

Fixed cost	Costs that do not change with output- they have to be paid regardless of how much a business produces
Variable costs	Costs that do change with output- these costs are directly linked to the product or service
Start-up cost	Costs that a business has to pay when the business sets up. For examples, fixtures and fittings
Operating costs (running costs)	Costs that have to be paid for the day to day running of the business. For example, heat, light, rent etc...
Total costs	$TC = FC + VC$
Revenue	This is the money that comes into the business. It is also known as turnover or revenue
Profit	This is the amount of money that the business earns AFTER paying for all of its costs. $TR - TC$
Break-even	Level of output where total revenue = total costs
Margin of safety	This is the difference between your break-even point and the number of units you expect to sell
Cash flow forecasting	This is a forecast the business makes for what it expects to have coming into the business and out of the business
Inflows	Money coming into the business
Outflows	Money going out of the business
Cost of sales	Costs linked directly with the production of a product
Gross profit	$GP = \text{Sales} - \text{Cost of sales}$
Net profit	$NP = \text{Gross profit} - \text{expenditure}$
Income statement (profit and loss)	A statement of income and expenditure- usually produced every 12 months
Balance sheets (statement of financial position)	A statement outlining the financial position of the business
Assets	Things that the business owns
Liabilities	Things that the business owes
Sources of finance	Ways in which the business can raise money. These can be internal (from within the business) and external (outside of the business)
Budgeting	The process of planning income and expenditure within a business

1. Business Planning

Focus is on the need to plan so that the business can ensure there is enough return on investment/profit to:

- Cover costs and keep the business running
- Keep investors happy and hopefully provide a dividend
- Show future investors that you have planned so that you get more finance
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2. Different Legal structures

Different forms of business include:

• Sole traders

- An individual who owns and runs their own business
- Registered as self-employed with Her Majesty's Revenue and Customs (HMRC).
- Legally required to keep a record of all income and expenses and at the end of the tax year to fill in a self assessment tax return for HMRC
- Profits made by the sole trader are classed as income and are therefore taxable through income tax
- A sole trader has unlimited liability
- This means that they are personally responsible for all debts run up by the business
- Therefore, their home and all of their assets might be used to pay off any debts that they may incur and are unable to pay

Benefits

- Cheap and easy to set up
- All profits go to the sole trader
- Autonomy in decision making
- Financial records remain private
- Motivation is high as the success of the individual and the business are one and the same

Drawbacks

- Unlimited liability
- Limited capital for investment
- Little specialist skills as the owner is a 'jack of all trades' or will have to buy in specialists
- Difficult to find cover when ill – although sole traders often do employ people

Finance Implications

Likely to have limited finance available:

- personal savings
- loans from family and friends
- small bank loans
- Unlikely to be offered credit from suppliers
- The owner pays income tax on the profit

Partnerships and limited liability partnerships (LLP)

A partnership is where two or more people share the costs, risks and responsibilities of being in business together

- As with a sole trader, each partner has to register as self employed with HMRC and will have unlimited liability
- Each partner:
 - is equally responsible for debts incurred
 - will take a share of the profits made by the business
 - has a share in the decision making
 - normally contributes to the management of the business but can delegate responsibility
- 'Sleeping' partners invest in, but do not manage, the business
- Traditionally partnerships have had unlimited liability
- **Limited liability partnerships (LLPs)** are a form of partnership that do not have unlimited liability but they carry other disadvantages such as greater administration placed on the business
- **Benefits**
 - Risks, costs and responsibilities are shared
 - More scope for specialist skills
 - Simple and flexible
 - Financial records remain private
 - More capital can be raised than as a sole trader
- **Disadvantages**
 - Unlimited liability
 - Arguments can occur with decision making
 - If a partner dies, resigns or goes bankrupt the partnership is dissolved
 - Trust becomes a significant element between partners – a written agreement between the partners should be drawn up

