

Business studies(al) notes essay



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Business Studies A-Level Revision Notes Business Ownership

A. Reasons for Owning a Business Advantages • Enjoy higher flexibility and autonomy • Entitled to give orders to employees • Higher profit potential

B. Ways to start a business ; Buying an Existing Business Advantages • Save effort and time in planning, analyzing, recruiting.. Avoid look for a location and design plant layout • Provide a network of existing customers, suppliers and distributors • Availability of business information (sales record, cost, competition) ; Starting from Scratch Advantages • • • • Control over your own destiny Ability to reach full potential Unlimited profits Recognition of your own effort • • • • Disadvantages Uncertainty of income High level of stress Heavy workload Higher risk of losing entire investment • • • • Disadvantages Deal with the existing problems Less flexibility Difficult and costly to make changes Resistance from the existing employees • Bias from customers against new products or changes Disadvantages • Have the risk of losing the capital and effort • Heavy workload Franchise Advantages • • • • • Setup assistance Managerial assistance Financial assistance (bank loans) Potential customers available Help in marketing (EOS) Lower risk • • • • • • Disadvantages Low flexibility/ autonomy High setup cost Sharing profit (loyalty payment) Low personal satisfaction Chain effect (other franchisees) Market saturation > competitive

C. Basic Forms of Business ; Types • Sole proprietorship • Partnership • Limited company (listed/ private) 1 ; Factors affecting choice of forms: • Degree of control • Secrecy (reveal financial records) • Continuity • Source of capital • Willingness to take risk (liability)

D. Other Forms of Business ; Joint Venture Advantages • Synergy effect • Lower risk • Favourable treatment by the host country (local vs foreign) • Local expertise and assistance (customers' preference/ ulture) • Technology

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transfer | Franchise Advantages • Fast expansion • Local knowledge provided by franchisees • Stable source of income • Economies of scale | Public Enterprise Advantages • Adequate capital supply • Easier to obtain loans • Better planning

Pros and cons of privatization: Advantages • More efficient (profit-driven) • Cut cost and improve quality ; competitiveness enhanced • Raise more funds for investment (not so conservative) 2

Disadvantages • • • • • Less control Conflicts over management Coordination problems logistics problems Profit sharing Disadvantages • • • •

• Difficult to maintain uniformity Risk of damaging image and reputation Difficult to keep business secret Franchisees become future competitors

Disadvantages • Low incentives for improvement • Dis-economies of scale (more than enough) • Misallocation of resources Disadvantages • Charge higher price ; profit max. • loss of valuable but loss-making service • less control by the govt ; not for the best interest of the public | Co-operatives Advantages • Simple procedures in formation • Economies of scale

Disadvantages • Lack of experience or skills • Limited source of capital for expansion

E. Problems of Setting Up a Business | Internal Factors • owner's business experience • owner's health (heavy workload) • amount of capital • business nature (owner's interest and experience, industry prospect) • personnel problems | External Factors • government regulations • location • market competition F.

Business Objectives | Importance • give a sense of direction to everyone • reference to check progress • motivate staff members | Criteria for good objectives • specific • measurable • achievable • relevant • timely | Types of Objectives • Survival: sales, establish clientele (customer base), minimize

losses • Profit: sales, reduced cost • Growth: sales. Market share •

Consolidation: improved efficiency e. g. merge overlapping units, downsizing

• Social: CSR, not necessarily profits | Factors affecting Setting of Objectives

• State of economy • Size and stage of development of the firms • Business

nature | Conflicts between Objectives Profit – Growth: lower price to boost

sales, promotions to increase market share Profit – Survival: lower price to

boost sales > minimize lose but lower profit Profit – Social: donate money,

improve quality, volunteer team > increase costs 3 G. SMEs | Characteristics

• Sales • No. f employees • Market share • Capital • Profits | Reasons for

SMEs to exist • Flexible service (tailor made, niche market) • Close

relationship with customers > develop loyalty • Hardworking owners (high

incentives) • Innovation > potential of huge profits • Free from labour

problem, complex structure lower unit prices H. MNCs | Common Features •

operations and investment spread over several countries • central strategies

are formulated by the headquarter • each unit in foreign countries are

subjected to different business environment • own more assets in foreign

countries than the home country • profits generated from foreign countries

are more than that from home country • employees from different

nationalities 4 | Reasons for Internationalization • Saturated domestic

market • Keen ompetition in domestic market • Risk diversification • Lower

cost (labour, raw material) | Benefits vs Criticisms Benefits • Generate

overseas income to home countries • Stimulate the economies of the host

countries • Bring in more product variety to the host countries • Bring in

management skills and technology to host countries I. Growth of Business

Types Vertical Integration Horizontal Integration Criticisms • Create job

opportunities in foreign countries instead of home countries • Eliminated the

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small domestic companies • Pollute the environment of the host countries (manufacturing) Integration Motives • Stable supply of raw materials • More outlets for the products • Sales promotion • Increase market share • Greater market power • Product diversification • Better utilization of resources • Business diversification • Stronger business image • Use the existing reputation

Lateral Integration Conglomerate Integration Problems: • Management problems complex structure, staff from two firms • Shortage of capital offer generous credit to attract customers, take over, increased expense with size • Limited market size saturated market demand > revenue remains unchanged • Inadequate capacity market share increases > demand for products increases must invest more to increase production capacity 5

Management A. Functions of Management | Planning The process of setting objectives and formulating strategies to meet the objectives. SWOT analysis Establish Objectives Develop Alternatives Evaluating Implement alternatives Control

Top management > Strategic Plan Middle management > Tactic Plan First-line management > Operational Plan | Organizing The process that structuring resources and activities to accomplish objectives effectively and efficiently. Analyze the work Break down complicated work Group similar jobs together Assign jobs to staff Allocate resources Establish formal s-s relationships Importance: • create synergy effect • avoid duplication of resources > increase efficiency • help communication • establish lines of authority • speed up decision-making | Staffing Personnel management process that qualified candidates are recruited to fill the positions in the

organization. HR management Downsizing – identification of job positions that could be eliminated without affecting the productivity and quality of products & service. Re-engineering – radical redesign of organizational process making major improvements on critical performance measures fundamental rethinking of the way work is done ; Coordinating The process of integrating the work of separate departments to achieve unity effort. e. g. promotion of new product > production of more products > avoid loss of sales well-defined authority hierarchy > superior can monitor and reconcile conflicts set up a committee > facilitate communication among different departments by representatives

