

# Year 11 Business Studies Knowledge Book (2024/25)

## The Nature and Purpose of Business

Goods	These are physical items like books or furniture
Services	These are actions performed by a business to aid the customer e.g plumber, hairdresser
Needs	Goods or services that are necessary for survival – water, food, shelter...
Wants	Goods or services consumers would like but could live without
Factors of production	Land, Labour, Capital, Enterprise
Land	Natural resources used in production
Labour	Staff needed to make the good or service
Capital	Equipment and machinery needed to make the good or service
Enterprise	The person/people with the business idea.
Opportunity Cost	The benefit of the next best alternative that has been given up.
Sectors of the economy	Primary, Secondary, Tertiary
Primary sector	Produces the raw materials which are used to make goods and services e.g. farming, mining
Secondary sector	Manufactures goods. They turn raw materials into finished goods
Tertiary sector	Provides services. It also retail which sells the finished goods.
Entrepreneur	The person that starts a new business. They come up with the idea and take the risk.
Characteristics of an entrepreneur	<ul style="list-style-type: none"> <li>• Hard working</li> <li>• Innovative</li> <li>• Organised</li> <li>• Willing to take a risk</li> </ul>
Objectives of an entrepreneur	<ul style="list-style-type: none"> <li>• Be their own boss</li> <li>• Flexible working hours</li> <li>• Pursue an interest</li> <li>• Earn more money</li> <li>• Have identified a gap in the market</li> <li>• Dissatisfaction with current job</li> </ul>
Reasons for dynamic nature of business	<ul style="list-style-type: none"> <li>• Change in technology</li> <li>• Change in economic situation</li> <li>• Change in legislation</li> <li>• Change in environmental expectations</li> </ul>
Four functions of business	<ul style="list-style-type: none"> <li>• Marketing</li> <li>• Finance</li> <li>• Operations</li> <li>• Human Resources</li> </ul>
Profit	Total revenue – Total cost
Total revenue	Selling price x number sold
Total cost	Fixed cost + total variable cost
Total variable cost	Variable cost per unit x number sold

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## Stakeholders

Stakeholders	A person or group of people with an interest in and influence over a business
Example stakeholders	<ul style="list-style-type: none"> <li>• Owners</li> <li>• Employees</li> <li>• Customers</li> <li>• Local community</li> <li>• Suppliers</li> </ul>

## Stakeholder objectives

Owners	High profit High dividend payments
Employees	Good wages Job security Promotion prospects Good working conditions
Customers	High quality good or service Low prices
Local community	Jobs for local area Minimal pollution Minimal congestion Ethical behaviour
Suppliers	Regular orders Prompt payment

## How stakeholders affect a business

Owners	Main decision makers
Employees	Likely to be unproductive if not satisfied Could leave the job Could use industrial action e.g. strike
Customers	Could complain Could use a competitor instead
Local community	Could complain
Suppliers	May charge extra for late payments May refuse to supply

Stakeholder conflict	Different stakeholders will have different <b>opinions</b> about what a firm should be doing. A firm can't always please all of its stakeholders, so it will have to <b>prioritise</b> the opinions of the stakeholders it sees as being the <b>most important</b> .
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## Business Ownership

Types of ownership	<ul style="list-style-type: none"> <li>• Sole trader</li> <li>• Partnership</li> <li>• Private limited company (Ltd)</li> <li>• Public limited company (plc)</li> <li>• Not-for-profit organisation</li> </ul>
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Sole trader = a business with one owner	
Advantages	Disadvantages
Easy to set up	Owners may have to work long hours
You get to be your boss	Unlimited liability
You keep all of the profits	Many be hard to raise the money to start up

Partnership = a business with between two and twenty owners	
Advantages	Disadvantages
More owners mean a greater range of ideas and skills	Decision making is shared
The work can be shared	Unlimited liability
All partners put money in at the start of the business	Each partner gets a share of the profit

**Unlimited liability = the business and the owners are seen as the same thing. Therefore if the business owes money, the owner owes money.**

Private limited company (Ltd) = a business owned by shareholders. Shares are sold privately.	
Advantages	Disadvantages
Limited liability	Shareholders get a share of the profits. They are paid a dividend
Money from the sale of shares can help the business start up	May be difficult to get a loan from a bank due to limited liability
	More expensive and complicated to set up

Public limited company (plc) = a business owned by shareholders. Shares are sold on the stock exchange	
Advantages	Disadvantages
Limited liability	Shareholders get a share of the profits. They are paid a dividend
Money from the sale of shares can help the business start up	Accounts are made public

**Limited liability = the business and the owners are seen as separate legal entities. If the business goes into debt, the owners are not in debt.**

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Not-for-profit organisation = a business that is not aiming to make a profit. They may be charities, social enterprises or clubs and groups. They are able to set up with either limited or unlimited liability.

## Setting business aims and objectives

Aims and objectives	Goals or targets a business aims to achieve
Example aims and objectives	<ul style="list-style-type: none"> <li>• Survival</li> <li>• Profit maximisation</li> <li>• Growth</li> <li>• Market share</li> <li>• Customer satisfaction</li> <li>• Social and ethical objectives</li> <li>• Shareholder value</li> </ul>
Survival	A short term aim to make sure all costs are covered
Profit maximisation	Aiming to make as much profit as possible either by selling more or by keeping costs as low as possible
Growth	Aiming to increase the size of the business. This may include international expansion
Market share	This shows the percentage of total market sales a business has made. The aim is to have a large market share
Customer satisfaction	Aiming to have positive customer feedback
Social and ethical objectives	Aiming to act in a way that is morally right. This might be for customers, employees, the environment...
Shareholder value	Aiming to make high profit levels so that shareholders earn a large dividend.