Financial Implications

- Finance is available from all the partners:
 - personal savings of each partner
 - loans from family and friends
 - bank loans
- Risk and profit is spread amongst partners
- The partners pay income tax on the profits

Private limited companies (Ltd)

Limited companies exist in their own right

- The owners and the company are separate legal entities
- Therefore, the company's finances are separate from the owner's personal finances
- Shareholders are the owners of limited companies
 - They have **limited liability** and are not responsible for the company's debts
 - They can only lose the money that they have invested in the business in the form of shares
 - Have Ltd. after the name
- **Benefits**
 - Easier to access to finance
 - Limited liability is a benefit
 - Owned by shareholders who are known to the company, often family and friends
- **Drawbacks**
 - Can only sell shares on to other shareholders i.e. they can not sell them openly on a stock exchange. This means limited access to finance compared to PLCs
 - Loss of control as have to listen to shareholders

Public Limited Companies (PLCs)

Same as Ltds but shares are sold on the stock exchange

- **Benefits**
 - Easier to access to finance
 - Limited liability is a benefit
 - Sell on stock exchange so access to larger sources of finance
- **Drawbacks**
 - Loss of control as have to listen to shareholders

Community interest companies

- Not all businesses will have an objective of profit
- Businesses may have an objective to do good for society and any surplus made is ploughed back into achieving that goal
- These may be social enterprises or charities
- In 2005 the UK Government introduced CICs to allow social enterprises to enjoy the advantages of operating as a company

Co-operatives

- Cooperatives are organisations that operate for the wellbeing of their members. They are usually owned by the employees

Members can be:

- Customers
- Employees
- Suppliers/producers

3. Sources of finance

Sources of finance are the methods businesses use to get money.

Internal i.e. from within the business. Internal sources of finance include:

- ⊙ Owner's capital: personal savings
- ⊙ Retained profit
- ⊙ Sale of assets

External i.e. from outside of the business. External sources of finance include:

- ⊙ family and friends
- ⊙ bank loans and overdrafts
- ⊙ Selling shares
- ⊙ Debt factoring
- ⊙ peer-to-peer funding
- ⊙ business angels
- ⊙ crowd funding
- ⊙ Venture Capital
- ⊙ Hire purchase
- ⊙ Leasing
- ⊙ Government Grants

Owner's capital: personal savings – this could be the owners' own savings. The good point about using this method is that the money can be repaid at leisure.

Retained Profits – the profits of the business can be re-invested in the business. This type of finance does not have to be repaid

Sales of assets – the business could sell some of their assets to gain instant money for a new purchase. The downside is that they no longer own that asset but it does give instant **cash**

Family and friends – finance from people you know. Usually lower interest rates but can impact relationships

Bank Loans – these can be long term or short term. The borrower usually pays interest on the loan, which is a percentage of the amount of the loan, e.g. 5%. The good point - money is available immediately, but the drawback is that the money is paid back, usually on a monthly basis.

Bank Overdrafts – this is a very short-term loan, when a business can go overdrawn in the bank but will be repaid as soon as money is out into the account. It helps with short-term finance problems, i.e. paying the bills each month.

Shares – this allows people to buy into the company (shares) in return for a money reward out of the profits (dividend).

Debt factoring – business receives immediate payment for credit sales

Peer to Peer funding – using the internet to match lenders to borrowers

Crowd funding - using the internet to raise money through lots of different investors

Venture Capital – venture capital businesses give money to high risk start up businesses in return for owning part of the business.

Hire Purchase – this is used to purchase equipment or machinery for the business. This allows the business to have immediate use of the equipment but have to pay each month for it, until they own the equipment. The main problem with this form of finance is that when the HP agreement has been met, the equipment could be out of date.

Leasing – this is similar to HP but the company will never own the equipment. They use the equipment and usually pay a monthly rental charge for it. The advantage to this is that equipment can be kept up to date and serving charges are usually included in the price.

