Principles of Business

Study Aid

Learner Workbook

Principles of Business

It is important to understand the ways in which business markets operate and how they influence the businesses in those markets. Innovation in a business is important to ensure success. This section explores some of the different models of business innovation and how these help develop new products and services. The principles of marketing and the main types of market research used to make marketing decisions will also be explored.

Financial terminology and financial management are key aspects in everyday business operations, and will help to improve your business skills

Business markets

Some markets are typically characterised by oligopolies, which means that there are a small number of powerful sellers. Other markets are characterised by a large number of sellers in a highly competitive and fast-moving environment. The level of competition in a particular market determines how much businesses are prepared to invest in innovation. Where there is a market monopoly, there is very little incentive for a firm to innovate, as they already have a huge amount of power. In highly competitive markets, on the other hand, innovation is a key strategic priority and it is a primary way to gain competitive advantage.

Consider the differences between the two business markets detailed in the table below i.e. *Perfect and imperfect competition*. For each market, describe its characteristics in terms of the key factors listed in the left-hand column

|  |  |  |
| --- | --- | --- |
| Characteristics of Business Markets | | |
| Characteristics | Market 1  perfect competition | Market 2  imperfect competition |
| Level of market competition |  |  |
| High/Low number of sellers |  |  |
| Power of sellers |  |  |
| High/Low number of buyers |  |  |
| Power of buyers |  |  |
| High/Low level of product differentiation |  |  |

Produce a structured written narrative, or hold a professional discussion to explain how an organisation’s goals may be shaped by the market in which it operates. You may wish to complete the table below to help write your answer

|  |  |
| --- | --- |
| How organisational goals are shaped by the market | |
| Example of your organisation |  |
| Features of the market in which it operates: |  |
| How these features of the market affect the goals of the organisation: |  |

Business innovation and growth

Business innovation involves finding new ways of doing things or finding new products and services to better satisfy consumer demand. The difference between invention and innovation lies in the commercial nature of innovation. In other words, innovation is not just a new invention, but is also successfully bringing to market a new product or service. Innovation is a key driver of growth, and is responsible for the creation of whole new industries.

Think about business innovation and how you might explain this to others. You may want to create a PowerPoint presentation covering the key points listed below

* Define business innovation.
* Explain the uses of models of business innovation.
* Identify sources of support and guidance for business innovation.
* Explain the process of product or service development.
* Explain the benefits, risks and implications associated with innovation.

You can use the table below to help you put together all of the points needed in your presentation.

|  |  |  |  |
| --- | --- | --- | --- |
| Key points to include in presentation | Your answers | | |
| Carry out some Internet research to find a definition of business innovation. Write your definition in the space on the right. Remember to quote the source of your definition. | Business innovation can be defined as;  Source: | | |
| Explain the uses of two models of business innovation. | 1.  2. | | |
| Identify three sources of support and guidance for business innovation. | 1. | 2. | 3. |
| Write brief notes to explain each stage of the eight-step process of product or service development. The first step has been completed for you. | Stage of process | | Explanation |
| 1. Idea generation | | *SWOT analysis, market research, customer feedback, analysis  of competitor offer, generating new  product ideas* |
| 2. Idea screening | |  |
| 3. Concept development and testing | |  |
| 4. Business analysis | |  |
| 5. Beta testing and market testing | |  |
| 6. Technical implementation | |  |
| 7. Commercialisation | |  |
| 8. Review of market performance and product pricing | |  |
| Explain in detail two benefits and two risks associated with innovation. | Benefits  1.  2. | | Risks  1.  2. |

**Sales and marketing**

This section explores the principles of marketing and will examine the nature of a sales process. You will outline the main types of market research that are commonly used to make marketing decisions.

These include primary (desk-based) and secondary (field-based) types of research. You will also gain an understanding of the relationship between sales and marketing in business, and consider how they can work together to achieve a common goal. Traditionally, a sales approach is a short-term view of selling that concentrates on achieving a single sales transaction with a customer.

A marketing process, on the other hand, focuses on maintaining a longer-term and ongoing relationship with customers, to understand their needs better, to find ways of increasing customer retention and customer loyalty to the business.

The principles of marketing consist of the 7 Ps. Complete the table below explaining each element of the 7 Ps. You should use examples from your own workplace wherever possible to illustrate your answer.

|  |  |
| --- | --- |
| ‘P’ | Explanation |
| 1. Product |  |
| 1. Price |  |
| 1. Place |  |
| 1. Promotion |  |
| 1. People |  |
| 1. Physical presence |  |
| 1. Process |  |

A sales process consists of seven stages. Complete the table below to explain what happens at each stage.

|  |  |
| --- | --- |
| Prospecting for sale  The approach |  |
| Establishing customer needs |  |
| The presentation |  |
| Overcoming objections |  |
| The close |  |
| Following up |  |

Explain the features and uses of market research in the following table

|  |  |
| --- | --- |
| Market research | |
| Definition of market research  (Remember to include your source.) | Market research can be defined as:  Source: |
| The **two** main types of market research,  with brief explanation  of each | 1. |
| 2. |
| **Two** uses of market research | 1. |
| 2. |
| Branding | Explain in detail the value of a ‘brand’ to an organisation |
| Sales vs Marketing | Explain in detail the relationship between sales and marketing |

🖈Notes:

**Financial management and budgeting**

Good financial management is essential for any business to survive in the short term and to be profitable in the long term. Financial management involves effective planning, including financial analysis and budgeting, to make sure that costs and income can be balanced to cover the cash flow requirements of the business.

The finances of a business need to be continuously monitored and controlled to ensure that planned incomes and expenditures occur as and when needed, and that there is as little variation from the planned budget as possible.

Consequences of poor financial management include:

* wide variances against the budget and business plan
* large amounts of wastage
* cash flow problems
* possibly even insolvency.

A budget is a financial plan. Examples of budgets include a marketing budget, a training budget and a sales budget.

Budgets are created in order to:

* control income and expenditure
* establish financial priorities and targets
* provide direction and co-ordination for the organisation
* monitor performance
* inform management decisions to plan future activities
* improve overall efficiency.

Budgets are managed by:

* identifying priorities and timescales
* negotiating and agreeing financial resources
* accurate recording of income and expenditure
* monitoring income and expenditure against planned activity.

By doing this, corrective actions can be taken, if required

Complete the table below to show your understanding of financial management and budgeting.

|  |  |
| --- | --- |
| Understanding financial management and budgeting | Your answers |
| Explain the importance of financial viability for an organisation. | Viability means:  Financial viability is important for an organisation because |
| Explain **three** consequences of poor financial management. | 1.  2.  3. |
| Explain in detail at least five of the financial terms listed below. | 1.  2.  3.  4.  5. |
| Income expenditure transaction cash flow  accounts gross profit net profit capital  debtors creditors turnover profit and loss account  balance sheet fixed costs variable costs breakeven point  tax VAT assets depreciation investments accruals stock liabilities  shares | |
| Explain **three** uses of a budget. | 1.  2.  3. |
| Explain in detail the different ways in which a budget can be managed. |  |