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| **Theme 3 – Business decisions and strategy** |
| **3.1 Business objectives and strategy** |
| Aims | A generalised statement of where a business is heading. |
| Mission | An aim expressed in a particularly inspiring way. |
| Mission statement | A short passage of text that sums up an organisation’s mission. This may get displayed on walls throughout the business and placed prominently on the website. |
| Distinctive capabilities | Ways a firm operates that cannot easily be copied by rivals, e.g. Ryanair’s obsession with cost minimisation. |
| Economies of scale | Factors that cause average costs to fall as the scale of output increases. |
| Generic strategy | A strategic position that will prove effective in every market, (i.e.generically). Porter said the lowest cost and highest differentiation were the perfect positions of strength. |
| Product differentiation | The extent to which consumers perceive one product as being distinct from its rivals. |
| Stock units | The number of different brands and pack sizes stocked by a company; each has its own bar code; a Tesco might have 75, 000 separate products; an Aldi 1200. |
| Diversification | When a company expands its activities outside its normal range. This may be done to reduce risk or to expand possible markets. |
| Repositioning | Changing a product or its promotion to appeal to a different market segment. |
| Benchmarking | Comparing your own performance with that of rivals, to try to identify and learn from best practice. |
| Demography | Factors relating to the population, such as changes in the number of older people or in the level of immigration. |
| Lobbying | The term originated in the ‘Lobby’ between the House of Commons and House of Lords; it was where electors came to talk to their local MP. |
| Disruptive | Technology would shift a whole sector towards a new way of doing things. This is very painful for those left behind. |
| ‘What if’ questions | Hypothetical questions used to test out different possibilities and theories. |
| Competitive advantage | The factors that enable a business to sustain a profitable position in a competitive market. |
| Substitutes | Rival products such as Galaxy and Cadbury’s Dairy milk; many customers are happy to substitute one for the other. |

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| **Theme 3 – Business decisions and strategy** |
| **3.2 – Growth** |
| Average cost | This is the cost of producing one unit of output. **It is calculated by dividing total cost by current output level.** |
| Delegate | Passing authority down the hierarchy. |
| Diseconomies of scale | Factors that cause average costs to rise as the scale of output increases. |
| Economies of scale | Factors that cause average costs to fall as the scale of output increases. |
| Market dominance | A situation where a firm sells a product that achieves a very high market share. This ascendancy over the competition enables the dominant firm to raise prices without losing too many customers. According to the EU, firms that have a market share of more than 40-45 per cent are considered dominant. |
| Organic growth | Growth that comes from within the business, such as opening new branches and developing online sales. |
| Inorganic growth | Growth that comes from outside the business, such as mergers or takeovers. |
| Strategic fit | Buying another business that can provide a real boost to long term growth and profitability, e.g. Mars buying Wrigley. |
| Takeover | When one business buys majority ownership in another, therefore gaining full control. |
| Annual general meeting (AGM) | A once yearly meeting at which shareholders have the opportunity to question the chairperson and to vote new directors to the board. |
| Private equity | Investment groups that buy up businesses in the expectation that they’ll be able to sell them on for a profit – usually within 3 years. |
| Synergy | This occurs when the whole is greater than the sum of the parts. It is often the reasons given for mergers or takeovers occurring. |
| M-commerce | Electronic transactions carried out while on the move, such as ordering an Asda delivery by smartphone. |