Government Grants – the government may help a business by giving a grant to businesses that may locate in an area of high unemployment. A grant does not have to be paid back unless there is a breach of the terms of the grant agreement.

4. Business and cost:

- Start-up costs – business pays when first setting up (only paid once)
Must be paid before they start trading
 - Operating cost:
A business pays for on a regular basis (can be called running costs)
Rent, staff wages and raw materials – examples of a running cost
Two types of operating cost – fixed and variable costs
- Fixed cost:
- Don't change depending on output (output: number of products made)
 - Needs to pay fixed cost even if producing nothing
 - Rent, water bills and broadband costs
- Variable cost (opposite to fixed cost)
- Change depending on output
 - Raw materials are an example of fixed cost
 - More products made more raw materials required (raw materials increase)
- Variable cost = variable price per unit × number made/sold
 - Direct cost – Directly related to making the product (similar to variable cost)
Staff wages and raw materials
 - Indirect cost – Can't be related to making a product
Telephone bills, office rent
 - Total cost = fixed cost + variable cost or Direct + indirect cost
 - Revenue – Money the business receives
Source of revenue - sales, interest, investments, renting
 - Revenue = number of sales × price per unit
 - Expenditure = money a business spends:
Capital expenditure:
 - Money that will be spent on assets that will be used for a long time
 - Example is a fixed assetRevenue expenditure:
 - Money spent on a business day-to-day
 - Example is staff wages rentOverheads/expenses:
 - Every day running cost of a business
 - Another type of indirect costs
 - Profit/loss = revenue – expenditure
Profit is when revenue is greater than expenditure
In a Not for Profit company they use surplus and deficit not profit and loss

5. Breakeven Point

- Breakeven point: Money spent is same as money made
At this point business has not made a profit or loss
- Margin of safety: Difference between the target/actual sales and the break-even point
- Changes to variable cost : Variable cost decreases then each unit costs less to produce.
- Business need to sell fewer units to break even
- Change in fixed cost (effect on break-even point):
 - Increases, break-even point higher
 - High break-even point means business needs to sell more to cover its cost
 - If revenue stays the same, less profit will be made
 - If cost higher than revenue business won't break even
 - Decrease in fixed cost, break-even point lower
 - Lower break-even point mean business needs to sell fewer to cover costs
 - If revenue stays the same the business will make larger profit
- Change in selling price (effect on break-even point):
 - Increase in sales price makes break-even point lower
 - Lower break-even point mean business needs to sell fewer to cover cost
 - Total cost and total sales stay the same, business make larger profit
 - Decrease in selling price makes break-even point higher
 - High break-even point means business needs to sell more to cover its cost
 - Total cost and total sales stay the same, business make less profit

Benefits of analysing break even	Risk if break-even not analysed
<ul style="list-style-type: none"> ⊙ Help business set targets: How many units to sell to cover its costs ⊙ Lowest number of sales needed to prevent loss ⊙ Size of it margin of safety ⊙ If cost change it will be able to predict how this will affect its profit or loss ⊙ Help business adjust its cost, if break-even point low then they can sell less and still make a profit, so business may reduce the sales price to attract customers and to beat competitors ⊙ Helps plan for success 	<ul style="list-style-type: none"> ⊙ Business will now know how many units to sell before it starts making profit ⊙ Won't know lost amount of sales to prevent loss ⊙ Business won't know if product price to high or low ⊙ Price too low business needs to sell more to break even ⊙ If price of product change a business wot be able to predict how much profit or loss will be made ⊙ Will now know if cost are reasonable ⊙ More money could be made making the product and running business rather than being made by sales

6. Budgets

- **Budgets:** Predict or limit how much money a business is going to spend
Predict how much money a business receives
Account for how much money a business saves or borrows

Expenditure budgets:

- Predict how much a business will spend over a period of time
- Included everything a business needs to spend money on
- Budgets: set limit on spending to make sure that a business not overspend