6 Leading Autocratic leadership Democratic leadership laissez-faire Management Skills: • technical skills • conceptual skills • decision-making skills • interpersonal skills Factors affecting leadership style :

- Leader’s personality, past experience and expectations • Time pressure • Subordinates’ characteristics, expectations and abilities • Task requirement: routine& simple – complex& requires creativity • Organizational culture and policies • Peer expectations and behavior ;

Controlling Set performance standard Measure performance Compare P with S Recognize positive performance Take corrective actions Adjust standards/ measures Plans (e. g. budget) gives the performance standard. They are used in controlling. A good control system should be:

- Future-oriented • Concise & understandable • Accurate • Realistic • Flexible • Fair • Cost effective ;

Decision Making Identify problems Evaluate Develop alternatives Alternatives Select the best alternative Implement Control Factors affecting decision-making process • Types of decision • Time factor • Amount of resources • Leadership style

7 B.

Effective Management ; Division of labour Advantages • Improve productivity
 • save time in training • avoid duplication of resources Disadvantages •
 Monotonous/ dull • great interdependence • lack of variety of skills ;
 Subordinating Individual goals management goals meet the individual goals
 of subordinates > beneficial to the organization Examples of individual goals:
 • stable income • job security • promotion opportunities • challenging task ;
 Delegation Higher management level gives task to its subordinates, and also
 empowers them to make commitment, use resources and take whatever
 actions are necessary to carry out the task. Subordinates have responsibility,
 authority and accountability.

Barriers: • low ability of subordinates • the superiors underestimate the
 ability of subordinates • the superiors do not want to give chance to the
 subordinates to get ahead of them • the superiors believe they can do better
 themselves • the superiors do not know how to delegate effectively Effective
 Delegation: • carefully decide which tasks can be delegated • delegate
 according to subordinates' abilities • provide training the subordinates •
 establish a good feedback and control system • require commitment from
 both parties ; Team Spirit Informal groups: • satisfy social need • improve
 team work ; synergy effect • mentoring Importance: • improve loyalty,
 commitment, morale • active participation • reduce absenteeism • increase
 productivity • create synergy effect 8 ; Management by Objective Steps: •
 Superiors and subordinates jointly set objectives • They mutually agree on
 the objectives • Subordinates have autonomy in deciding the ways to
 accomplish the objectives • Superiors periodically review subordinates'
 performance against the objectives Advantages Disadvantages • Aid

coordination of goals and plans • Foster employee motivation (empowerment) • Facilitate communication • Help clarify expectations and priorities • match individual goals • Need considerable training of managers • need strong and continual commitment • overemphasis on quantitative goals C.

Organizational Structure Concepts ; Chain of command • lines showing the superior-subordinates relationships • directions of how orders are given from managers to subordinates • should obey the unity of command principle – subordinates should have one superior only ; Span of control the number of subordinates reporting to a specific manager Importance: • affect the guidance and supervision received by the subordinates • influence the workload and the number of managers required • influence on the organizational structure (levels of hierarchy) Factors affecting span of control: • Nature of task • Ability of managers and subordinates •

Environment in which the organization operates • Technology D. Types of Organizational Structure ; Line and Staff Organization line authority – give orders to subordinates within the same department according to the lines of authority (chain of command) Staff authority – give advice and suggestions on their specialized field to line managers line-and-staff organization – an organization with both line and staff departments A manager can be a line manager and also a staff manager. (HR manager) line manager: organizing activities and training to employees > staff manager: provide support to production manager when recruiting workers 9 ; Departmentalization 1.

Functional Departmentalization Advantages • • • • • In-depth development of experts Clear career path within function Efficient use of resources

Possible economies of scale Better coordination within functions

Disadvantages • Slow response time on multifunctional problems •

Restricted view of the whole organization among employees • Narrow

training for potential managers • Backlog decisions from top management

hierarchy 2. Division Departmentalization (Product, Customer, Geographic)

Advantages

Disadvantages • Fast response to environmental changes • simplified

coordination across functions • Strong orientation to customer requirement •

Accurate measurement of division performance | Matrix Structure one

subordinate has two superior > work under the department head

(permanent) > lead by a project leader (temporary) Advantages •

Specialization: knowledge and experience transferred to all projects • pools

specialists from various functional departments • Control principle: balance

conflicts between functional and division goals • facilitate inter-departmental

communication • faster responsiveness to project needs • Duplication of

resources • Reduction of in-depth experts • Limited sharing of expertise

across divisions • Neglect the overall goals Disadvantages • Violate the unity

command principle • violate the hierarchy principle (unclear superior-

subordinate relationships) • poor coordination when conflicts are not settled

• cannot develop team spirit • complex responsibility > work stress Suitable

when: • large organization > larger amount of resources & manpower •

complex/ high technology project > required specialists • rapidly changed

environment 10 Hybrid Structure both functional and divisional structure

elements at the same management level Advantages Disadvantages •

Alignment of corporate and divisional goals • Functional expertise •

Adaptability/ Flexibility • Conflicts between corporate departments and divisions • Excess administrative cost • Slow response to exceptional situation | Committee Structure representatives from different department joint and form a group (permanent) Advantages Disadvantages • Bring experts together to solve complex problems • come up with more comprehensive solutions • enhance morale

E. Organizational Design & Control | Bureaucracy Characteristics • High degree of formalization • work by rules and regulations • highly impersonal • Emphasize written records • Clear anagement hierarchy Advantages • Clear authority and responsibility • prevent favoritism and corruption Disadvantages • Lack flexibility to adapt environmental changes • loss motivation • discourage creativity and innovation • high administrative cost • • • • Time consuming Decisions base on compromises Members will not dedicate themselves Tend to come up with solutions with high risks (collective responsibility) | Formal Structure vs Informal Structure Importance • • • • Exchange information Air grievances Satisfy social needs Get support/ feel secure • Get help on workrelated problems Advantages • Promote group loyalty • Facilitate cooperation and mentoring • Enhance communication Disadvantages • Spread rumors • resist policies and changes • Affect morale and productivity 11 |