## Business Location

Factors affecting location decisions	<ul style="list-style-type: none"> <li>• Proximity to the market</li> <li>• Availability of raw materials</li> <li>• Cost and availability of labour</li> <li>• Cost</li> <li>• Competition</li> </ul>
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## Business planning

Purpose of a business plan	<ul style="list-style-type: none"> <li>• Planning a new business</li> <li>• Raising finance</li> <li>• Setting objectives</li> <li>• Planning how the four business functions will be organised</li> </ul>
Main sections of a business plan	<ul style="list-style-type: none"> <li>• The business idea</li> <li>• Key targets for the business</li> <li>• Finance required</li> <li>• Market overview</li> <li>• Financial forecasts</li> </ul>

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## Expanding a Business

Methods of expansion	<ul style="list-style-type: none"> <li>• Organic growth               <ul style="list-style-type: none"> <li>○ Franchising</li> <li>○ Opening new stores</li> <li>○ Expanding through e-commerce</li> <li>○ Outsourcing</li> </ul> </li> <li>• External growth               <ul style="list-style-type: none"> <li>○ Mergers and takeovers                   <ul style="list-style-type: none"> <li>▪ Competitor</li> <li>▪ Supplier</li> <li>▪ Customer</li> <li>▪ Unrelated firm</li> </ul> </li> </ul> </li> </ul>
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Method of growth	Advantage	Disadvantage
Franchising	Increases the market share and brand awareness of the firm	A badly run franchise will affect the reputation of the firm
Opening new stores	Low risk strategy to increase sales	Expensive
Expanding through e-commerce	Access to a much larger market	Technology will need to be updated
Outsourcing	Can be quick and cheap	The firm has little control over the quality
Mergers and takeovers	The firm will grow very quickly	May be difficult to get two firms to work together

Economies of scale	As firms grow and expand production average unit cost falls
Purchasing economies of scale	These happen when a large firm buys its supplies in bulk and so get them at a cheaper unit price than a small firm
Technical economies of scale	Larger firms can buy and use more advanced machinery. This will increase efficiency and keep unit costs low.
Diseconomies of scale	This happens when firms get too big and average unit costs start to increase. This is usually because of poor communication and co-ordination
Average unit cost	= total cost / output

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## Sources of Finance

Sources of finance = methods businesses use to raise money

Internal sources of finance	<ul style="list-style-type: none"> <li>• Family and friends</li> <li>• Retained profit</li> <li>• Selling unwanted assets</li> </ul>
External sources of finance	<ul style="list-style-type: none"> <li>• Bank loan / Mortgage</li> <li>• Overdraft</li> <li>• Trade credit</li> <li>• Hire purchase</li> <li>• Government grant</li> <li>• New share issue</li> </ul>

Sources of finance	Advantage	Disadvantage
Family and friends	May not have to pay interest on the loan	Can create problems with the friendship
Retained profit	Doesn't need to be paid back	Owners may want to take the profit out
Selling unwanted assets	Doesn't need to be paid back	Only works if the business has assets they no longer use
Bank loan / Mortgage	Usually quick and easy to take out	Interest has to be paid on the loan.
Overdraft	Only borrow exactly what you need	High interest rate
Trade credit	Gives the firm time to earn money before paying the debt	Late payments may lead to a large fee
Hire purchase	Allows a firm to buy an asset in instalments	The total amount paid for the asset is often much higher than if the firm had bought it with one payment
Government grant	Free money for the firm	Can be complicated to apply for and not all firms will meet the conditions.
New share issue	Does not have to be paid back	New shareholders take a share of the profit

Short term source of finance	<ul style="list-style-type: none"> <li>• Trade credit</li> <li>• Overdraft</li> </ul>
Long term source of finance	<ul style="list-style-type: none"> <li>• Bank loan / Mortgage</li> <li>• Hire purchase</li> <li>• Government grant</li> </ul>

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## Cash Flow

Cash flow	The flow of money into and out of the business
Cash inflow	Money coming into the business usually from sales
Cash outflow	Money leaving the business to pay bill, wages etc..
Net cash flow	Cash inflow – Cash outflow
Positive cash flow	More cash inflow than outflow over a particular time period <ul style="list-style-type: none"> <li>• This means the business has no problems making payments</li> </ul>
Negative cash flow	More cash outflow than inflow over a particular time period <ul style="list-style-type: none"> <li>• Often called a 'cash flow problem'</li> <li>• The business can't make the payments it needs to</li> </ul>
Opening balance	Cash in the bank at the beginning of the month
Closing balance	Cash in the bank at the end of the month (opening balance + net cash flow)

