



Friday 16th May - GCSE Business Paper 2

Operations, Finance and the Wider Economic Climate

Unit 4 - Operations	Unit 5 - Finance	Unit 6 – Economic Climate
Production Processes Revision – CLICK HERE Test – CLICK HERE	Role of Finance Revision – CLICK HERE Test – CLICK HERE	Ethical Considerations Revision – CLICK HERE
Quality of Goods and Services Revision – CLICK HERE Test – CLICK HERE	Sources of Finance Revision – CLICK HERE Test – CLICK HERE	Environmental Considerations Revision – CLICK HERE
Sales Process Revision – CLICK HERE Test – CLICK HERE	Break Even Revision – CLICK HERE Test – CLICK HERE	Economic Climate Revision – CLICK HERE
Business Location Revision – CLICK HERE Test – CLICK HERE	Cash Flow Forecasts Revision – CLICK HERE Test – CLICK HERE	Globalisation Revision – CLICK HERE
Working with Suppliers Revision – CLICK HERE Test – CLICK HERE		International Business Revision – CLICK HERE Test – CLICK HERE



Operations **Production Processes**

	What are the three types of Production? Name one advantage and one disadvantage of using this production method		

Technology in Production

Robotics

Robots are machines that are programmed to do work such as welding, tightening bolts and paint-spraying in the production of cars.

Automation

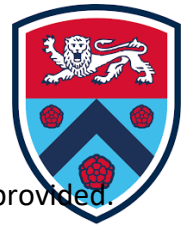
Machinery completes repetitive tasks without continuous input from an operator, for example:

- a machine to fill tins of paint and put lids on them
- sensors to control heating systems
- sensors used to automatically control the direction and speed of a vehicle
- a vending machine to automatically dispense food and drinks.

Computers

Computers can be programmed to control machines. Workers use computers to help them do their work, e.g. keeping accounts on spreadsheets, writing letters.

Advantages		Disadvantages
	Machines replace workers, reducing long term costs	
	Machines and automation are expensive, which increases short term costs	
	Productivity increases	
	Workers need to be retrained, which can be costly	
	Waste is reduced as humans make more mistakes	
	Technology can operate 24 hours a day	
	Skilled labour is required which is expensive	



Operations Quality

Quality is concerned with how well a product performs, or the standard to which a service is provided.

If a product or service is of good quality, it generally means that it is of a high standard. Quality can come from how well a product is made, the use of high-quality raw materials, and ensuring that products will last a long time and work well, Price is often used as an indicator of quality. Generally, customers who are willing to pay more for a product will expect the quality of it to be higher. Some customers will be willing to accept a lower quality product if it is cheaper.

Businesses can use quality to gain a competitive advantage by developing a business culture where employees are motivated and care about their customers, the product and/or service, and the business' reputation.

What is each type of quality method?

Quality Control		Quality Assurance	
Advantage	Disadvantage	Advantage	Disadvantage

Advantages	It may disrupt production because workers are stopping to check the quality of what they have produced. This may slow down production and raise costs. There may be less wastage and this will reduce production costs. Workers may feel valued because they have been given responsibility for quality and this may motivate them to work harder and better. It may cost the business a lot to train a worker to be able to asses the quality of the work that they have done. As with any quality system, the business may benefit from improved reputation for quality and this may increase sales. Workers may worry about the extra responsibility of having to check their own quality. They may resist the introduction of quality assurance methods for this reason.	Disadvantages



Operations Sales Processes

Businesses can use **FACE TO FACE SALES**, **TELESALES** and **E-COMMERCE** to sell its products. This unit is about learning what choices businesses need to make in order to maximise its sales through quality service.

Face to Face	Telesales	E-Commerce

How have businesses changed due to E-COMMERCE (Selling Online)			
Delivery	Click and Collect	New Departments	Opportunities
Employment Levels	New Skills of Staff	Location	

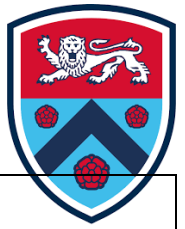
Name one advantage and one disadvantage to the business of the increase of online businesses	

Name one advantage and one disadvantage to the customers of the increase of online businesses	

Good and Bad Customer Service

Customer Service		After Sales Service	
Advantage	Disadvantage	Advantage	Disadvantage
Customer Engagement		Product Knowledge	
Advantage	Disadvantage	Advantage	Disadvantage

Operations **Location**



Factors influencing Location	Explanation/Example
Costs	
How close is the market?	
How close are the workers?	
How close are the materials?	
How supportive is the government?	