Centralization vs Decentralization Advantages Centrali zation • Effective control over the whole organization • save management cost • maintain high uniformity • Relief workload of superiors • Flexibility to adapt regional differences • Cultivate innovation

Disadvantages • Difficult to communicate among tall organization • Delay response to market changes • Excess workload of top management •

Difficult coordination • Hard to maintain uniformity • less control Factors affecting degree of centralization • size • extent of control • environment (dynamic/ stable) • ability of front-line management • nature of department (X financial department) Decentralization F. Communication 1. Verbal vs Written vs Non-verbal Advantages Verbal: use of words, tones of voice > conversation • Can be made rapidly • no need to prepare • adjust according to actual situation Disadvantages • No permanent record • depend on attention of receiver • may be misinterpreted by different tones • affected by physical environment, e. g. noise • Need time to prepare • lack flexibility • may not read by receivers • Not reliable (easily misunderstood) • cannot transmit complex message Written: letters, graphs, pictures Non-verbal: facial expression, body language, gestures • Permanent record • can be read over and over • Transmit message even the sender and receiver share different languages 2. Internal vs External Internal • Memos • Notice board External • Phone calls • Emails • Meetings • Intranet • Newsletters • Internet (website) 12 3. One-way vs Two-way Advantages One-way • Efficient • Direct to large no. of receivers • Ensure message is fully understood • better commitment Advantages Informal communication • Distribute information more quickly • leak information to test reaction from subordinates Disadvantages • Cause misunderstanding or confusion if not clearly presented • resentment • Time-consuming Two-way 4. Formal vs Informal Disadvantages • Hard to control • may spread unfavorable/ exaggerated news > distrust 5. Vertical vs Horizontal Directions Vertical Downward: to subordinates Uses • Instruction, assign tasks • Announcement of new policy • Air grievances • Give feedback/ report progress to superior • Social needs (interaction) • share information • commitment, loyalty Upward: to superior

Horizontal Among colleagues of the same level Means of Communication • meetings • letters/ emails • memos/ notices • telephone calls • interviews • reports • suggestion boxes | Factors affecting Choice of means • length of message • complexity of message • urgency • no. of receivers • whether a record is required 13 | Barriers of Effective Communication • inappropriate channels or media • use of jargon • language difference • distrust • emotions of senders and receivers • geographic distance • layers of management (errors over layers) • overloaded information | Measures for improvement • find an appropriate place • use straightforward and simple language (avoid jargon) • provide feedback system • establish a variety of channels • provide education and training 14 Marketing Management A.

Buying Behaviour | Process Problem recognition Information seeking Evaluation of alternatives Purchase decision Post-purchase evaluation | Characteristic of organizational buying behaviour • Quantity purchased depends on demand > resale/ further process • Bulk purchase – mass production • more complex specification – suit special product designs • more time for negotiation – involves large capital • more rational – cost determines the profits of the organization | Factors affecting consumer buying behaviour • Perception: info received from sense • Learning: experience • Needs: used to solve problems • Attitude: values, +ve / -ve feelings toward sth. Personality: character traits, habits • Culture: pattern of human behaviour • Social status: ranking of ppl into positions of respect • Reference Group: whose values the buyers adopt • State of economy: general price level • Purchasing power: income, unemployment • Interest rate: mortgage(expenditure) • Tax rate: after-tax income B. Market Research

; Importance • rapid change in customers' preference • intensified competition • dynamic and unpredictable business environment • advancements in technology ; many new products ; Process • define the problem: understand what information is needed • analyze the situation: desk research ; collect secondary data • Get problem-specific data: field research ; collect primary data • interpret the data: analysis, classify the interviewees into groups e. g. ge/ income • Solve the problem: draw conclusion from data, make recommendations

Methods Advantages
Disadvantages Interviews • Ask follow-up questions • obtain in-depth and qualitative information • Expensive • bias of interviewer • diff to compare and analyze Personal Factors Interpersonal Factors Economic Factors 15
 Questionnaire • Avoid bias • standard questions ; easy to analyze • large quantity • Save resources • Low response rate by post • quantitative information Random Sampling Observation • Too small sample ; not representative • diff to obtain sampling frame • Expensive • bias if observation is carried out at unrepresentative time • Expensive • representative from target group • May not be representative of all target customers • Suitable to survey people's behaviour • Suitable for testing public opinion (on new products) • Valuable feedback • inexpensive
 Experiment Consumer Panels C.

Marketing Strategy ; Market Segmentation ; Group customers with similar characteristic, behaviour and needs > understand what factors affect their buying behaviour > design and sell the products by targeting their needs • demographics: age, gender, income, occupation, family life cycle, education, race • Geo-graphics: district, climate, urban// rural • Psycho-graphics:

personality, lifestyle, social class • Behavioural: benefits desired, usage rate

Conditions for successful Segmentation: • characteristics used should be measurable and data obtainable • segment should be accessible • segment should be large enough to be profitable • heterogeneous between// homogenous within • segment should have growth potential | Targeting | choose one or more specific group of people who will probably buy their products • Undifferentiated Market: one mix > one mass market e. g. salt, sugar, agricultural product • Differentiated Market: several mixed > several markets e. g. garments for kids, teens, men, women, elderly > requires substantial resources • Concentrated Market: one mix > one specific markets suitable for company with limited resource, but risky Process: • collect and analyze the market information • analyze the products to be sold • select the market niche with the least competition & the highest chance of success 16 Positioning | designing the company's offerings and images which occupy a meaningful and distinct competitive position in the target customers' minds. • Product: size, quality, durability, style, ease of use • Service: convenient delivery, lifetime customer support • Price: low, premium • category leadership: best among competitors: leading online bookseller D. Product | Types of Products • Service: intangible, perishable, inseparable, cannot be stored • Industrial products: raw materials, electronic parts, equipment • Consumer products: Convenience products: frequently buy without much conscious thought e.. salt Shopping products: fairly important goods/ services e. g. arments, computers Specialty products: particular brands, rarely accept substitutes e. g. CK perfume Unsought goods: do not normally think of e. g. life insurance, cemetery pot | Product Life Cycle Stage growth maturity decline Sales Rapid jump Max. > level off

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drop Profits no begins Competition little increases Difficulties Market acceptance Promotion, price comp. Product modification Severe loss introduction go up slowly Max. (low cost) keen low profit > loss vigorous ; Product line & Product Mix ; Product line – similar product e. g. Sony: mobile phone, mp3, earphone, camera, DSLR, DV ; Product mix – a collection of unrelated products e. g.