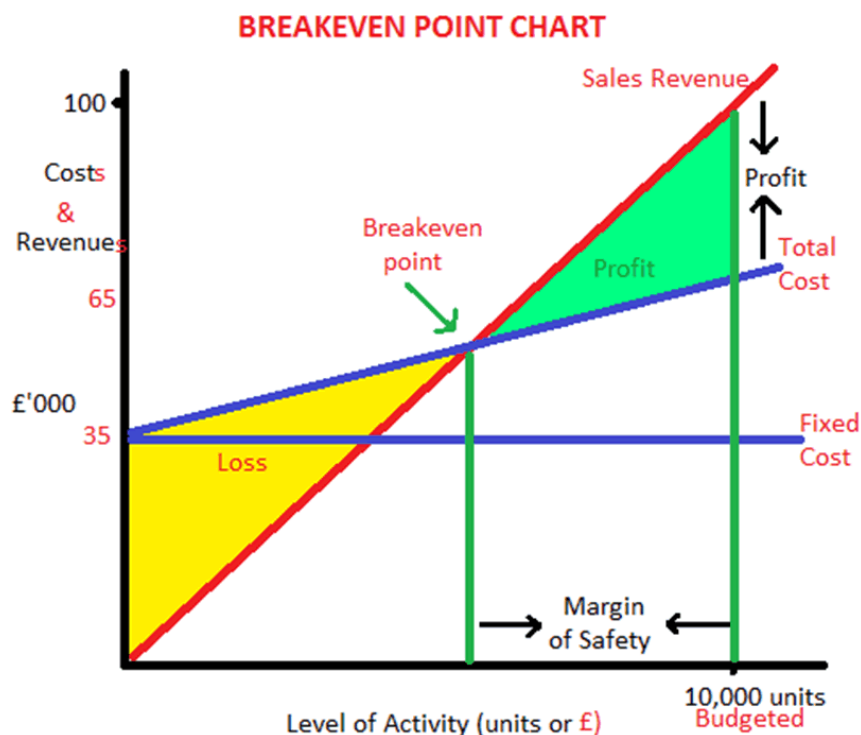
Reasons for constructing a cash flow forecast	<ul style="list-style-type: none"> <li>• Helps a business plan the cash inflows and outflows</li> <li>• Allows the business to identify when they will need extra sources of finance.</li> </ul>
Solutions to a cash flow problem	<ul style="list-style-type: none"> <li>• Re-schedule payments</li> <li>• Overdraft</li> <li>• Reduce cash outflows – find cheaper suppliers</li> <li>• Increase cash inflow – sell more or increase prices</li> <li>• New sources of finance</li> </ul>

## Financial Terms and Calculations

Variable cost	Costs that change as output changes e.g. Raw materials
Fixed cost	Costs that don't change with output e.g. rent
Total cost	Fixed cost + Variable cost
Revenue	Money received from sales (selling price x number sold)
Profit	Money left over once all costs have been paid (revenue – total cost)
Loss	This occurs if costs are greater than revenue

Investment	Money put into the business to make improvements in order to make the business more profitable
Example investments	<ul style="list-style-type: none"> <li>• New machinery</li> <li>• New buildings</li> <li>• New vehicles</li> </ul>
Average Rate of Return (ARR)	Shows the percentage earned by the investment. The higher the better.
ARR Calculation	$(\text{average annual profit} / \text{initial investment}) \times 100\%$
Average annual profit	Total profit / number of years of the project

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Break even output	<p>The level of sales where costs are equal to revenue.</p> <ul style="list-style-type: none"> <li>• If a business sells more than its break even output it will make a profit</li> <li>• If a business sells less than its break even output it will make a loss</li> </ul>
Margin of safety	<p>This is how far above the break-even output a business's sales are.</p>
Value of using a break-even analysis	<p>Advantages</p> <ul style="list-style-type: none"> <li>• Quick and easy to calculate</li> <li>• Will help support an application for a loan at a bank</li> <li>• Allows a business to see what would happen to profit if they changed price or cost</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• The data is a prediction and therefore may be wrong</li> <li>• Makes an assumption that all products will sold – they may not</li> <li>• Will be complicated if the business sells more than one product</li> </ul>



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## Analysing Financial Performance

Income statement	A financial document which shows Revenue, Cost and profit for a period of time (usually a year)
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Gross profit	Revenue – Cost of goods sold
Gross profit margin	$(\text{gross profit} / \text{revenue}) \times 100\%$
Net profit	Revenue – (cost of goods sold + expenses)
Net profit margin	$(\text{net profit} / \text{revenue}) \times 100\%$

Statement of financial position	A document showing where the business has got its money from and what it has used it for
Non-current asset	Items owned by the business that will last for <b>more</b> than one year e.g. buildings, machinery
Current assets	Items owned by the business that will last for <b>less</b> than one year <ul style="list-style-type: none"> <li>• Stock</li> <li>• Debtors – money owed to the business</li> <li>• Cash</li> </ul>
Current liabilities	Bills that have to be paid in less than one year <ul style="list-style-type: none"> <li>• Money owed to suppliers</li> <li>• Overdrafts</li> <li>• Rent</li> </ul>
Non-current liabilities	Bills that will be paid back over longer than one year <ul style="list-style-type: none"> <li>• Bank loan</li> <li>• Mortgage</li> </ul>
Net current assets	Current assets – current liabilities
Capital employed	The total money put into the business
Use of a Statement of Financial Position	<ul style="list-style-type: none"> <li>• Shows the value of a firm in snapshot in time</li> <li>• Can be used to compare the performance of the business with previous years.</li> </ul>

## Marketing: The purpose and methods of market research

The purpose of market research	<ul style="list-style-type: none"> <li>• identify market opportunities</li> <li>• to understand the needs of customers</li> <li>• to know what competitors are doing</li> </ul>
Primary market research	Gathering information for the first time
Secondary market research	Using data that already exists
Qualitative data	Views and opinions
Quantitative data	Information which can be measured or given as a number
Examples of primary market research	<ul style="list-style-type: none"> <li>• questionnaires</li> <li>• surveys</li> <li>• interviews</li> <li>• focus groups</li> </ul>

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Examples of secondary market research	<ul style="list-style-type: none"> <li>internet research</li> <li>printed press e.g. newspapers</li> </ul>
Market size	The total sales in the industry = number of units sold x price per unit
Market growth	The percentage change in the size of the market = (change in market size/original market size) x 100%
Market share	The percentage of market sales the firm has = (sales of the product/total market sales) x 100%

Primary Market Research	
Advantages	Disadvantages
The research will be up to date	It is time consuming
The research will be specific to the needs of the business	It may be expensive to collect

Secondary Market Research	
Advantages	Disadvantages
It can be gathered quickly and cheaply	The information may be out date
	The information might not be exactly what the firm needs.

