

Unit 3: Principles of Business

Unit reference number: D/506/1942

QCF level: 3

Credit value: 10

Guided learning hours: 74

Unit type: Knowledge

Unit summary

Having commercial awareness and an understanding of business operations is essential in helping organisations to achieve their objectives. Being able to manage budgets and finances, and having an understanding of sales and marketing functions are important factors in sustaining financial viability that contributes to the innovation process and growth of a business.

In this unit, you will learn about the structure and legal obligations of companies, how business markets operate and how they shape the behaviour of business activity.

This unit gives you an opportunity to consider the importance of innovation in meeting business objectives. You will consider the benefits, risks and implications of innovation to a business. You will explore the different models of business innovation and how they can be used to plan and support new ways of working or to develop new products and services.

You will go on to gain an understanding of financial terminology and financial management to improve your business skills. You will consider the importance of financial viability. Knowing how budgets are used and managed will help you to understand the consequences of poor financial management.

Finally, you will explore the principles of marketing and the main types of market research used to make marketing decisions. You will gain an understanding of the relationship between sales and marketing in business and consider how they work together to achieve a common goal.

Learning outcomes and assessment criteria

To pass this unit, the learner needs to demonstrate that they can meet all the learning outcomes for the unit. The assessment criteria outline the requirements the learner is expected to meet to achieve the unit.

Learning outcomes	Assessment criteria
1 Understand business markets	1.1 Explain the characteristics of different business markets 1.2 Explain the nature of interactions between businesses within a market 1.3 Explain how an organisation's goals may be shaped by the market in which it operates 1.4 Describe the legal obligations of a business
2 Understand business innovation and growth	2.1 Define business innovation 2.2 Explain the uses of models of business innovation 2.3 Identify sources of support and guidance for business innovation 2.4 Explain the process of product or service development 2.5 Explain the benefits, risks and implications associated with innovation
3 Understand financial management	3.1 Explain the importance of financial viability for an organisation 3.2 Explain the consequences of poor financial management 3.3 Explain different financial terminology
4 Understand business budgeting	4.1 Explain the uses of a budget 4.2 Explain how to manage a budget
5 Understand sales and marketing	5.1 Explain the principles of marketing 5.2 Explain a sales process 5.3 Explain the features and uses of market research 5.4 Explain the value of a brand to an organisation 5.5 Explain the relationship between sales and marketing

Unit amplification

This content has been written in an expanded format to facilitate both onscreen testing and portfolio assessment. Learners presenting work for portfolio assessment are not expected to evidence all of the amplification. Learners who are to be assessed by the onscreen test could be tested on any aspect of the amplification.

AC1.1: Explain the characteristics of different business markets

- *Different business markets:* perfect competition, imperfect competition
- *Perfect competition (no participants are large enough to have the market power to set the price of an identical product):* large number of buyers and sellers, no barriers to entry or exit, perfect information, zero transaction costs, rational buyers, no externalities
- *Imperfect competition (a market structure showing some but not all features of competitive markets):* incorporates monopolies (when a specific organisation is the only supplier of a particular commodity); monopolistic competition (many businesses sell products that are differentiated from one another, product differentiation); oligopoly (a market that is dominated by a small number of sellers); monopsony (a market in which only one buyer interfaces with many sellers, the buyer dictates terms to its suppliers)

AC1.2: Explain the nature of interactions between businesses within a market

In a perfect competition market

- *Interactions:* many consumers buy a standardised product from many small businesses, no one seller sets the price, sellers and consumers accept the going price

Interactions in an imperfect competition market

- *Monopolies:* all consumers will purchase a specific product from one business, the business: will set the price for that product
- *Monopolistic competition:* consumers will purchase differentiated products that are similar but not identical from different businesses, businesses will compete to sell their product, demand for the product will affect the price
- *Oligopoly:* consumers buy from a small number of large businesses, high interdependence between the businesses, businesses must take into consideration the reaction of the market to their actions
- *Monopsony:* consumer has the power to dictate price to the business selling, one large consumer interacting with many smaller businesses

AC1.3: Explain how an organisation's goals may be shaped by the market in which it operates

Organisations operating under a market of perfect competition

- *Primary organisational goals:* profit maximisation, profitability, sales (value, volume), service level, customer satisfaction
- *Additional organisational goals:* growth, achieving a state of imperfect competition (increasing market share, influencing consumer choice, influencing product price, expanding product range)

Organisations operating under a market of imperfect competition

- *Primary organisational goals:* profit maximisation, profitability, sales (value, volume), growth, internationalisation, market share, market power, satisfying stakeholders, return on capital employed (ROCE), service level, customer satisfaction, corporate responsibility; ethical issues, welfare
- *Additional organisational goals:* achieving a state of monopoly, i.e. when a specific organisation is the only supplier of a particular commodity, to join a state of oligopoly, i.e. a market that is dominated by a small number of sellers