P&G – shampoo, household detergent, skincare ; Product identity • Branding: easy to pronounce, remember, match business image • Packaging: cost, durability, environmentally friendly, design • Labeling: information (ingredients, nutrition, shelf life, risk) ; After-sales service • delivery service • warranty • customer service hotline/ center 17 E. Place ; Types of Distribution Channels • Producers to consumers • Producers to retailer to consumers • Producers to wholesalers to retailers to consumers • Producers to agent to wholesaler to retailer to consumers ; Selection of Channels • convenience products > intensive distribution > longest channels • shopping products > selective distribution > shorter hannels • specialty products > exclusive distribution > shortest channels • perishable, bulky, expensive > shorter • market size, size and resources of producers ; Types of Retailer • Convenience stores: intensive network, long operating hours • Supermarkets: intensive network, different target groups • Department stores: well-decorated, prime states, better customer service • Specialty stores: complete collection, better customer service ; Trend (non-store retailing): • direct selling through Internet, mail, phone call • vending machines Reasons: • increasing rent costs at prime sites of major cities • shortage or high turnover rate of experienced salespersons • increasing

consumer protection on e-commerce • free flow of information makes direct comparison of prices easier

F. Price | Pricing Objectives • Maximize the profit

- Increase competitiveness
- Increase market share
- Drive out competitors
- Enhance business image
- Serve the society
- Status Quo – stabilizing the price// avoid competition | Factors affecting Price • Cost Factor • Market Size
- Price Sensitivity • Degree of competition • State of Economy • Cooperation and coordination among departments • Government support

18 Pricing Strategy for New Products

Skimming Pricing (relatively high price) > reserve rooms for price reduction, test the reaction of the public > recover the high cost in promotion, product development > build a premium image, imply good quality, special features > suitable when target customers have high purchasing power

Penetrating (low price) > boost sales volume to gain market share > take customers from existing sellers > large turnover > economies of scale > suitable when target customers are price-sensitive > low profit margin, difficult to raise price afterward

| Pricing Adjustment Strategy • flexible pricing: different prices for different customers [long-term relationship, bargaining power, size of purchase] e. g. wholesalers, manufacturers • Psychological pricing: slightly lower than the competitors' price ; competitive odd pricing(\$100 ; \$99) // prestige pricing ; better quality

- discount pricing: quantity discounts// sales price// everyday low price// value pricing
- bundling: encourage sales (with unfavourable goods) e. g. Japan House
- defensive pricing: retain market share
- long term pricing: in line with state of economy ; survival in downturn

| Non-price Competition • Good quality • Promotion • After-sale services • Convenience locations

G. Promotion | Personal Selling suitable for:

3. complicated products ; require demonstration
4. small market size ; easy to approach potential customers
- 5.

expensive and bulk purchase ; longer time for negotiation 6. long term relationship ; follow up required Process: • Prospecting: find potential customers, prepare contact list • Preparing: study the potential needs of customers, prepare information • Approaching: letters/ phone calls/ meetings • Presenting: communication the product message and features with customers • Handling Objections: respond to the customers' concerns, strengthen presentation • Closing: persuade the customers to place an order • Following up: after-sale service, handle post-purchase problems, long-term relations

19 Advertising • high proportion of audience reached should be targeted customers • low cost per audience reached • high proportion of audience reached should be affected as expected Advertising media TV Advantages • Broad reach • Multimedia • Demonstration available • Extensive market coverage • low cost • geographic selectivity • Long life • Local and regional selectivity • Low cost • High frequency • High selectivity • Large amount of information to specific audience • Personalization • Broad coverage • Low cost per message • Low cost • Personalized • Multimedia Disadvantages • High cost • Less audience selectivity • short-life message • Short life span • Visual competition • Cluttered pages • Limited demonstration • Long lead time(prepare > publi.) • No visual possibility • Short life • Lower attention • High cost per contact • Delivery delays • Difficult to obtain suitable list • Simple message • High preparation cost • Difficult to measure audiences • Consumer resistance Newspapers Magazines Radio Direct Mail Outdoor advertisement Internet

Types of Advertising: • comparative Advertising (household detergents) • reminder Advertising – advertise a brand (Bank, Hugo Boss, Channel, Travel

agency) • Institutional Advertising – enhance image (Watsons, Fortress, Bank) • Word-of-Mouth Advertising (skincare) • Informative Advertising (health products e. g. doctor's choice, sensodyne) • Persuasive Advertising – hard-selling (Vigor 33) Criticisms: • increases the cost ; increased price (consumers) • misleading and poor taste content • encouraging people to buy unnecessary things ; wastage • spend resources on advertising instead of improving quality 20 | Publicity • improve image of the company • long-term effect on reputation and customers' impression e. g. press relations > news release,, news conference, Standard Chartered's Marathon | Sales promotion Means coupon rebate point-of-purchase sample contest trading stamp exhibition

Characteristic • Easy to adopt, inefficient (most are not redeemed) • Low cost (customers forget to redeem) • Stimulate immediate sales (used in supermarkets) • Encourage trial on new products • Efficient (low cost ; large contact group) • Stimulate longer term of purchase • Attract customers from overseas, allow demonstration H International Marketing Methods Exporting Advantages • Minimize risks • maximize flexibility • short-term commitment ; easy to withdraw • Avoid large investment and heavy management burden • Most successful • Save transportation cost • direct control • easy marketing activity Disadvantages • Lack substantial growth barrier • difficult to coordinate marketing activities • Difficult to control on quality • Future competitors • Conflicts • High risk, management burden and commitment Contract Production Licensing/ Franchising Joint Venture Direct Investment