Operations **Consumer Law**

The key law is the Consumer Rights Act 2015, which states that products must be:

- Satisfactory Quality
- Fit for Purpose
- As Described

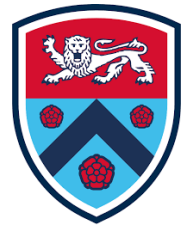
Advertising is also controlled by law. Adverts must be honest and truthful.

A good summary is below:

Issue	Quality	Advertising	Safety
Responsibility	Goods must be fit for purpose and satisfactory quality	Goods must be as described	Goods cannot lead to risk of injury/death
What they have to do?	Quality Control or Quality Assurance	Honest and Truthful	Be Safe!
What happens when the law is broken?	Replace/Repair? Lose a sale? Poor Reputation	Returns? Poor Reputation	Compensation? Poor Reputation Closure?

Key things to remember:

- INCREASED COSTS ARE LIKELY
- DAMAGED REPUTATION ARE LIKELY



Operations **Working with Suppliers**

Procurement means the management of purchasing in a business.

Most businesses buy products from other businesses to sell.

Stock can consist of:

- raw materials waiting to be used in production
- work in progress
- finished stock waiting to be delivered

Customers expect to be able to go into a store and buy the products they desire. Without appropriate stock control, businesses can run out of stock, which loses them sales and potentially customers. However, holding too much stock can also have negative consequences:

- high storage costs, which may mean the business has to raise its prices
- increased waste, if the products are perishable, eg fruit and vegetables
- reduced income, if the business needs to sell off excess stock at a reduced price

Four Stages of Procurement	Example
Identify goods to buy (Businesses need to consider seasons, demand and changes in fashions to maximise profits)	
Choosing Suppliers (Businesses need to consider the cost involved and the quality, reputation and reliability of their partner)	
Ordering Goods (Businesses need to have knowledge on the quantities required in order to maintain the right level of stock)	
Receiving Delivery (Businesses need to consider if they have space for the items to be delivered)	

Logistics is the process of organising the transports of goods from the seller to the buyer. The following factors impact on the decision making of businesses in the supply of goods and services they need in order to operate:

- Time
- Reliability of Supply
- Length of Supply Chain
- Costs
- Customer Service

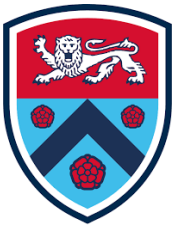


Finance Sources of Finance

Businesses need to access money, or SOURCE FINANCE, for lots of different reasons:

- Establishing a new business
 - Buildings, recruitment, equipment
- Business Growth
 - internal or external
- Recruitment
 - Employing people costs money
- Marketing Activities
 - Campaigns, advertising
- Cash Flow Problems
 - Large unexpected bills, payment delays
- Investment
 - Projects, opportunities

Reason for Finance		Example
Starting a new Business		A pharmaceutical company seeking to develop a new drug
Replacing old machines/equipment		A person setting up a business installing burglar alarms
Internal Growth		A theme park that is only open Easter to October needs money for maintenance
External Growth (takeover)		Buying new computer equipment to replace old
Day to Day expenses		Buying new manufacturing equipment as a result of increased demand for products
Development Purposes		Walmart takes over jet.com



Finance Sources of Finance

Source of Finance	Description	Advantages	Disadvantages
Owner's capital			
Retained profit			
Sale of assets			
Overdraft			
Trade credit			
Taking on a new partner			
Loan			
Share issue			
Crowdfunding			



Finance **Revenue, Cost, Profit and Loss**

Sales revenue is the money a business receives from selling the goods or services it produces. Revenue earned depends on how much is charged and how many products are sold.

$$\text{Sales revenue} = \text{quantity sold} \times \text{sales price}$$

If Revenue is greater than Costs, a profit will be made.

Method	Example
Increase the price.	
Reduce the price.	
Increase advertising.	
Produce more.	

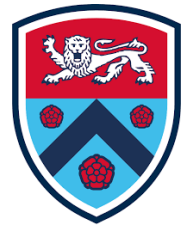
Fixed Costs do not change when the business changes the amount it produces. Rent and business rates (a local tax on business property) are an example of fixed costs. Even if a business makes 0 sales or makes a million sales the fixed cost will stay the SAME.