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| **Theme 3 – Business decisions and strategy** |
| **3.3 – Decision-making techniques** |
| Sales forecast | A method of predicting future sales using statistical methods. |
| Seasonal variation | Change in the value of a variable (e.g sales) that is related to the seasons. |
| Trend | The general path a series of values (e.g.sales) follows over time, disregarding variations or random fluctuations. |
| Payback | **Step 1 – Add up the net cash flows until you have enough to cover the initial investment.****Step 2 – Calculate the amount still needed in the year of payback and divide by the net cash flow for that year then multiply by 12 to calculate the month of payback.** Outlay outstanding/monthly cash in year of paybackAnswer in years and months, e.g 2 years and 5 months |
| Average Rate of Return | **Step 1 – Average annual profit= Total net cash flow/No. of years****Step 2 – Average rate of return =(Average annual profit/Initial investment) \* 100**Answer is a % |
| Net Present Value | **Step 1 – Multiply each year’s net inflow by the relevant discount factor, to calculate NPV****Step 2 – Add up all the NPV’s to calculate the net cash gain from the project expressed in today’s terms.**You should be given the discount factors. |
| Criterion level | A yardstick set by directors to enable managers to judge whether investment ideas are worth pursuing, e.g ARR is 15% for project. |
| Cumulative cash | The build-up of cash over several time periods. |
| Discounting | Applying a discount factor to a money sum to take into account the opportunity cost of money over time. |
| Present values | The discounting of future cash flows to make them comparable with today’s cash. It takes into account the opportunity cost of waiting for cash to arrive. |
| Short-termism | Making decisions on the basis of the immediate future and therefore ignoring the long term future of the business. |
| Tactical decisions | Those that are day-to-day events and therefore do not require a lengthy decision-making process. |
| Decision trees | Decision trees are diagrams that set out all the options available when making a decision, plus an estimate of their likelihood of occurring. |
| Actual values | Known as ‘actual values’ or ‘payoffs’, these are the forecasts of the net cash flow which result from following a sequence of decisions and chance events through a decision tree. They should be shown at the end of the branches. |
| Expected values | These are the forecast actual values adjusted by the probability of their occurrence. Although called ‘expected’, they are not actual cash flows which result. Expected equals actual time probability. |
| Net gains (or losses) | Subtracting the initial outlay from the expected value to find out whether or not a decision is likely to produce a surplus. |
| Node | A point in a decision tree where chance takes over. It is denoted by a circle, and at the point it should be possible to calculate the expected value of this pathway. |
| Probability | The likelihood of something occurring. This can be expressed as a numerical value, which can be a percentage, a fraction or a decimal.The probability of something certain is 100%, impossible 0%.Ranges from 1 to 0 |
| Critical path analysis (CPA) | CPA is based on a network diagram that sets out which activities within a project can be done simultaneously and which must be done consecutively. It helps to identify a critical path. |
| Critical path | The activities that must be completed on time for the project to finish on time. They have no float time. |
| Float time | Any spare time that arises between the completion of an activity and the start of the next. |
| Management by exception | The principle that because managers cannot supervise every activity within the organisation, they should focus their energies on the most important ones. |
| Network | A diagram showing all the activities needed to complete a project, the order in which they must be completed and the critical path. |
| Network analysis | Breaking the project down into its component parts, to identify the sequence of activities involved. |

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| **Theme 3 - Business decisions and strategy** |
| **3.4 – Influences on business decisions** |
| Earnings per share | **Company profits after tax divided by the number of shares issued.**A rising EPS makes it easy to pay out rising dividends to shareholders. |
| Intuition | Deducing something from circumstances without any direct evidence. |
| Mittelstand | The family-owned small and medium sized businesses that are the backbone of the German economy. |
| Stock market index | A weighted average of the share prices of many companies are added together, adjusted to equal 100, and then measured for the percentage change over time. |
| Bureaucratic | An organisation in which initiative is stifled by paperwork and excessive checking and rechecking of decisions and actions. |
| Person culture | An organisation such as legal practice, where common training practices mean everyone is trusted to get on with their jobs with minimal supervision. |
| Power culture | The boss as spider in the web, with every decision going through him or her. Power is kept at the top. |
| Psychometric tests | Designed to test the psychological make-up of a candidate – that is, the personality and character of an individual. |
| Role culture | Where a job role is treated as of more importance than the individual; this will be bureaucratic, risk-avoiding culture. |
| Task culture | Making the task or project the focus, with staff brought in to form a temporary team empowered to get the task completed successfully. |
| Pressure group | A group of people with a common interest who try to further that interest, e.g. Greenpeace. |
| Shareholder | An owner of or part of a company. |
| Shareholder value | A term widely used by company chairmen/women, which means little more than the attempt to maximise the company’s share prices. |
| Social responsibilities | Duties towards stakeholder groups, which the firm may or may not accept. |
| Stakeholder | An individual or group that affects and is affected by an organisation. |
| Corporate culture | The culture of an organisation is the code that affects the attitudes, decision-making and management style of its staff. |
| Corporate social responsibility (CSR) | The ethically driven activities of a business can often be more publicity rather than substance. |
| Vested interest | When there’s a personal, often hidden, reason for making a decision (often rooted in money). |
| Whistleblowing | When an employee decides they can’t accept a moral dilemma (such as knowing about bribery), and exposes the unacceptable practice – perhaps first to management then if nothing happens to the media. |