Revenue budgets:

- Predicts how much money will come in from sales over a period of times
- Estimate how much they sell and the money that it will receive from the total sales
- Might use previous sales figure to help budget

Profit budgets

- Predicts how much profit the business needs to make

Advantages of budgeting:

- Prevents business from spending more than it earn
- Can predict how much each department within a business will spend (managers know where to reduce costs)
- Compare budgets and can make improvements to next year's budget

Variance Analysis:

- When budget figure are compared to actual figure
- Allow business to compare predicted performance with actual performance
- Negative (Adverse) variance when budgeted higher than actual
- More money than budgeted because advertising successful, production effective, cost decreased, competitors selling less
- Favourable variance – don't spend as much as budgeted.
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What if Analysis:

- What-if analysis is the process of changing variables to calculate a range of possible financial outcomes
- Often used to consider best and worst case scenarios
- Examples of changing variables include:
 - Costs e.g. raw materials or utilities, introduction of the living wage
 - Prices e.g. raise or lower prices in response to competitors actions
 - External economic changes e.g. interest rates payable on a bank loan or taxes

Can be used in budgeting, break even, cashflow and ratio analysis so that you can change the data to look at best and worst outcomes.

7. Cash flow forecast :

- Identifies all the money that will come in (inflows) and go out (outflows of a business)
- Can predict if a business have enough money to pay debts

Inflows are: sales of product, interest or savings, borrowed money

- Irregular inflows – loans, sales of assets
- Regular inflows – monthly sales, annual interest

Outflows are: payment for stock, raw materials, wages and bills, loan repayments

- Regular outflows: wages, water bills, buying stock
- Irregular outflows: repairs and new equipment

Net cash flow = total inflow – total outflow

- Closing bank balance = net cash flow + opening balance

How to improve cash flow:

- Encourage customers to pay with cash – business will receive money quicker
- Encourage customers to straight ways – no credit period given business will receive money sooner, so it will have cash to cover costs
- Give a credit period with suppliers – Business will have time to receive payment for customers before it needs to pay suppliers
- Sell extra stock - short term solution because stock eventually will run out – firms keep stock of unsold products, rather than by products it could focus on selling extra stock
- Cash flow deficit – business might not have enough money to cover outflows
- Negative closing balance suggest deficit
- Cash flow – also tell when a business might have extra money (surplus)
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- Loan or overdraft (if short amount) can be arranged to cover the extra flows (negative closing balance)
- Try spend over a longer period of time – cause less problems (if negative closing balance)
- Business need enough money to cover outflows and extra to cover unexpected costs
- Surplus used to make more profit, money can be put in a high investment savings account, money reinvested (extra advertising, new premises)
- Cash flow forecasts help predict whether seasonal products will make enough profit

Advantages of cash flow forecast	Risk of not completing cash flow forecast
<ul style="list-style-type: none"> • Predicting problem – identify if business will have cash deficit, predicts if fund will be low so business needs to arrange a loan or over-draft • Help identify if long-term cash flow problem • Predict if cash surplus – money can 	<ul style="list-style-type: none"> • Can't tell if they are able to pay their bills • Won't be able to arrange a loan ore reduce outflows • If supplier cannot be paid, the delivers of goods might not be made • This could stop production and lead to bankruptcy

<p>be used to make business more profitable, money can be reinvested or put into a high interest savings account</p> <ul style="list-style-type: none">• Can identify if new business has raised enough start-up capital• Make it easy to make difficult decisions of buy new equipment	
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8. Profit

- **Gross and Net profit:**

- **Gross profit** is how much profit business has made before expenses are deducted
- $\text{Gross profit} = \text{revenue} - \text{cost of sales}$
- Large gross profit, greater chance of positive net profit
- Positive GP does not always mean positive NP
- If GP negative nothing to deduct overheads form so profit will not be made
- **Net profit** is money left one all cost have been deducted
- $\text{Net profit} = \text{gross profit} - \text{expenses}$
- Profit can be used to expand business or put money aside for a rainy day (retained profit) pay shareholders (dividends)