## **Marketing: The elements of the marketing mix: Price, Product, Promotion and Place**

### **Price**

Pricing methods	<ul style="list-style-type: none"> <li>price skimming</li> <li>price penetration</li> <li>competitive pricing</li> <li>loss leader</li> <li>cost-plus</li> </ul>
Price skimming	Setting a high price for the product when it first enters the market
Price penetration	Launching a new product at a low price to achieve fast sales
Competitive pricing	Matching the price that competitors charge
Loss leader	A product is sold at a loss in the hope that the customer will buy other items from the business where they will make a profit
Cost plus	Products are priced by covering the cost and adding a percentage on top.
Factors influencing pricing decisions	<ul style="list-style-type: none"> <li>costs</li> <li>nature of the market</li> <li>degree of competition</li> </ul>
Relationship between price and demand	As prices rise demand will fall. As prices fall demand will rise

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## Product

New product development	Researching and creating new products for sale.
Important elements of new product development	<ul style="list-style-type: none"> <li>• product design</li> <li>• image</li> <li>• needs of the customer</li> <li>• cost of production</li> </ul>

New product development	
<b>Advantages</b>	<b>Disadvantages</b>
Could lead to increase in sales and profits	Expensive
Can increase market share	No guarantees that the new product will be successful

USP	Unique selling point. This makes the product different from competitors
The stages of the product life cycle	<ul style="list-style-type: none"> <li>• research and development</li> <li>• introduction</li> <li>• growth</li> <li>• maturity</li> <li>• decline</li> </ul>
Extension strategies	<ul style="list-style-type: none"> <li>• updating packaging</li> <li>• adding more or different features</li> <li>• changing target market</li> <li>• advertising</li> <li>• price reduction</li> </ul>
Product portfolio	The range of products a business sells
Four categories of the Boston Matrix	<ul style="list-style-type: none"> <li>• Dog</li> <li>• Cash cow</li> <li>• Question mark</li> <li>• Star</li> </ul>
Dog	The product has low market share in a low growth market
Cash cow	The product has high market share in a low growth market
Question mark	The product has low market share in a fast growth market
Star	The product has high market share in a fast growth market

## Promotion

Promotional mix	The types of promotion used by the business
Reasons for promotion	<ul style="list-style-type: none"> <li>• Inform/remind customers about the product</li> <li>• Create or increase sales</li> <li>• Create or change the image of the product</li> <li>• Persuade customers to buy the product</li> </ul>

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Factors influencing the choice of promotional mix	<ul style="list-style-type: none"> <li>• Finance available</li> <li>• Competitor actions</li> <li>• Type of product or service</li> <li>• Nature of the market</li> <li>• Target market</li> </ul>
Promotional methods	<ul style="list-style-type: none"> <li>• Advertising – newspaper, magazine, TV, internet, billboard</li> <li>• Public Relations – press release, sponsorship, social media</li> <li>• Sales Promotion – displays, 2 for 1 offers, free gifts, samples, coupons, competitions</li> <li>• Sponsorship</li> <li>• Social media</li> </ul>

## Place

Channel of distribution	The route a product takes from producer to customer
Retailer	A business that buys products and then sells to the customer
Wholesaler	A business that buys products and then sells them to retailers
Telesales	Selling to customers over the telephone
e-commerce	Selling to customers through the internet
m-commerce	e-commerce on a mobile device eg using an app on a mobile

## Technology

E-commerce	Selling a product or service online. This helps firms reach a wider target market.
Digital communication	The use of technology to communicate with stakeholders
Examples of digital communication	<ul style="list-style-type: none"> <li>• Social media</li> <li>• Websites</li> <li>• Email</li> <li>• Mobile apps</li> <li>• Live chats</li> </ul>

## Ethics and the Environment

Ethical behaviour	This requires businesses to act in ways that stakeholders consider to be both fair and honest
Examples of ethical behaviour	<ul style="list-style-type: none"> <li>• Buying raw materials from Fair trade sources</li> <li>• Paying workers fairly and providing a comfortable working environment</li> <li>• Not using animal testing</li> <li>• Considering the environmental impact</li> </ul>
Environmental considerations	<ul style="list-style-type: none"> <li>• Impact on traffic congestion</li> <li>• Recycling</li> </ul>

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	<ul style="list-style-type: none"> <li>• Disposing of waste</li> <li>• Noise and air pollution</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>• Global warming</li> <li>• Using scarce resources</li> </ul>

Advantages of ethics (for the firm)	Disadvantages of ethics (for the firm)
<ul style="list-style-type: none"> <li>• Good reputation</li> <li>• Can charge a higher price</li> </ul>	<ul style="list-style-type: none"> <li>• Costs of production are higher</li> <li>• Do consumers care enough?</li> </ul>