International Marketing Mix: Standardization: • economies of scale • globalization • uniformity ; give confidence • neglect uniqueness of local markets Adaptation: • address different needs of different markets (demographics) • different consumer-related law of different regions (e. g. product safety) 21 Financial Management A. Ration Analysis (benchmarking, trend analysis/ management targets) Liquidity ratios Activity Ratios Leverage Ratios • Current ratio • Quick ratio • Inventory turnover • Fixed asset turnover • Average collection period • Average payment period • Total asset turnover • • • • • • • • Debt ratio Equity to assets ratio Debt to equity Times interest earned ratio Equity Ratios • Dividend yield • Price earnings ratio Profitability Ratios Gross profit margin Net profit margin Earnings per share Dividend cover Rate of return Limitations: • company size • accounting practices • seasonal factors/ inflation B. Current Assets Management ; Working capital (Cash) high liquidity ; able to deal with unexpected difficulties // idle cash ; low efficiency speeding up the collection of cash: • shorten credit period ; increase cash discount • use better payment method(PPS) instead of credit card • set up local collection centre slowing down cash expenditure: • delay payment until the last day of settlement • use the time gap between sending and receiving / deposit of cheques • matching the timing and amount of inflows and outflows of cash ; Accounts Receivable Costs of granting credit: • risk of bad debt • inflation ; reduced purchasing power of repayment • dministration cost, assessing credit standing, collecting A/R • discounts for prompt payment Credit management: credit standard: • Character: history of debts • Capacity: ability to settle debts (profitability) • Capital: existing debt ratios • Collateral: ?? salable property • Conditions: economic factors(economics downturn),

industrial factors 22 Credit terms: • length of credit period • discount of early payment • length of discount period • collection policy Ways: • phone calls • collection agency • legal action Factors affecting average collection period: • credit standard • credit terms • economic conditions • collection policy ; Inventory too much ; tie up funds too little ; stock-out ; lose sales Ways to manage inventory: 1. minimize the lead time in acquisition 2. periodically review on effectiveness 3. minimize stock by introducing JIT C.

Sources of Capital ; Short-term capital • Trade Credit delay payment to supplier until the deadline of maturity date • Secured Loans use inventory/ accounts receivable as collateral • Unsecured Bank Loans depends on the credit rating of the firm, unsuitable for small firms usually at higher interest rate • Promissory Notes traditional form of loans (???) • Factoring sell the accounts receivable on discount, shift the risk of bad debts • Sales of Assets sell inventory by price reduction increase cash level ; save storage cost ; Long-term capital • Equity Financing (external) IPO // further issue new shares (ordinary/preference) Right issue – to existing shareholders Private issue – restricted to specific investors warrants – options (internal) retained earnings / depreciation charges 23 • Debt Financing • long-term loans • bonds • leasing • Self-financing ; retained earnings – interest-free capital ; sales of fixed assets D.

Factors Affecting Choice of Financing • cost of financing – interests (profit ; interest ; debt financing) • risk of project – risky ; unable to settle debts • tax benefit – interest payments are tax deductible • level of debts – capital structure: X too much debts E. Financial Markets ; Options • A put (call) option is a contract that gives the holder the right (but not obligation) to sell

(buy) a specified number of securities at the exercise price on or before the expiry date. • Hedging : expect a price drop ; put option If the share price drops below the exercise price, the gain from exercising the put option would offset the loss resulting from the price drop. ; Futures • A future is a contract that the holder has the right and obligation to buy or sell a specified no. of securities at a specified price on the maturity date. F.

Budgeting ; Payback period shortest possible time to gain positive revenue

Advantages • Simple and easy to use • useful in a period of rapid change

Disadvantages • Ignore time value • do not include cash flows afterward ;

Net Present Value $NPV = \text{real inflow} / (1 + \text{discount rate}) - \text{outflow}$ NPV

; 0 ; loss ; reject NPV ; 0 ; profit ; accept ; Importance • planning and

controlling • communication and coordination • financial planning 24 G.

Breakeven Analysis $TFC \text{ BEP in units} = \text{Selling Price} / \text{Unit Variable Cost}$ BEP

in price = $TFC / \text{Selling Price} - TFC / \text{Sales} = \text{Selling Price} / \text{Unit Variable Cost}$

Sales? TVC ; Applications: 6. determine the break-even level of new product

7. help production planning: effects of expansion in production 8. predict

effect of price and cost changes on break-even point ; Assumptions: •

constant operation efficiency • constant selling price • costs can be

accurately divided into fixed and variable components • Volume of output is

the only factor affecting cost ; Limitations: • cost-volume relationship is not

necessarily linear • revenue-volume relationship is not necessarily linear

(various selling price) • only cover one product on each chart • difficult to

determine exact ratio of fixed and variable costs 25 Production Management

A. Production Process transformation of resources into goods and services

that people need or want ; Types Analytic: break down e. g. petroleum

Synthetic: combine e. g. stainless steel Extractive: natural resources e. g. fishing, mining Fabricating: change the physical shape/ appearance e. g. meat-> ham Assembly: large scale production of complex products by machines Chemical: chemical process e. g. detergents

B. Product Development | Importance • maintain market share • change in customers' need/ preference • compete with others' product | Types of Innovation • continuous innovation: alternation of an existing production (modification) e. g. macbook > macbook air // sports shoes > air pad • dynamically continuous innovation: major redesign of an existing product e. g. desktop computer > laptop // 2G > 3G mobile phone • discontinuous innovation: a totally new product and related buyer use pattern e. g. obile phone > replace pager // tissue paper > replace handkerchief | Process • Idea generation : brain-storming • Idea screening • Business analysis : SWOT // PEST • Prototype development : sampling • Product and market testing : safety, durability, customers' preference • Commercialization

C. Production Planning & Controlling | Purposes • determine when production of a particular product starts and ends • prescribe the sequence of production process • balance demand and production capacity of existing resources • quality check, compile with the schedule | Process • Planning: what to make and how to make • Routing: where to make and who to make • Scheduling: when to make • Dispatching: allocate resources, issue orders • Follow-up and Control: monitor the progress

26 **D.**

Manufacturing Process Standard: uniformly made according to generally accepted specifications **Custom:** tailor made according to customers' specification and design **Continuous:** move through a plant in continuous

straightforward manner Intermittent: flow through a seemingly scattered arrangement of equipment, stop-and-go

E. Plant Locations and Layout (Location Planning) | Types of Plant Layout • Line layout/ Product layout placement of equipment along a line according to the production sequence equipment for the same product are placed in one individual assembly line

Advantages • High rate of output (continuous) • Labour specialization • High utilization of labour & equipment • Low unit costs • easy control and inspection (standard) • • • • Disadvantages Monotonous due to specialization Poorly skilled workers Inflexible in response to changes Interdependence Expensive maintenance cost of specialized equipment •