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| **Theme 3 - Business decisions and strategy** |
| **3.5 – Assessing competitiveness** |
| Corporation tax | A tax levied as a percentage of a company’s profit. |
| Cost of sales | All the costs arising from sales to customers, including raw materials, supplies and packaging. |
| Dividends | Regular payments to shareholders as a reward for their investment. |
| Gross profit | **Revenue less cost of sales.** Profit made on trading activities. |
| Liability | A debt (this is, a bill that has not been paid or loan that has not been repaid). |
| Liquidity | A measurement of the firm’s ability to pay its short term bills/debts. The availability of cash or assets that can be easily converted into cash. |
| Operating profit  | **Gross profit minus expenses.** |
| Prudent | An accounting term meaning cautious (‘being on the safe side’). |
| Reserves | A company’s accumulated, retained profit; it forms part of the company’s total equity. |
| Revenue/Turnover | Sales revenue. **Price x Quantity sold.** |
| Current assets | Short term assets that change daily, perhaps hourly, e.g. inventory, receivables (debtors) and cash. |
| Non-current assets | Long term assets, e.g. land, buildings, machinery, vehicles, patents and copyright. |
| Profitability Ratios | **Gross Profit Margin – gross profit/sales revenue \* 100****Operating Profit Margin – operating profit/sales revenue \* 100****ROCE – operating profit/capital employed \*100** |
| Liquidity Ratios | **Current Ratio – current assets/current liabilities****Acid Test – current assets – stock/current liabilities** |
| Gearing Ratio | **Non-current liabilities/capital employed\*100** |
| Bad debts | Money owed to the business that will never be repaid; perhaps a customer has gone into liquidation. |
| Inter-firm comparisons | Comparisons of financial performance between firms; to be valuable, these comparisons should be with a firm of a similar size within the same market. |
| Net realisable value | The price that can be obtained for second-hand stock after deducting the selling costs. |
| Profit quality | This assesses the likelihood of the source of the profit made by a business in the future. High-quality profit is usually that which is generated by a firm’s usual trading activities, whereas low-quality profit comes from a one-off source. |
| Labour productivity | **Output per period/no. of employees per period** |
| Labour turnover | **No. of staff leaving the firm per year/average no. of staff \* 100** |
| Labour retention | **Staff NOT leaving per year/average no. of staff \* 100** |
| Absenteeism | **Days absent per year/Total no. of working days \* 100** |
| Line managers | Staff with responsibility for achieving specific business objectives, and with the resources to get things done. |

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| **Theme 3 - Business decisions and strategy** |
| **3.6 – Managing Change** |
| Downsizing | Rethinking staffing numbers and the organisational structure needed given that sales revenue has fallen; often used as a euphemism for redundancies. |
| PESTLE | Key external factors that impact on business objectives and achievements: Political, Economic, Social, Technological, Legal and Environmental. |
| Disruptive change | This kind of change happens suddenly, unpredictable and with substantial impact that shakes up the whole market. |
| Incremental change | This kind of change occurs in small, gentle steps, allowing business to adapt gently. |
| Contingency planning | Thinking through a Plan B in case Plan A goes wrong. |