Variable Costs are costs that do change when the business changes the amount it produces. Bills, wages, materials are all examples of variable costs. An example of variable cost would be the material required to make T-Shirts. The more T-Shirts you sell, the more material you need to buy.

$$\text{Variable Cost} = \text{Cost per unit} \times \text{Quantity sold}$$

Total Costs are found by adding together the total for all fixed and variable costs..

$$\text{Total Costs} = \text{Total fixed} + \text{Total variable}$$



Finance **Revenue, Cost, Profit and Loss**

A business may want to reduce its costs to help it to:

- increase profits
- save money in order to expand or to update machinery.

Costs may be reduced by:

- employing new technology instead of workers
- finding cheaper supplies of materials or goods to sell

Match the Vocabulary

The money a business receives from selling goods

Fixed

All the costs of producing a product or service.

Variable

Costs that change with output.

Average

All the costs of producing a product or service, divided by how many are sold.

Total

Costs which remain the same, regardless of output.

Revenue

Profit is the money left over when the business costs have been taken away from the sales revenue. Every business aims to make a profit. To do that, you need to make sure revenue being received is more than money being paid out.

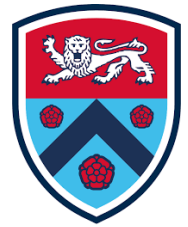
$$\text{Profit/Loss} = \text{Revenue} - \text{Cost}$$

Gross Profit is the amount of profit made by a business as a result of buying and selling goods or services, but without paying for the day-to-day expenses or other expenses of running a business.

$$\text{Gross profit} = \text{Revenue} - \text{cost of sale}$$

Net profit takes into account the profit made as a result of paying all the other expenses as well such as wages and bills. It is seen as a more accurate reflection of the performance of a business.

$$\text{Net Profit} = \text{Gross Profit} - \text{Everything Else}$$



Finance **Revenue, Cost, Profit and Loss**

Gross and Net Profit Margin

Profitability ratios are calculations using financial data to measure the performance of a business. It is always important to be able to judge performance accurately.

Two profitability ratios are:

- Gross profit margin
- Net profit margin

Gross Profit Margin	Net Profit Margin
$\frac{\text{Gross Profit} \times 100}{\text{Total Revenue}}$	$\frac{\text{Net Profit} \times 100}{\text{Total Revenue}}$

Although profit and loss figures are useful, gross and net profit margins give a better indication of how well a business is performing. They can help the business to know where its performance can be improved and whether action needs to be taken.



Finance Break Even

The break-even point is the level of output where the firm will just cover its costs. If it sells any more, it will make a profit. In other word it is the point where a business stops making a loss and starts making a profit.

Method 1 - Formula

Break Even is when: Profit = Loss = 0

The formula for Break Even is:

$$\text{Break Even} = \frac{\text{Total Fixed Cost}}{(\text{Selling Price} - \text{Variable Cost})}$$

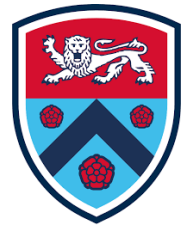
Remember, Break Even is an OUTPUT not a money amount! Calculate the AMOUNT of products the business needs to sell to Break Even.

Fixed Cost per week = £300	
Variable Cost each = £3	
Selling Price each = £5	
Fixed Cost per week = £5,000	
Variable Cost each = £5	
Selling Price each = £25	
Fixed Cost per week = £250	
Variable Cost each = £25	
Selling Price each = £37.50	

Method 2 – Tables

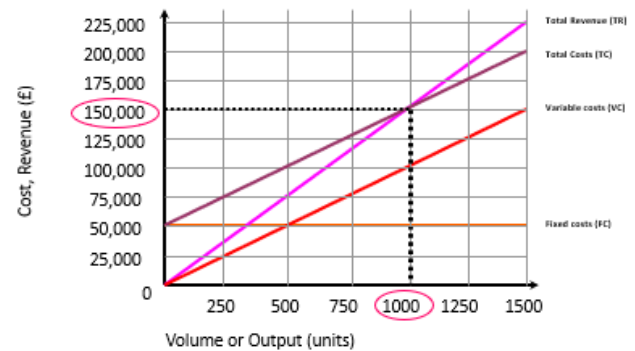
Output of Vases	Total revenue (£)	Fixed cost (£)	Variable cost (£)	Total cost (£)	Profit/loss
0	0	2100	0	2100	(2100)
50	750	2100	400	2500	(1750)
100	1500	2100	800	2900	(1400)
150	2250	2100	1200	3300	(1050)
200	3000	2100	1600	3700	(700)
250	3750	2100	2000	4100	(350)
300	4500	2100	2400	4500	0
350	5250	2100	2800	4900	350
400	6000	2100	3200	5300	700
450	6750	2100	3600	5700	1050
500	7500	2100	4000	6100	1400

