ➔ on specific products ➔ and will promote own products

Problems might include:

- ☒ **Fewer customers** ➔ fewer selling opportunities
- ☒ **Extra costs of setting up** ➔ renting/buying shop ➔ fixtures/fittings
- ☒ **Problems in finding premises** ➔ suitable location ➔ planning permission
- ☒ **Staff training** ➔ expertise ➔ cost ➔ recruitment
- ☒ **Owners skills** ➔ in production rather than retailing ➔may not be so efficient
- ☒ **Leftover stock** ➔ problem for producer
- ☒ **Selling costs borne by manufacturer** ➔ e.g. rent/electricity/business rates, promotion costs





How can the success of a business be measured?

- **Profits / profit and loss account** ➔ compared with previous time period ➔ against targets ➔ compared with competitors ➔ is net % profit greater
- **Increase in sales/turnover/rate of turnover** ➔ due to improved marketing ➔ was cost worth it?
- **Increase in the number of customers** ➔ indicating greater customer satisfaction
- **Increase in scale of production** ➔ growth ➔ more workers ➔ organic/ internal ➔ acquisitions ➔ possibly leading to economies of scale
- **Ask customers opinions** ➔ customer satisfaction/customer feedback
- **Compare financial results with targets** ➔ is business performing better than expected ➔ Increased market share ➔ how much of the total market does business supply ➔ has it increased?
- **Low staff turnover** ➔ employer loyalty ➔ job satisfaction
- **Meet objectives**



Product

Product

Definition: Is the good or service provided by a business.

Product Portfolio

Definition: The collection/ range of all the goods and services offered by a business.

Product Differentiation

Definition: This involves distinguishing a product or service from others. By making a product different or appearing to be different from similar products sold by rivals, a business will hope to attract more customers.





Brand

Definition: Unique design, sign, symbol, and/or words used in creating a unique image that identifies a product and differentiates it from its competitors.

Branded products tend to be:

- They are trusted by consumers
- Products usually have a high price / premium price
- Products are unique / differentiated / stand out / recognised
- Customers are loyal to the brand ➔ and repeat purchase

Why do businesses brand their product?

- **It differentiates products from rivals ➔** unique ➔ rivals cannot use same brand ➔ copyright ➔ associated with business ➔ customers can recognise ➔ ask for brand
- **Used in advertising ➔** to promote range of products made by the business ➔ goods recognised ➔ product stands out in display ➔ repeat buying ➔ impulse buying is encouraged ➔ so increased sales
- **Brand/customer loyalty ➔** known image ➔ so continued sales ➔ customers likely to buy products with same brand
- **Enables higher prices ➔** which customers will be willing to pay ➔ higher profits
- **Global markets more likely ➔** as business widely known ➔ for quality

USP [Unique Selling Point]

Definition: What makes a product different from ones sold by competitors. It may involve the lowest price, the best quality, or the first of its kind.

- May help a business to gain a competitive advantage over its rivals.
- Can help to justify why a premium price may be being charged.
- Likely to attract more customers.

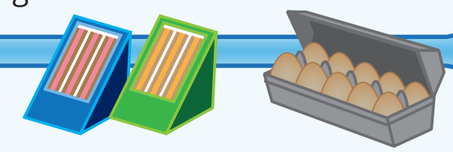
Why Sell High Quality Products?

- **High levels of customer satisfaction** / customers will be happy with the products ➔ repeat purchasing
- **Differentiates the goods from rivals ➔** more competitive
- **Increase sales / market share ➔** attract customers with better products / retain existing customers
- **Improve image ➔** good publicity from quality ➔ use in promotion
- **Charge higher prices ➔** increase sales revenue ➔ bigger margins / increase profit
- **Less complaints / returns ➔** reduce costs of providing new / replacement products

Why Do Businesses Sell A Wide Range Of Products?

- **Spreading risk ➔** selling more goods will compensate for the products that underperform and reduces risk of failure
- **Attract more custom ➔** target more customers with variety of products ➔ meet needs and wants of different types of customers ➔ increased market share
- **Competitor advantage/keep up with competitors**
- **Greater revenue ➔** more customers results in increased sales
- **Greater profit ➔** greater sales could lead to more profit ➔ reduction in costs ➔ economies of scale due to bulk buying

Purposes of Packaging



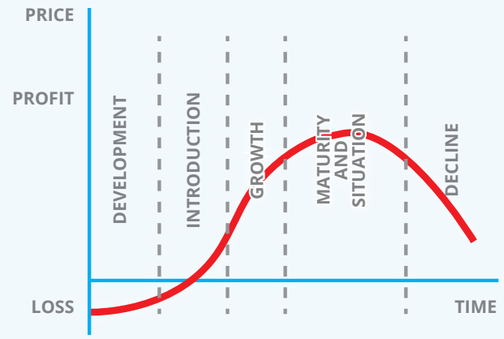
- **Protection ➔** reduce risk of damage ➔ ensure the product is of a high quality
- **Storage ➔** before sale ➔ in retailers/on shelves/in wholesalers
- **Keep product fresh/clean ➔** prevent contamination ➔ ensures consumers aren't harmed
- **Information ➔** name and address of manufacturer ➔ use of product ➔ ingredients ➔ safety ➔ use by dates ➔ legal
- **Identifies product from advertising/previous purchase ➔** for its image/ quality ➔ enables higher prices ➔ differentiates products from rivals ➔ customers can tell one product from another ➔ so product recognised ➔ so brand loyalty ➔ customers continue to buy ➔ product stands out in display ➔ impulse buying is encouraged

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Marketing

Product Life Cycle

Definition: The stages a product passes from its earliest development until it is no longer available on the market.