- **Income statements (profit and loss account):**

- Income statements show how much money a business has made.
- It tracks money in (sales revenue/income) and money out (expenditure)

- **Statement of financial position (balance sheet):**

- Helps a business to know how much it is worth
- Helps a business to know what they own and what they owe
- Balance sheets shows: assets (what the business owns), liabilities (what the business owes), capital (how the business is funded)

- **Assets:**

- * Fixed assets (non-current assets) can't be turned easily into cash
- * Current asset (assets you expect to turn into cash in less than a year) e.g. money owed to a business (trade receivables or debtors), cash or stock
 - Value of current asset always changing
 - Currents assets know as liquids assets – sold quickly
 - Least liquid assets come first on balance sheet e.g. stock/inventory
 - Most liquid assets come last – cash (more liquid easier to turn into cash)

- **Liabilities:**

Current Liabilities are short term debts, must be paid of quickly

- Example of Current Liabilities is a creditor
- Purchases made on credit (trade payables)

Long-term Liabilities – take over a year to pay off

- Example: bank loans or mortgages
- Found in external capital section of balances sheet

Capital shows where the business got its money from:

- Internal capital – money raised within the business eg money from the sales of share
- External capital – money has been borrowed from outside the business usually long term loans

- **Working capital:** net current assets
 - Working capital is money available to pay for day-to-day running costs
 - Working capital = current assets – current liabilities
 - If working capital is too low the business may have problems paying for day-to-day activities
- Net assets: shows the money the business would make if it sold all assets
 - Net assets = Total assets – Total liabilities
- Capital employed: show how much money has been invested into the business.
 - * Capital employed = Share Capital + Retained Profit + long-term (non current) liabilities
 - * Capital employed and figure for net assets should be the same
- Net profit can be improved by: increase profit margin by making products more profitable by increasing the sales price and reducing its costs

Both strategies are risky because:

- Increasing the price of products may see sales drop
- Sales drop too much business will not be able to afford its expenses
- Reduce costs by using cheaper materials, this may affect quality. If materials too cheap sales may drop because customers might think quality is reduced

9. Ratio Analysis

Ratios compare two pieces of information so that it is possible to make informed judgement about a business's performance. Ratio Analysis allows managers, directors, shareholders and other interested parties to place key figures such as profits and turnover into context. Ratio analysis does not guarantee good decision making but gives decision makers more information and so makes good quality decisions more likely.

Types of ratio

- **Solvency/Liquidity ratios** measure the businesses ability to meet day-to-day expenditure. Does it have enough short term assets to cover short term liabilities?
Two common measures of Liquidity are:
- **Current Ratio = Current Assets/ Current Liabilities**
- **Acid Test Ratio = (Current Assets – Stock)/Current Liabilities**
- **Gearing** examines the relationship between internal and external sources of finance. It is concerned with the long term financial position of the business. How much of the business is finance by long term debts?
- **Gearing = Non Current Liabilities/ (Total Equity + Non Current Liabilities)**
- **Profitability Ratios** compare the profits earned by a business in relation to the level of sales achieved or the capital used in achieving that profit.
The 3 main types are:
- **Gross Profit Margin (GPM) = Gross Profit/Sales Revenue x 100**
- **Operating Profit Margin (OPM) = Operating Profit/Sales Revenue x 100**
- **Return on Capital Employed (ROCE) = Operating Profit/Capital Employed X 100**
- **Activity Ratios** measure the effectiveness with which management control the internal operations of the business and how well they are managing the resources.