Process layout > concentrate equipment and labour needed for one phase of production process in one place > Specific functions are performed in one location for different products/ customers Advantages • Flexible • Not particularly vulnerable to equipment failures • Avoid duplication of capital • Less costly for general purpose equipment than the specialized ones

Disadvantages • Greater effort in routing and scheduling • Low utilization rates • Higher supervision cost (complex jobs > narrow span of control) • higher unit cost • Fix-point layout products remain in one place, labour and equipment are brought to the production site e. g. construction, maintenance

Advantages • Lower transportation cost • Better coordination and quality control due to concentrated work site Disadvantages • Timing of material and equipment deliveries must be focused • Wide range of skill required > narrow span of control

27 | Factors affecting choice of location • Location of raw materials and supplier (bulk raw material) • Location of customers and markets (perishable products e. g. ice cream) • Labour Supply • Infrastructure facilities • Community consideration: noise pollution, water

pollution • Local regulation: pollution regulation/ labour law • Land: land cost, room for future expansion • Transportation F.

Materials Management | Purchasing acquire materials inputs for the production process > make-or-buy decisions Factors affecting make-or-buy decision: • cost • need to exert direct control to quality • skillfulness and craftsmanship possessed • the existing capacity (resources available) • need for short-term / long-term | Storage Factors affecting choice of stores system Closed Stores System Value of products Physical security needed Frequency of use Reliability of the workers Ease of damage of products High Max. Low Low High Open Stores System Low Mini. High High Low | Stock Control • Just-in-time systems > continuous system that pulls materials through the production process > materials arrive just when they are needed with minimum inventory and waste • Material Requirement Planning > helps manufacturer gets correct materials when needed without unnecessary stockpiling • ABC Analysis A: most important items 28 • Economic Order Quantity Model Quantity per order = $D = \text{annual demand}$ $S = \text{ordering cost per order}$ $H = \text{carrying cost per unit per year}$? $2DS/H$ Reorder point = dL $d = \text{average daily demand}$ $L = \text{lead time}$

Assumptions: • opening and closing stocks are the same • stock flow is smooth and continuous • lead time is constant • all demands for the product are satisfied • inventory holding cost is based on average inventory

Limitations: • the capacity to place and receive the order • the capacity of the storage place • the level of annual consumption G. Concepts of Quality the degree of excellence or superiority if an organization's goods and services which satisfy the customers' requirement or expectations | Quality

Circle workers and management > discusses the issue of quality and productivity improvement | Total Quality Management A quality emphasis that encompasses the entire organization, from supplier to customers • Customer focus • Continuous improvement • Employee empowerment • Accurate measurement • Quality for the whole process • Strategic planning and leadership long-term) • Benchmarking | Re-engineering The fundamental rethinking and radical redesign of the business process TQM > steady and continuous improvement Re-engineering > breakthrough H. Service Operation • focus on process and outcome (e. g. massage, hair dressing, facial) • focus on service characteristic (intangible, customized, perishable) • focus on the customer-service link (e. g massage) • difficulty of measuring service quality (subjective feeling) 29 Customer contact level : • high > customers being part of the service operation system(e. g. education, massage) • medium > customers take part in service with predetermined procedures (e. g. bank) • low > customers do not take part in the service operation system (e. g. ATM, ebanking) I.

Mass Production • Specialization: work is broken down into simpler ones > division of labour • Mechanization: use machines to do as much tasks as possible • Automation: use computers/ automatic feedback system to control the operation • Standardization: uniform specification and quality of products Advantages • • • • • Increase labour productivity less time for training avoid duplication of capital more and cheaper goods consumed simpler tasks make mechanization possible • standardization makes quality control easier Disadvantages • Monotonous • loss of craftsmanship > job dissatisfaction • great interdependence • lack variety of skills • standardized

products – customers' need • heavy investment on machines Favourable Factors for Mass Production • sufficient financial resource • advanced state of technology • spacious plant available • large and stable demand for the products • sound and skillful organization and management 30 Risk Management A. Types of Risks • • • • • Pure Risk – loss or no loss e. g. fire, theft, dishonesty of employees Speculative Risk – profit or loss e. g. investment of stocks Fundamental Risk – affects the entire economy or majority of people e. g. inflation Particular Risk – affects only individuals e. g. theft Insurable Risk – pure risk, calculable (probability, frequency) e. g. hip accidents Non-insurable Risk – difficult to calculate loss, speculative risk e. g. new regulation B. Impact of Risks • • • • Direct loss or damage to property – building, plants, equipment Indirect loss – opportunity cost, extra costs Personnel loss – death or injury of key employees, diseases Liability loss – defective products, discrimination against employees C. Methods | Avoidance abandon the alternatives or existing activities that exposed to loss | Risk Assumption reserve some capital for the potential losses: set up a fund | Risk Reduction Loss prevention : reduce the probability of loss e. g. training and maintenance Loss reduction : reduce the severity of damage e. g. sprinkler system | Insurance transfer the pure risk to the insurer insurers use the pooling technique and pool the premium from all the insured to cover the future loss | Non-insurance Transfer • contracts – e. g. warranty, maintenance guarantees • hedging price risks • incorporate of a business firm – limited company (limited liability) D. Process • • • • • Risk identification Evaluation of potential loss Selection of appropriate techniques Implementation Evaluation and Control 31 E. Functions of Insurance • risk

bearing • stimulate to business enterprise • security • loss prevention • social benefits • investment of funds • invisible earnings or exports F.

Basic Insurance Principles • Principle of Indemnity: insured should not profit from a loss • Principle of Insurable Interest: insured must be in a position to lose financially if a loss occurs, i. e. cannot insure against others' loss • Principle of Proximate Cause: losses covered must be directly resulted • Principle of Utmost Good Faith: honesty, disclose all facts • Law of Large numbers: large number of exposures > close to the probability G. Types of Insurance • Life insurance: against death for a specific period of time e. g. an employee traveled oversea for business meetings • Property insurance: against physical damage or destruction of property e. g.