## Economic Climate

Economic influences on a business/consumer spending	<ul style="list-style-type: none"> <li>• Taxation</li> <li>• Inflation</li> <li>• Unemployment</li> <li>• Interest rates</li> </ul>
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Interest rate	Cost of borrowing and the reward for saving
The effect of a high interest rate	<ul style="list-style-type: none"> <li>• Borrowing is more expensive. Saving is more attractive = less consumer spending = lower sales for firms</li> <li>• A firm that has a loan or overdraft will have to pay back more interest</li> </ul>
The effect of a low interest rate	<ul style="list-style-type: none"> <li>• Borrowing is less expensive. Saving is less attractive = more consumer spending = higher sales for firms</li> <li>• A firm that has a loan or overdraft will have to pay back more interest</li> </ul>

Unemployment	People are unemployed if they are looking for a job but can't find one.
Effects of unemployment on firms	Negative effect: <ul style="list-style-type: none"> <li>• Unemployment = less spending in the economy = less sales for the firm</li> </ul> Positive effect: <ul style="list-style-type: none"> <li>• Firms that sell cheaper products eg. Lidl may see an increase in sales</li> <li>• Firms may find it easier to fill vacancies</li> </ul>
Increase in income	Firms are likely to see an increase in sales and profits
Decrease in income	Firms are likely to see a decrease in sales and profits

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## Globalisation

Globalisation	This is the process by which businesses and consumers around the world become more connected.
Positive effects of globalisation on UK businesses	<ul style="list-style-type: none"> <li>• Larger market to sell products to</li> <li>• Manufacturing products abroad can lower unit costs</li> </ul>
Negative effects of globalisation on UK businesses	<ul style="list-style-type: none"> <li>• UK firms may have to compete with cheaper foreign imports</li> <li>• Manufacturing abroad may give the firm a bad reputation</li> </ul>

Exchange rate	The cost of one currency in terms of another
Strong Pound (SPICED)	<b>Strong Pound</b> Imports <b>Cheaper Exports</b> <b>Dearer</b>
Weak Pound (WPIDEC)	<b>Weak Pound</b> Imports <b>Dearer Exports</b> <b>Cheaper</b>

## Legislation

Employment Law	Law to protect employees
Examples of employment law	<ul style="list-style-type: none"> <li>• National minimum wage/ living wage</li> <li>• The Equality Act 2010</li> </ul>
Effects on businesses	<ul style="list-style-type: none"> <li>• Firms can't cut costs by paying workers less than the legal minimum</li> <li>• Firms can't discriminate when recruiting and setting pay</li> </ul>

Health and safety Law	Law to protect employees at work
Examples of Health and safety law	<ul style="list-style-type: none"> <li>• The Health and safety at work act 1974</li> </ul>
Effects on businesses	<ul style="list-style-type: none"> <li>• Firms need to carry out risk assessments</li> <li>• Firms need to take reasonable steps to reduce risk of accident.</li> </ul>

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Consumer Law	Law to protect consumers
Examples of employment law	<ul style="list-style-type: none"> <li>• Consumer Rights Act 2015</li> <li>• Trades Description Act</li> </ul>
Effects on businesses	<ul style="list-style-type: none"> <li>• Products must be fit for purpose</li> <li>• Products must match their description</li> <li>• Products should be of a satisfactory quality</li> </ul>

## Competitive Environment

Market	Exists when there is buying and selling of a good or service
Competitive market	Where there are a large number of firms competing for sales
Effects of operating in a competitive market	<ul style="list-style-type: none"> <li>• Firms will need to be price competitive</li> <li>• Promotion of the good or service will be important</li> <li>• Firms will try to create brand loyalty</li> </ul>
Reasons for little or no competition	<ul style="list-style-type: none"> <li>• Brand new good or service</li> <li>• The market for the good or service is too small</li> <li>• Difficult to enter the market</li> </ul>

## Production Processes

Methods of production

Job production	<p>Manufacturing unique products one at a time.</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• High quality</li> <li>• Handmade/unique can add value</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Expensive to make</li> <li>• Takes a long time to make</li> </ul> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Furniture</li> <li>• Ships</li> <li>• Bridges</li> </ul>
Flow production	<p>All products are identical and made on an assembly line</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Large scale production</li> <li>• Lower average unit costs (economies of scale)</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• Possibly lower quality</li> <li>• Lower added value</li> </ul> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Mobile phones</li> <li>• Chocolate bars</li> <li>• Cars</li> </ul>

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Efficiency in production:

Lean production	<p>This happens when businesses use as few resources as possible and have as little waste as possible.</p> <ul style="list-style-type: none"><li>• Workers are encouraged to give ideas to make the business more <b>lean</b></li><li>• Stock levels are kept low. Stock is ordered Just-In –Time (JIT)</li></ul>
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## The role of Procurement

Just-in-Time	<p>This is when a business manages stock so that it is delivered just in time for use. Stock levels are kept very low.</p> <p>Advantages:</p> <ul style="list-style-type: none"><li>• Reduces cost of keeping stock</li></ul> <p>Disadvantages:</p> <ul style="list-style-type: none"><li>• If deliveries don't arrive in time the business may run out of stock</li><li>• The business cannot benefit from purchasing economies of scale</li></ul>
Just-in-Case	<p>This is when a business manages stock so that it has a buffer stock (extra stock)</p> <p>Advantages:</p> <ul style="list-style-type: none"><li>• The business is unlikely to run out of stock</li><li>• The business can benefit from purchasing economies of scale</li></ul> <p>Disadvantages:</p> <ul style="list-style-type: none"><li>• Stock may be costly to keep</li><li>• Stock may go out of fashion/go off!</li></ul>

Factors affecting choice of supplier	<ul style="list-style-type: none"><li>• Price</li><li>• Quality</li><li>• Reliability</li></ul>
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**Procurement** = selecting suppliers, establishing the terms of payment and negotiating the contract.