Diagram:



Reasons for a Fall in the Product Life Cycle

- **A fall in sales will generally happen with product life cycle ➔** people are buying alternatives
- **Same quantity of goods sold ➔** at lower price so value fallen
- **Goods available from alternative suppliers ➔** supermarkets etc. ➔ internet
- **Recession ➔** loss of jobs ➔ fall in purchasing power ➔ all goods fallen in demand
- **Technological change ➔** e.g. downloading
- **Products already owned ➔** don't need any more
- **Products last longer ➔** don't need to buy them as often

Product Research and Development

- The business spends money on research and development to create a new product before launching it onto the market.
- The business will be investing heavily in the product but not receiving any revenue from sales.

Product Launch / Introduction

- The products are introduced to the market ➔ there is a lot of potential growth / customers available.
- Costs tend to be high ➔ advertising is essential to make customers aware of the products and services.
- The business is likely to be making no profit ➔ sales revenue unlikely to exceed costs / sales are low.

Product Growth

- The part of the early stage of the product life cycle when sales and profits are rising.
- Consumers become familiar with the product and repeat custom is built up.
- The business is likely to continue to promote the product to help generate brand awareness.
- As sales increase the business will hope to earn enough money to pay back their initial investments.

Product Maturity

- The point in the product life cycle where sales reach their peak and start to level off.
- Competition may become stronger but the business may start to spend less on promotion.
- A business will want to maintain this stage for as long as possible as it is here that sales are at their highest.

Product Saturation

- The point in the product life cycle where the market is full as competitors introduce similar products.
- All potential customers who want the product have already purchased it.
- A business may look for new markets e.g. sell overseas.

Product Decline

- Is the point in the product life cycle where sales fall and many eventually cease.

Extension Strategy

Definition: Involves a number of methods businesses might use to prolong the life cycle of their products. These will be related to marketing mix strategies.

Examples include:

- **New feature ➔** attract new customers ➔ expensive to design
- **Develop new but similar product ➔** but production costs and promotion costs may be high
- **Change brand name / packaging ➔** customers may not recognise product, cost of advertising to let customers know of the change
- **New flavour ➔** can attract new customers ➔ existing customers may not like the new flavour
- **Produce different quality ➔** appropriate to customers demand / income ➔ in environment for market segment ➔ but may discourage some looking for e.g. less / more expensive goods
- **Market in different places** e.g. the internet, geographically in different areas or countries ➔ but costs of promotion, transport, etc. may impact on prices
- **New promotions ➔** through competitions / gifts / open events they may attract different customers ➔ but may add to costs and discourage some
- **Adopt new pricing strategies ➔** may adopt skimming / creaming ➔ customers willing to pay high prices ➔ but may discourage some looking for lower price. May charge lower prices ➔ to attract wider market ➔ but may discourage some customers ➔ could lead to less profits

Price

Price

Definition: The amount of money a business wants to receive in order to sell a good or service or the amount of money the consumer is willing to pay to buy that product.



Pricing Strategies	Definition	Advantage	Disadvantage
Penetration Pricing	Setting a low price for a new product to encourage sales. The price may be reduced later with increased customer loyalty and market share.	The goods have a low price to attract customers who may then stay with the business.	When prices rise people may not be willing to purchase – questions over quality.
Price Skimming	**Selling a product at a high price in order to earn high initial profits. Profits may be reduced later to increase sales at the lower prices.**	**Attracts early adopters e.g. new football boots, the latest iPhone.**	**Some customers unable to / unwilling to pay the high prices.**
Cost Plus Pricing	Involves the producer adding a sum of money (the profit per good) to the cost of producing goods to determine the selling price of the good or service.	Adding profit to cost ensures that a profit is made on each good.	May not work in competitive market / depends on margins.
Psychological Pricing	**Involves offering goods and services at prices below whole numbers such as £5.99p or £499, or using words such as "only". It is hoped that the customers believes it is much cheaper than if the price had been £6 or £500.**	**Can nudge customers to make a purchase.**	**Some may not be convinced to buy so revenue may not rise / customers may not be attracted to the business.**
Competitive Pricing / Market Orientated	Involves the producer offering goods for sale at a price at or below that set by competitors.	Ensures that the firm is price competitive.	Customers may be used to buying from competitors so revenue might not change / customers may not switch from rivals.
Price Discrimination	**Charging different prices to different market segments – e.g. discounted pricing to students.**	**Customers attracted to lower pricing.**	**Some customers excluded and may choose rival retailers (shops)**
Loss Leader	Products put on sale, usually in supermarkets, at prices which make no profits and may even make losses in order to attract customers into the shop to buy other goods.	Boost sales of other, more profitable products.	Customers may get used to and expect low prices so can only really be used in the short term.

Why might a business charge higher prices?

- **Higher costs** / better ingredients / higher rent / cost plus
- **Wants more exclusive market** / customers willing to pay higher price
- **May be well known** / quality brand ➔ people willing to pay higher prices
- **High marketing costs** ➔ need to be regained from sale of product

Advantages of using pricing strategies to maintain the sales of their products

- Right strategy will increase sales ➔ increase revenue ➔ profits will rise
- Prices can be applied to specific niche ➔ market segment
- Prices can reflect the market for the product ➔ skimming may work in some markets i.e. high income and penetration in others
- Prices can take into account actions of competitors ➔ stopping switching etc.

Disadvantages of using pricing strategies to maintain the sales of their products

- Competitors may follow pricing strategy ➔ so no effect ➔ no increase in sales
- Competitors may not follow pricing strategy ➔ customers not attracted
- Need for expensive advertising to promote pricing strategy ➔ so profits not as expected
- Some segments may not be happy with pricing strategy ➔ allowing less well off to afford expensive products