These ratios consider the following aspects of management of a business:

- The extent to which assets are used to generate profits
- How well stock is managed
- How well the business makes use of credit facilities from suppliers
- The efficiency of creditor control – how long before customers settle their accounts

There are 4 types of Financial Efficiency ratios:

■ **Inventory (stock) turnover**

Measures how frequently a business turns over its inventory in a year

Will vary depending upon the nature of the firm

- Hot dog stand (hopefully daily!)
- Fashion retailer (at least each season)
- New car showroom (maybe twice a year)

Measured in number of times per year

Cost of sales

Average inventory held

+ Inventory turnover

<u>Income Statement</u>	£m
Revenue	35400
Cost of sales	(30100)
Gross profit	5300
Expenses	(720)
Operating profit	4580
Finance income	300
Finance cost	(260)
Profit before tax	4620
Taxation	(1109)
Profit for the year	3511

<u>Statement of financial position</u>	£m
Non-current assets	19550
Inventories	2375
Receivables	1170
Cash & cash equivalents	2300
Total current assets	5845
Current liabilities	(8160)
Net current liabilities	(2315)
Non-current liabilities	(6000)
Net assets	11235
Share capital	6000
Reserves & retained earnings	5235
Total equity	11235

On average for how long does this business hold stock?

What type of business might have this level of inventory turnover? Justify your answer.

Why might it be more accurate to divide by average inventory held rather than just inventory?

$$\frac{\text{Cost of sales}}{\text{Average inventory held}} = \frac{30100}{2375} = \underline{\underline{12.67 \text{ times per year}}}$$

■ Trade receivables (debt) collection period

A measure of how long it takes, on average, for customers to pay the business for goods or services it has purchased on credit

The customer is a debtor of the business

A business may try to have a shorter receivables days to ease cash flow problems

Measured in days

$$\frac{\text{Receivables} \times 365}{\text{Sales revenue}}$$

+ Trade receivables collection period

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Finance cost	(260)
Profit before tax	4620
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Profit for the year	3511

<u>Statement of financial position</u>	£m
Non-current assets	19550
Inventories	2375
Receivables	1170
Cash & cash equivalents	2300
Total current assets	5845
Payables	(4160)
Short term loans	(4000)
Total current liabilities	(8160)
Net current liabilities	(2315)
Non-current liabilities	(6000)
Net assets	11235
Share capital	6000
Reserves & retained earnings	5235
Total equity	11235

What is the trade receivables period for this business?

$$\frac{\text{Receivables}}{\text{Sales revenue}} \times 365 = \frac{1170}{35400} \times 365 = 12 \text{ days}$$

This shows that on average it takes 12 days to receive payment for goods and services sold on credit.

■ Trade payables (creditor) payment period

A measure of how long it takes, on average, for the business to pay for supplies it has purchased on credit

A business may try to have a longer payables days ratio to ease cash flow problems

If you can pay a shorter payables days may result in discounts from suppliers

Measured in days

Payables x 365

Cost of sales

+ Trade payables Payment period What is the trade payable period?

<u>Income statement</u>	£m
Revenue	35400
Cost of sales	(30100)
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Operating profit	4580
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$$\frac{\text{Payables} \times 365}{\text{Cost of sales}}$$

$$\frac{4160 \times 365}{30100} = 50 \text{ days}$$

Why might a business be willing to have a payables payment period of 60 – 90 days?

■ **Asset turnover**

Measures how efficiently the assets of the business are being used to generate revenue

Helps identify whether the business is operating efficiently

Measured in number of times per year

A capital intensive industry may have a lower asset turnover than a labour intensive one

Revenue

Net assets

+ Asset turnover

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Net assets	11235
Share capital	6000
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Total equity	11235

$$\frac{\text{Revenue}}{\text{Net assets}} = \frac{35400}{11235} = 3.15 \text{ times}$$

The business generates 3 times its net assets in sales each year.