Fire insurance, Burglary insurance, Robbery insurance, Theft insurance • Liability insurance > Product liability insurance: faulty or unsafe products > damage/injury of customer > Employee's compensation insurance: injury or death of employees during work • Marine insurance ; Ocean marine policy – shipping ; Inland marine policy – logistic through trucks, rail, airplanes ; Personal property floater – theft or other risk while in the home, transit or abroad • Pecuniary insurance ; Credit insurance – bad debts ; Fidelity bonds – employees' dishonesty > Business interruption/ Loss of profits: loss of earning power for specific period of time, after destruction of fire 32 Human Resources Management A. Job Analysis, Description & Specification • Job analysis – study, collect, analyze and organize information about job requirements and characteristics ? provide info for job description • Job Description – job title, summary, task statements, responsibility & duty, working conditions, performance standard expected, etc. • Job Specification
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- Skills factors (education, qualification, experiences, language) Effort factors (physical demands, mental demands) B. Manpower Planning | Process: ? Identify company objective ? estimate future needs ? Estimate future supply (internal & external) ? Compare demand and supply ? Develop suitable detailed programmes to maintain a balance Surplus ? Restrict hiring Stop overtime Encourage early retirement Lay off Shortage? Hiring from outside Transfer Improve productivity Impose overtime C. Recruitment? Selection? Placement?

Orientation | Recruitment Process: ? Receive authorize request (identify needs) ? Review job description and specification ? Write an agreement with related managers ? Write up recruitment advertisement ? Select appropriate advertisement channel ? Await and monitor job application and response rate Internal Recruitment: Advantages • More reliable assessment to the candidates (long-term performance) • Quicker to pick up new post (familiar with company culture) • Save costs (advertisement...) • Boost morale (chances to promote? ^productivity vturnover) Disadvantages • Limited choices • Lack of new and fresh ideas ? stubborn mode of operation • Jealousy among employees 33

External Recruitment: • Advertising • Employment agencies (head-hunt) • Existing employee's referral • Walk-in • Job Fair • Resume data bank | Selection Process • Preliminary screening • Interviews • Employment tests • Background investigation • Physical Examinations • Probation | Placement • assign tasks to successful candidates | Orientation • introduce their tasks, supervisor, colleagues • bridging, helping the new employees to adapt the new working environment D. Training and Development | On-the-job training

Advantages • what they learned is relevant to their job (practical) •

contribute to the output • quicker to pick up the job | Off-the-job training

Advantages • Be introduced to formal theoretical concepts • learn more from the trainer • focus on training

Disadvantages • expensive mistakes could be made • focus on operation but not training (do not understand the theoretical concepts) • disrupt the

normal operation Disadvantages • High cost • can't contribute to output •

too theoretical > can't apply | Benefits: Business: • improved morale,

motivation ; low absenteeism, turnover, complaints • better skills ; higher

productivity, better service quality • better experiences ; able to work as a

team ; possible synergy effects Employee: • sense of achievement • greater

adaptability to new work methods 34 E. Evaluation (Appraisal) | Uses: 1.

Manpower Planning • identify employees' strengths & weaknesses • choose the most suitable person for the job 2.

Improvement of performance • investigate whether they have achieved

performance standards • take corrective actions 3. Compensation

adjustment • outstanding performance > more bonus / salary increment 4.

Placement decisions • transfer, demotion, promotion 5. Identify training and

development needs • poor performance > training (improve skills) • good

performance > development (develop potentials) 6. Motivation and

improvement of communication • good performance > rewards > motivation

• reflect problems encountered by employees (communication) 7. Legal

considerations • accurate and serious appraisal proves not discrimination 8.

Feedback to HR process • poor performance > HR not functioned well >

corrective actions | Problems 1.

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Difficult to find standards • different staff have different types of tasks • tasks are qualitative not quantitative 2. Negative attitude and reaction • see appraisal as a routine form-filling • fear that it may damage their relationships 3. Bias and subjectivity • Central-tendency: narrow range of scale, cant differentiate among employees • Recency: base on recent performance instead of the whole period • Leniency/ strictness bias • Personal bias: favoritism 4. Lack of support from senior staff • no follow-up (think that it wastes time) F. Compensation (job evaluation, remuneration & fringe benefits) | Job evaluation • analyzing and ranking jobs according to their difficulties... • judging the values paid to the employees 35

Remuneration Objectives: • attract applicants • retain employees • enable employees to support themselves • legal consideration • motivate employees to make their best efforts Types: • Direct financial: wage, salary, bonus, commission • Indirect financial: fringe benefits • Non-financial: flexitime, job enrichment, security, opportunity, etc. | Fringe benefits Types: • Rest days/ holidays/ annual leave • Sick leave/ maternity leave • Long service payment • Housing allowance • Medical care Factors affecting the remuneration policy: • Company's financial condition • employee's performance • job nature: high turnover > no housing allowance low-skilled > low wage • seniority: senior staff > longer annual leave • state of economy • legislation: minimum wages F. Maintenance | Health & Safety Importance: • reduce liability: reduce accidents > legal responsibility • increase productivity: v sick leaves > fully utilize the manpower • improve employee relation: workplace safety > loyalty, commitment ^ • act as marketing tool: business image of workplace safety (business ethics) Factors affecting health & Safety: • technology, equipment used & work nature: clerk vs chef •

worker's attitude: be careful and pay special attention while handling machines • sense of social responsibility • trade union pressure • legislation

36 Morale Indicators: • Attendance record (absenteeism, lateness, early leaves) • Labour turnover rate • Level of complaints (employees) • productivity and efficiency | Absenteeism Possible reasons: • low morale • poor health and workplace safety • heavy workload • dissatisfying working environment Impacts: • heavier workload for other employees • extra cost for overtime/ temporary employees • delay working schedule ; productivity v | Turnover Factors affecting turnover rate: • personal characteristics: sex, age, family characteristic, level of education • work-related factors: job nature, working environment, working hours, opportunities • Organizational factors: company policy, administration, job security • Human factors: relationship with supervisor/ colleagues, leadership style, morale • Economic factors: state of economy, unemployment rate, labour market condition

Problems of high turnover • high recruiting and training cost • low productivity and under-utilization before the position is replaced ; extra cost in overtime • adaptation period of the new employees ; low production, more accidents • negative effect on morale: poor team spirit, loyalty G. Morale, Motivation ; Productivity | Maslow's Hierarchy of Needs Theory • Physiological needs: basic reasonable level of salary • Security needs: workplace safety, job security e. g. contract • Social needs: sense of belonging, informal groups, acceptance by others • Esteem needs: respect by others, competition > motivation • Self-actualization: maximize the potential, challenges | Herzberg's Dual-factor Model • Hygiene factors: essential) • adequate wage • comfortable and safe workplace • fairness • job security 37 • Motivational factors: (not essential, but can motivate

employees) • achievement • recognition • involvement • responsibility ;
 McGregor's Theory X and Theory Y Theory X • • • • • dislike work avoid
 responsibility little ambition want security need close supervision and control
 autocratic leadership style • • • • Theory Y like challenge and work seek
 responsibility more aggressive look for higher needs: social, esteem • self-
 direct and self-control • democratic leadership style ; Financial & Non-
 financial rewards 1. Financial rewards: \$ + fringe benefits 2.