To find the break even output, look down the total cost and total revenue columns to see at which output the two are equal. In this example, Break Even is 300.



Finance Break Even

Method 3 – Graphs



Break Even is found where Total Revenue Lines and Total Costs lines cross. Remember, the Break Even point is a QUANTITY not a Revenue/Cost.

There are problems with break-even Break-Even so businesses need to take care when making decisions based on them. The problems include:

- It is only a forecast, a prediction, so things may change in the future.
- The business may not be able to sell at the price planned.
- New competition in the market
- Higher than forecast costs may occur if prices of materials or stocks rise.

Key Uses of Break-Even Charts

Planning how much to produce

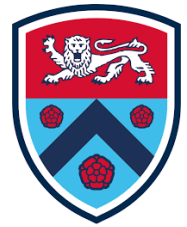
The forecast shows businesses how much they would need to sell to break even.

- If the business does not think it can sell this amount, it may decide not to produce at all

Planning the price to charge

The breakeven forecast shows that the business will not break even at the proposed selling price.

- The business could increase the price to reduce the break even input, but then may not sell the amount needed
- The business could try to reduce costs.



Finance Cash Flow Forecasts

A business needs cash to pay its expenses and meet its short-term debts.

- Wages and salaries
- Rent
- Suppliers
- Heating and lighting bills

If any of the above are not paid, then the business may well be in some difficulties.

Cash Vs Profit

It is VITAL to know the difference between the two

CASH – this is the money held in bank accounts and in cash on the premises. Cash is used to pay expenses and short-term debts.

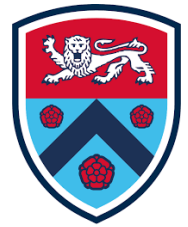
PROFIT – this is calculated by subtracting the total costs from the total revenue. A business could have a lot of cash but make little profit or be short of cash in a particular month but make a good profit.

Forecasts

A forecast is an attempt to predict what could happen in the future. For example, the weather forecast attempts to predict what the weather will be like tomorrow or for the rest of the week. At times the forecast is accurate and at other times it is only partly accurate. Any forecast, regardless of what it is for, will always have a certain amount of uncertainty.

Can you complete the Cash Flow Forecast Below?

	Jan £	Feb £	Mar £	April £
CASH INFLOW				
Sales	100,000	140,000	60,000	
Rental income	10,000	10,000	10,000	10,000
TOTAL INFLOW	110,000	150,000		80,000
CASH OUTFLOW				
Materials	50,000	80,000	60,000	40,000
Energy costs	5,000	20,000		5,000
Wages	10,000	20,000	20,000	10,000
Transport	10,000	15,000	10,000	5,000
TOTAL OUTFLOW	75,000	135,000	95,000	
NET CASH FLOW	35,000	15,000		
OPENING BALANCE	25,000	60,000	75,000	
CLOSING BALANCE	60,000	75,000		



Finance **Cash Flow Forecasts**

The notes below explain how a cash flow statement is drawn up.

The cash that flows in is added up and the total for each month is put in the 'Total inflow' row.

The cash that flows out is added up and the total for each month is put in the 'Total outflow' row.

The total outflow is deducted from the total inflow for each month and this is the 'Net cash outflow'.

The opening balance states the amount of cash the business has at the start of the month (usually kept in its bank account). Opening Balance the amount of cash available at the beginning of the month.

Net cash outflow is added to the opening balance if it is a positive or is deducted from the opening balance if it is a negative. This gives the 'closing balance' (cash the business has at the end of the month). Note that this closing balance becomes the opening balance for the next month.

Net cash flow: Total inflow of cash minus total outflow. It is the closing balance for the previous month.

What happens when a business has a negative cash flow?