Strengths and Limitations of financial information for decision making

■ Strengths

- Helps you to make comparisons over time and with other businesses. For example are your expenses higher than a competitor? Then you can start to make decisions about changing the business
- Helps investors make a decision about whether to invest in your business

■ Limitations

- Possibility that accounts have been window dressed
- Need to consider reasons behind ratios e.g. is ROCE lower than previous years because of an investment programme
- Its quantitative data only. It doesn't provide any explanation for the numbers .e.g if profit falls by 5% you might think this is bad but if the economy is slowing down and there is a recession looming then 5% may not look that bad after all. You need context!

10. Market Information

- **Strategic decisions** are long term, complex decisions made by senior management. These decisions will affect the entire direction of the firm. An example may be to become the market leader in their field.
- **Tactical decisions** are medium term, less complex decisions made by middle managers. They follow on from strategic decisions and aim to meet the objectives stated in any strategic decision. For example in order to become the market leader, a firm may have to launch new products/services or open new branches.
- **Operational decisions** are day-to-day decisions made by junior managers that are simple and routine.
- This could involve the regular ordering of supplies or the creation of a staff rota

All decisions have an **opportunity cost** i.e. the cost of one decision in terms of the next best alternative foregone. You decided to come here and not go elsewhere. You have lost that opportunity now and will not know what could have happened

All decisions carry **risks and rewards** as well as being based on uncertainty

- **2 types of decision making: Scientific and Intuition**
- **Scientific** is supported by quantifiable evidence and encourages logical thought process. However, it may require expensive data and is time consuming to do so its expensive and you may miss out on the opportunity because you spend to long collecting and analysing data
- **Intuition** relies on gut feel. It allows for quick decision making. It encourages innovation and creativity. However, it is difficult to justify the decision made as there is no evidence to support it and its reliant on experience and expertise, which a firm may not have. Especially if its in a new market.

Methods of market research - how do you get market information

There are many different ways to research the market:

- Primary research- This type of research is usually quite expensive to do and can take a long time.
- However, you get the information you need because its specific to you and your business. It includes:
 - Interviews/Questionnaires
 - Focus groups - groups of potential customers brought together to discuss the product/service
 - Test marketing – trial the product or service within a certain area e.g. Amazon Fresh started in London

- Secondary research - This type of research is usually quicker but because its not unique to you and your needs it may not be exactly what you want. It includes:
 - Buying market research reports
 - Using media reports
 - Using government information e.g. the census
 - Internet searches

Businesses want to get information on the following areas so that it can help them make decisions about different issues e.g. launching new products or increasing production levels

- Market trends in the UK
 - The size of the market – is it growing or shrinking?
 - Changing competitive environment – are businesses entering the market or leaving?
 - Consumer tastes and preferences - do they want more online options? Do they want faster delivery? Do they want healthier options?
 - Consumer profiles e.g. who is the target market?
 - Demographic trends - the make up of the population in terms of age, gender, ethnic background and education

11. Stakeholders

Stakeholders are anyone with an interest in the actions of a business

These include:

- Owners/shareholders
- Potential investors
- Suppliers
- Customers
- Workers
- Community
- Government

Stakeholders can be categorised as:

- internal or external
- primary or secondary

Primary stakeholders have a direct relationship with the business whereas secondary stakeholders, although affected by the actions of a business, are not directly related to the business.

Stakeholders need information about the business and about the market

- Different stakeholders will want information to take decisions. Examples include:
 - **Owners**
 - Return on capital employed – is their investment generating returns?
 - Activity ratios – are managers working effectively?
 - Market trends – should the business invest in growth?
 - **Managers**
 - Profitability ratios and variance analysis – are expenses being managed?
 - Activity ratios and cash flow – is the business solvent?
 - **Potential investors**
 - Income statement and statement of financial position to assess business performance
 - Share prices and dividends paid
 - Is the market growing or not? What are competitors doing?
 - **Suppliers**
 - Solvency e.g. acid test ratio and activity ratios especially trade payables payment period – should they offer credit? What is the degree of risk involved? Will they get paid?