**Logistics** = getting goods and services from one part of the supply chain to another

**Supply chain** = the group of firms that are involved in all the various processes required to make finished products available to the customer

Managing procurement, logistics and the supply chain well will lead to:

- Efficiency – the business will have all the supplies it needs at the right time
- Lower unit costs
- Good relationship with suppliers
- Finding the best price and value
- Reducing waste and unnecessary costs.

## Quality

Businesses need to know the customer expectations of the quality of the good or service.

Costs and benefits of maintaining quality:

Benefits of quality	Costs of quality
<ul style="list-style-type: none"><li>• Can charge a higher price</li><li>• Sales may increase</li><li>• Better reputation and image</li><li>• Can avoid product recalls</li><li>• Can avoid disruption to provision of services.</li></ul>	<ul style="list-style-type: none"><li>• May need more staff training to improve the quality which will increase business costs.</li><li>• Cost of inspection</li></ul>

How do business monitor quality? This helps them check if they have the correct quality:

- Count customer complaints
- Ask customers to complete a survey
- Get staff to inspect products
- Mystery shoppers

How can a business improve quality / make sure quality is high?

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- Quality control = checking the product at the end before it is sent to the customer
- Quality Assurance = employees checking the product at each stage of the production process. An example of Quality Assurance = Total Quality Management (TQM)

**Total Quality Management (TQM)** = the aim is to make quality the responsibility of every employee in the business.

- The focus is on getting things right first time
- This should reduce cost by cutting down on waste
- However – it can take a long time to introduce and not all employees will be motivated to do this.

Why can business growth lead to quality problems?

- The business may be overwhelmed by orders. Quality checks might not be completed.
- Growth through franchising could mean the franchise business isn't run properly
- Growth through outsourcing may mean that a fall in quality.

## Good customer Service

Methods of good customer service:

- Good product knowledge
- Customer engagement (creating a positive experience for the customer)
- Post sales services (eg – user training, help lines, servicing)

Benefits of good customer service	<ul style="list-style-type: none"><li>• Increase in customer satisfaction</li><li>• Customer loyalty</li><li>• Increased spend</li><li>• profitability</li></ul>
Dangers of poor customer service	<ul style="list-style-type: none"><li>○ dissatisfied customers</li><li>○ poor reputation via word of mouth</li><li>○ reduction in revenue</li></ul>

How can ICT be used in customer services?

- Websites
- E-commerce
- Social media

## Organisational Structures

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Organisational structure	The way a business arranges itself to carry out its activities
Tall organisational structure	An organisation structure with <b>many</b> levels of hierarchy
Flat organisational structure	An organisation structure with <b>few</b> levels of hierarchy
Span of control	The number of employees managed directly by another employee
Chain of command	The line of authority within a business. Communication passes through this line
Delaying	The removal of one or more levels of hierarchy from the business' organisational structure
Delegation	The passing down of authority to more junior employees
Decentralisation	Allows employees in all areas of the business to take decisions
Centralisation	All important decisions are taken by a small number of senior managers

	Advantages	Disadvantages
Decentralisation	<ul style="list-style-type: none"> <li>• Takes the pressure off senior managers</li> <li>• Can motivate employees</li> <li>• Faster decision making</li> </ul>	<ul style="list-style-type: none"> <li>• Employees will need training</li> <li>• Could lead to poor communication and confusion</li> </ul>
Centralisation	<ul style="list-style-type: none"> <li>• All decisions are co-ordinated</li> </ul>	<ul style="list-style-type: none"> <li>• Decisions makers may not have all of the information</li> </ul>

## Recruitment and Selection of employees

The need for recruitment:

- Employee has left
- Business has grown

Internal recruitment	Filling job vacancies with employees already in the business
External recruitment	Filling job vacancies with people not already employed in the business.

	Advantages	Disadvantages
Internal recruitment	<ul style="list-style-type: none"> <li>• Cheaper</li> <li>• Vacancy can be filled quickly</li> <li>• Candidate is well known</li> <li>• Candidate knows the business</li> </ul>	<ul style="list-style-type: none"> <li>• No new ideas</li> <li>• The employees move will leave a vacancy to fill</li> </ul>
External recruitment	<ul style="list-style-type: none"> <li>• New ideas brought to the business</li> </ul>	<ul style="list-style-type: none"> <li>• May be expensive to advertise</li> <li>• The new employee is 'unknown'</li> </ul>

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Main stages of recruitment:

Job analysis	Collection and interpretation of information about the job
Job description	A document that lists the tasks and duties of a job
Person specification	A document that lists the qualifications and skills required by an employee to fill a particular job
Selection methods	<ul style="list-style-type: none"><li>• Interviews</li><li>• Psychometric tests</li><li>• Assessment centres</li></ul>

Benefits of an effective recruitment and selection process:

- High productivity
- High quality output
- Good customer service
- Staff retention

Part time contract	When an employee works for fewer than the normal number of working hours per week.
Full time contract	When an employee works the normal number of working hours per week.
Job share	When two (or more) employees share the hours of a single job
Zero hour contract	Allows employers to hire staff without any guaranteed hours of work

## **Motivating Employees**

If staff are motivated and want to work hard the business will benefit from higher productivity and higher levels of staff retention. These should both lead to higher profit.