Non-financial rewards: • Job rotation/ job enlargement/ job enrichment – job
 rotation allows employees to try different task under specialization and
 boredom can be avoid – Job enlargement allows employees to handle more
 tasks (in the same level) – Job enrichment allows employees to handle more
 challenging tasks in higher level, with more responsibility, opportunities for
 growth and development > more job satisfaction • Flexible scheduling
 strategy – Flextime allows employees to choose when to start and end their
 work with a core working hour (suitable for service, but not manufacturing) –
 Compress work week: longer working hours per day, fewer working days –
 Job sharing: half-day/ half-week work> more time for parenting, school •
 MBO • Job security ? worry about losing the job > anxiety > ^labour
 turnover, productivity v H. Industrial Relations ; Trade Union (represents the
 employees) ; Reasons for joining the trade union 1. represented by
 professional negotiators to bargain for benefits 2. unionization gives
 members more job security, better employment opportunities and conditions
 3. protect members from management actions and gain some control over
 the working environment 4. enjoy service and assistance provided 38 ;
 Employers' Association (represents the industry) ; Reasons for joining the

association: • jointly deal with unions • exchange information and get influence on matters of trade: supply, pricing • obtain information and coordinate policies, e. g. employment practices • influence the government's policy. e. g. labour policy • Settling industrial conflicts | Grievance

Procedures: – a formal expression of grievance ? ffered by the management on how employees can do if they have opinions | Collective bargaining – both parties send representatives in a formal meeting and seek for settlement

Advantages: – save time, no need to negotiate with employees individually – prevent favoritism, conflicts and jealousy ? two-way communication | Options when negotiation breaks down • Employees 1. Work-to-rule 2. Picketing:

public protest, 3. Strikes: hurt business by stopping its operation 4. Boycott: ask the members and the public not to do business with it • Employers 1.

Injunction: court order that prohibiting workers from taking those actions 2.

Lockout: management closes a work site 3. Strikebreaker: hire temporary workers to replace strike workers • Third party 1.

Conciliation: neutral third party keeps them talking 2. Mediation: the neutral third party will give suggestions 3. Arbitration: the third party aims at settle

the dispute (legally binding) 39 Business Ethics & CSR Business ethics: the values of what should be done and what should not be done from the

business viewpoint generally accepted by the social norms Social

Responsibility: the notion that business have an obligation to different parties in society other than the stakeholders and beyond that set by law

Stakeholders: any individuals or parties which can affect or be affected by the organizations' activities 40 Industry Examples Boutiques I. T. 2% f. c. u.

bread n butter chocolate IZZUE b+ab Roxy bauhaus H ESPRIT GIORDANO

Baleno Bosinni Cotton on G2000 Levi's Apple shop PARKnSHOP Taste International Great Gourmet MISS SIXTY Wanko/ Veeko VIOLA Joyce Jessica vertical club suzuka moiselle Vanguard Vole City Super Supermarkets Wellcome Market Place Three Sixty Oliver's Convenience 7-eleven stores Circle K Vango Restaurants McDonald's KFC Fairwood Cafe de Coral Maxim MX Yoshinoya Burger King Chanel SKII shu uemura Bobbi Brown Lancome Estee Lauder Crabtree & Evelyn shiseido VICHY Ultima II Clinique Laosmiddle Outdoor Gregory ans Chow Sang Sang Chow Tai Fook Luk Fook 3D-Gold TSL Tudor Rolex Citizen Oliver's Super Sandwiches MOS burger Triple-O's Pizzahut/ Pizza box New York Fries Pepper lunch Max Factor Mabellin M. A. C Relvon OLAY Laneige Loreal Clean&Clear Neutrogena The BODY SHOP jurlique GUCCI Vivienne Westwood miu miu Burberry Prada Emphasis ctf2 my jewelry Outback Steak House Spaghetti House Ruby Tuesday Dan Ryan Delifrance Bristo Cosmetics Anna Sui IPSA Covermark missha Biotherm Bioderma DHC FANCL House Skinfood Kiehl's Longchamp Agnes b Salad COACH Pink box Pandora Ma Belle Folli Follie Swarovski Tissot Titus Guess Skin care Handbags Jewellery Watch Swatch Casio Diesel 41 Shoes Staccato le saunda Joy ; Peace Jipi Japa Coco Cola/ Pepsi Fanta/ Miranda Sprite/ 7up Mountain Dew Pocari Sweat Lucozade Redbull A-1 Bakery Bread Talk Yamazaki Hutchison (3HK) PCCW mobile China mobile Netvigator Hutchison HSBC Hang Seng Bank Bank of China Bank of East Asia Mirabelle GEOX Timberland clarks Bonaqua crystal geyser Watsons Vita Meko cool Maxim Cake Shop Saint Honore CS Tai Pan Bakery Smartone New World Mobile CSL iCable New World telecoms DBS Citibank Standard Chartered Dah Sing Bank Pure Yoga mYoga UA UA Director's Club Aliyoyo

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Cherry on top Gong Cha Chatime FacePearl Dr. Kong CROCS Sketches

Acupuncture Tao ti Nestle Dairy Farm Kowloon Dairy Trappist Dairy Mr. Juice

Tropicanna Arome Bakery Panash One2three 1010 HKBN Agricultural Bank of

China ICBC Beverages Bakery Telecoms Internet Banks Physical fitness

California fitness Waterfall Physical Cinemas Broadway/AMC Golden Harvest

MCL Chinachem Yogurt Time Freshtea Frozen Yogurt Yoppi Yogurt Holly Cow

Taiwanese Drinks Happy Lemon Easy Drink Comebuy 42