The business will be in serious financial trouble if it forecasts a negative balance or cash flow at the end of several consecutive months.

Unless things improve, the possibility exists that the business may go out of business, not because it is unprofitable, but because it has run out of money. A business will always need money to pay for its day-to-day running costs

A negative cash-flow balance may:

- Only be temporary and may not cause a problem for the business
- Require the business to obtain additional finance in the form of an overdraft to help short-term.
- Mean that the business has to delay payment of money owed until finance is available.
- Result in the business being unable to buy equipment until its cash position improves.



Influences **Ethics**

Ethical Considerations in Business are about what is right and wrong, but this is not always clear.

How do businesses treat workers? • Child Labour? • Fair Pay? • Long Hours? • Safe? • Discrimination?	How do businesses treat suppliers? • Late Payments? • Fair Prices?
How do businesses treat customers? • Over charging? • False Advertisement? • Customers in Danger?	How do businesses source materials? • Avoid unethical businesses? • Avoid Unsustainable materials?

There are a number of impacts of being ethical. Here are some listed below:

Profit – Higher or Lower? Profit could increase as sales have gone up Profit could decrease as sales have fallen
Sales – Higher or Lower? Sales may be higher due to reputation improvements. Customers like ethical businesses. Sales may be lower due to higher costs due to ethical decisions.
Costs – Higher or Lower? Costs may be lower if workers are paid fairly and work harder. Costs may be higher as ethical decisions often come at the expense of being as efficient as possible.



Influences Environment

The environment is our natural world. Explain what each issue is below:

Sustainability Using Renewable Resources Reducing Waste Reducing energy consumption Reduce the use of non-renewables	Waste Disposal
Pollution	Climate Change

Being Environmentally minded comes with positives and negatives. Explain what this is like below:

Benefits	Drawbacks
Increased Sales	Increased Costs (Raw Materials)
Reduced Cost	Increased Costs (Capital)
Reduced Tax	Increased Costs (Production)
Subsidies	
Reduce Scarcity	

Influences The Economy



Consumer Income	Levels of Employment
What Is Income?	What is employment?
Why is it important to people?	Why is it important to people?
Why is the level in a country important to business?	Why is the level in a country important to business?

The level of INCOME and EMPLOYMENT are linked!

When employment rises, income rises.

When employment falls, incomes will fall.

What happens to businesses when income changes?

When Incomes Rise		
Sales will increase and Profits will increase	Sales of luxury goods increase	Sales of cheaper good may see sales fall
When Incomes Fall		
Sales will fall and Profits will fall	Sales of luxury goods falls	Sales of cheaper good may see sales rise

HOWEVER – THIS WILL DEPEND ON

- What kind of business it is
- What shift in income has occurred



Influences **Globalisation**

Globalisation is the process by which businesses around the world have become interconnected. What ways can you think of how businesses in different countries now are connected to one another?

Buying and Selling?

Production and Manufacturing?

People?

Globalisation has been made easier by

- Improvement to **transport**
- Improvement to **technology**
- Reduced **Trade Barriers** (Before Donald Trump!)

Multinational Companies are businesses that are globalised, and operate in more than one country. They do this because:

- They can increase sales
- They can spread risk
- They can save money (both in costs and in tax!)

Advantages		Disadvantages
	Lower Production Costs (for example, labour is cheaper)	
	Quality Control may be harder in some counties	
	Expert skilled workers may be higher in some counties than others	
	Transport Costs may increase	
	Businesses may move near their market	
	Sales may be lost if people like to 'Buy British'	
	Skilled Labour may not be available.	



Influences **International Branding**

Businesses that sell in many different countries need to think about how they will market their goods and services in a way that will suit the local market.

Some considerations in their marketing are:

Product Promotion	
Income Level	
Language	
Bribery	
Legal Issues	

Businesses competing internationally have lots of things to consider when selling abroad:

Growth Expanding Overseas to increase sales potential	Marketing As it says above, different products are sold differently in different places!
Human Resources Recruit and train local workers whilst following their HR Laws	Business Operations Locate in an appropriate place for products to be made
Finance - Finances need to be managed abroad - Costs will go up when expanding	Exchange Rate - Exchange Rate is the price of one currency against the other - Business needs to track carefully
Ethical Considerations Businesses that wish to be ethical need to consider wages and health and safety in the countries they have settled to	The Economy Businesses need to respond to the economic climate in the countries they sell in.