Financial methods of motivation	<ul style="list-style-type: none"><li>• Salary</li><li>• Wage</li><li>• Commission</li><li>• Profit sharing</li></ul>
Non-financial methods of motivation	<ul style="list-style-type: none"><li>• Styles of management</li><li>• Training</li><li>• Greater responsibility</li><li>• Fringe benefits</li></ul>

## **Training**

Training employees is important for a business. Well trained employees will lead to:

- Increased productivity
- Ability to deal with changes in technology
- Increased motivation
- High quality goods produced

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- Good customer service

Types of training:

Induction training	Training for new staff. This introduces them to fellow workers and explains the business' rules. <ul style="list-style-type: none"><li>• Makes new staff feel welcome</li><li>• Gives new staff confidence</li><li>• Makes new staff more productive</li></ul>
On the job training	Training while doing the job <ul style="list-style-type: none"><li>• The employee works and learns at the same time so this cost effective</li><li>• However – employees may learn the bad habits of staff already doing the job.</li></ul>
Of the job training	Training away from the workplace <ul style="list-style-type: none"><li>• Often high quality training and may lead to a qualification</li><li>• However – the employee may still need some on the job training when they start the job!</li></ul>

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## Business in the Real World

### **The nature and purpose of business:**

- What is a good?
- What is a service?
- What is a need?
- What is want?
- What are the four factors of production?
- What does 'opportunity cost' mean?
- Can you define 'entrepreneur'?
- Can you define enterprise?
- What are the characteristics of an entrepreneur?
- What are the objectives of an entrepreneur?
- Why do businesses face a constantly changing business environment?
- What are the four functions of business?

### **Business Ownership**

- Can you define 'sole trader'?
- What are the advantages and disadvantages of being a sole trader?
- What liability does a sole trader have?
- Can you define 'partnership'?
- What are the advantages and disadvantages of being a partnership?
- What liability does a partnership have?
- Can you define the term private limited company (Ltd)?
- What are the advantages and disadvantages of being a private limited company (Ltd)?
- What liability does a private limited company have?
- Can you define the term public limited company (plc)?
- What are the advantages and disadvantages of being a public limited company (plc)?
- What liability does a public limited company have?
- Can you define 'not for profit organisation'?
- Can you define limited liability?
- Can you define unlimited liability?

### **Setting business aims and objectives**

- Can you list the possible aims/objectives of a business?
- Why is it useful for a business to set aims/objectives?
- Why might the aims/objectives of business change/evolve?
- How can business measure success other than profit?

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## Stakeholders

- Can you list the main stakeholders of a business?
- Can you list the objectives of the main stakeholders?
- Can you explain how the main stakeholders can influence a business?
- Can you explain why stakeholder objectives may conflict?

## Business Location

- Can you list and explain the factors affecting the location of a business?

## Business Planning

- What are the reasons/purpose that a business writes a business plan?
- What are the main sections in a business plan?
- What are the advantages and disadvantages of business planning?
- Can you define variable costs?
- Can you define fixed costs?
- Can you define total costs?
- Can you define revenue?
- Can you define profit?

## Expanding a Business

- What are the methods of organic growth?
- For each method of organic growth can you explain one advantage and one disadvantage?
- What is external growth?
- Can you explain one advantage and one disadvantages of external growth?
- Can you explain why economies of scale is an advantage of business growth?
- Can you define purchasing economies of scale?
- Can you define technical economies of scale?
- Can you explain why diseconomies of scale is a disadvantage of business growth?

## Influences on Business

### Technology

- What is e-commerce?
- What are the advantages and disadvantages of using e-commerce?
- What is digital communication?
- What are the advantages and disadvantages of using digital communication?

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## **Ethical and environmental considerations**

- How might a business behave ethically?
- Can you explain why there might be a trade-off between ethics and profit?
- How can a business behave in an environmentally friendly way?
- What does sustainability mean?
- Can you explain why there might be a trade-off between sustainability and profit?

## **The economic climate on businesses**

- Do you know the economic influences that may affect a business or consumer spending?
- Can you define 'interest rate'?
- How might a business which relies on overdrafts or loans be affected by a change in the interest rate?
- How might a change in interest rates affect consumer spending?
- How might a change in interest rates affect business spending?
- How might businesses be affected by unemployment?
- How might businesses be affected by changes in consumer income?

## **Globalisation**

- How can UK businesses compete internationally?
- What are the advantages and disadvantages of globalisation to UK businesses?
- Can you define exchange rate?
- Can you define import?
- Can you define export?
- How might a strong pound affect a business? (SPICED)
- How might a weak pound affect a business? (WPIDEC)

## **Legislation**

- How might employment law (National Minimum Wage and The Equality Act) affect a business?
- How might Health and Safety law affect a business?
- How might consumer law (Trades Description Act) affect a business?

## **Competitive Environment**

- Can you explain how competition in a market might affect a business?
- How might a business minimise risk?



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## Marketing

### Identifying and understanding customers

- Why is it important to identify customer needs?

### Segmentation

- Can you define market segmentation?
- What are the four methods of market segmentation?
- Why might a business use market segmentation?

### The purpose and methods of market research

- Why do businesses do market research?
- What information might be collected by businesses when doing market research?
- Can you define primary market research?
- Can you define secondary market research?
- Can you define qualitative market research?
- Can you define quantitative market research?
- Can you explain an advantage and a disadvantage of using questionnaires as market research?
- Can you explain an advantage and a disadvantage of using surveys as market research?
- Can you explain an advantage and a disadvantage of using interviews as market research?
- Can you explain an advantage and a disadvantage of using focus groups as market research?
- Can you explain an advantage and a disadvantage of using internet research as market research?
- Can you explain an advantage and a disadvantage of using printed press e.g. newspapers as market research?
- Can you calculate market size?
- Can you calculate market share?

### The elements of the marketing mix; price, product, promotion, place (4Ps)

- Can you define and give an advantage and a disadvantage of each of pricing strategies:
  - Price skimming
  - Price penetration
  - Competitive pricing
  - Loss leader
  - Cost-plus
- What are factors which might affect the pricing decision of a business?
- What are the benefits and risks of developing new products?
- What should businesses consider when designing new products?
- Can you define product differentiation?

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- Can you define USP?
- How can a USP help a business?
- What are the stages of the product life cycle?
- What are extension strategies used for?
- Can you give examples of extension strategies?
- Can you define the term product portfolio?
- How is the Boston Matrix used?
- From the Boston Matrix can you define – cash cow?
- From the Boston Matrix can you define – dog?
- From the Boston Matrix can you define – problem child/question mark?
- From the Boston Matrix can you define – rising star?
- What is the aim of promotion?
- What are the factors affecting the choice of promotional mix?
- Can you define and give an advantage and a disadvantage of each of method of promotion:
  - Advertising
  - PR
  - Sales promotion
  - Sponsorship
  - Social media
- Can you define and give an advantage and a disadvantage of each of place (channel of distribution):
  - Retailer
  - Wholesaler
  - telesales
- Can you define e-commerce?
- Can you define m-commerce?

## Finance

### Sources of Finance

- Can you define and give an advantage and a disadvantage of each of source of finance:
  - Family and friends
  - Retained profit
  - New share issue
  - Selling unwanted assets
  - Overdrafts
  - Trade credit
  - Hire purchase
  - Government grant
  - Loan/mortgage
- Do you understand the difference between internal and external sources of finance?

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## Cash Flow

- Why might a business construct a cash flow forecast?
- Why might negative cash flow cause a problem for a business?
- Can you calculate net cash flow?
- What is the opening balance?
- How do you calculate the closing balance?
- Can you explain how the following might help solve a cash flow problem:
  - Re-scheduling payments
  - Overdraft
  - Reducing cash outflow
  - Increasing cash inflow
  - Finding new sources of finance.

## Financial terms and calculations

- Do you know the difference between variable costs, fixed costs and total costs?
- Can you define the term revenue?
- How do you calculate profit?
- What might a firm invest in?
- How do you calculate average rate of return (ARR)?
- What does break-even plan?
- Can you label a break even chart?
- Can you define margin of safety?
- How do calculate margin of safety?
- Why might a business calculate break even output?

## Analysing Financial Performance

- How is a financial statement useful to a business?
- What does an income statement show?
- What does a statement of financial position show?
- Can you define and give an example of an asset?
- Can you define and give an example of a liability?
- Can you define and give an example of a current asset?
- Can you define and give an example of a non-current asset?
- Can you define and give an example of a current liability?
- Can you define and give an example of a non-current liability?
- Can you calculate gross profit?
- Can you calculate gross profit margin?
- Can you calculate net profit?
- Can you calculate net profit margin?

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## Business Operations

### Production Processes

- Can you define job production?
- Can you define flow production?
- What are the advantages and disadvantages of job production?
- What are the advantages and disadvantages of flow production?
- What is lean production?
- What is Just In Time (JIT)?

### The Role of Procurement

- What are the advantages and disadvantages of Just in Time?
- What are the advantages and disadvantages of Just in Case?
- What are the factors affecting the choice of supplier?
- What does procurement mean?
- What are the stages in procurement?
- What is the value to a business of effective supply chain management?

### The Concept of Quality

- How can a business find out if it has quality issues?
- What are the issues for a business if it has poor quality?
- What is TQM?
- What are the advantages and disadvantages of maintaining quality?
- Why might quality be affected if a business grows?
- How might growth through franchising affect quality?
- How might growth through outsourcing affect quality?

### Good Customer Services

- What are the methods of good customer service?
- What are the benefits of good customer service?
- What are the dangers of poor customer service?
- How might ICT help deliver customer service?

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## Human Resources

### Organisational Structures

- Can you define span of control?
- Can you define chain of command?
- Can you define delayering?
- Can you define delegation?
- What are the advantages and disadvantages of a tall organisational structure?
- What are the advantages and disadvantages of a flat organisational structure?

### Recruitment and selection of employees

- Why might a business need to recruit?
- What are the advantages and disadvantages of internal recruitment?
- What are the advantages and disadvantages of external recruitment?
- What are the main stages of the recruitment process?
- Can you define job analysis?
- Can you define job description?
- Can you define person specification?
- What are the benefits of having an effective recruitment and selection process?
- What is the difference between a full time and a part time contract?
- What is a zero hours contract?
- What is a job share?

### Motivation employees

- What are the benefits of having a motivated workforce?
- What are the financial methods of motivation?
- Can you define salary/wage/commission/profit-sharing?
- What are the non-financial methods of motivation?
- Can you define fringe benefits?

### Training

- Why is training a workforce important?
- What are the advantages and disadvantages of induction training
- What should be included in induction training?
- What are the advantages and disadvantages of on-the-job training?
- What are the advantages and disadvantages of off-the-job training?