Organisations operating under both perfect and imperfect competition markets

- *Market factors affecting an organisation's goals:* demand, supply, costs, revenues, price determination, profit, output determination, elasticity, inelasticity, equilibrium

AC1.4: Describe the legal obligations of a business

- *Legal obligations of a business:* legal structure (sole trader, limited company, business partnership, social enterprise) and compliance with associated statutory requirements; responsibilities for insurance, liability, national insurance; intellectual property; employment law (covering pay, tax, national minimum wage, holidays, time off, sickness, maternity/paternity leave, pensions, rights at work, redundancies, dismissals, disciplinaries, contracts, working hours); consumer protection (covering credit and store cards, faulty goods, counterfeit goods, poor service, problems with contracts, rogue traders); requirement to report financial performance to Companies House

AC2.1: Define business innovation

- *Business innovation:* creative process, product or service development, new ways of increasing business efficiency or improving profitability, successfully exploiting a new idea, adding value to products, services or markets to differentiate the business from the competitors

AC2.2: Explain the uses of models of business innovation

Uses of models of business innovations

- *Industry model innovation:* moving into new industries or creating new industries
- *Revenue model innovation:* generating revenue through offering re-configuration (product/service/value mix) and pricing models
- *Enterprise model innovation:* changing extended enterprise and networks with employees, suppliers, customers and others, including capability/asset configuration

AC2.3: Identify sources of support and guidance for business innovation

Sources of support and guidance for business innovation

- *Internal sources:* market research (primary, secondary), customer focus groups, workshops, senior management teams, boards of directors, internal stakeholders
- *External sources:* local enterprise partnerships, Business Networking groups (BNI, Chambers of Commerce), websites, industry, government (policy, guidance, funding), trade bodies, Intellectual Property Office, trade events, external stakeholders

AC2.4: Explain the process of product or service development

Eight stage process for new product development

- *Idea generation:* SWOT analysis, market research, customer feedback, analysis of competitor offer, brainstorming new product ideas
- *Idea screening:* eliminating unsound concepts, target market (size, growth), competitive pressures, market trends, product/service profitability
- *Concept development and testing:* intellectual property issues, product/service features, product/service benefits, consumer reaction to product/service concept, production cost-effectiveness, production costs, product/service feasibility, prospective customer liaison
- *Business analysis:* estimating likely selling price, estimating sales volume, estimating profitability and break-even point, potential return on investment
- *Beta testing and market testing:* production of physical prototype or mock-up, testing the product, testing the packaging design, conduct customer focus groups, introduce product/service at trade shows, pilot study, distribution channels
- *Technical implementation:* estimation of resources required, finalise quality management system, resource estimation, operational management plan, publish technical communications (data sheets, specifications), finalise supplier agreements, finalise logistics plan, resource plan publication, contingency planning

- *Commercialisation*: product/service launch activities, promotional material creation and publication, advertising activities, distribution pipeline, critical path analysis
- *Review of market performance and product pricing*: customer reaction, impact of the product on existing portfolio, value analysis (internal, external) competition response analysis, analysis of value segments (price, value, demand), review of production costs, forecast of unit volumes, revenue and profit, review of after-sales service

AC2.5: Explain the benefits, risks and implications associated with innovation

- *Benefits associated with innovation*: improvements to products, improvements to processes, improvements to services, organisational growth, development of new markets, offering unique selling points, opening niche markets, improved reputation, improved brand recognition, smarter working practices, improve customer experience
- *Risks associated with innovation*: failing to meet operational requirements (quality, cost, scheduling, service, resource), failing to meet commercial requirements (insufficient sales, decline in customer base), failing to achieve a return on investment, organisational culture (resistance to change, unsupportive systems and processes, insufficient support from leadership and management)
- *Implications associated with innovation*: corporate strategy, stakeholder collaboration (internal/external), corporate social responsibility, attitude to change, employee skills and training, customer perception

AC3.1: Explain the importance of financial viability for an organisation

- *Financial viability*: ability of an organisation to achieve its operating objectives, and fulfil its mission or goals over a long-term period
- *Importance of financial viability*: maintain operations, provide adequate resources (staffing, equipment, plant and machinery, working capital, facilities, administration), determine solvency, determine profitability, inform planning, investment and corrective action, cashflow

AC3.2: Explain the consequences of poor financial management

- *Financial management*: financial planning (analysing, budgeting, resource allocation, assets), financial control (monitoring of income and expenditure), financial decision making (safeguarding, reporting and review)
- *Consequences of poor financial management*: variance against the budget and business plan, wastage, cashflow problems, insolvency, legal implications, reputation and sales affected, theft, insolvency, cessation of business operations

AC3.3: Explain different financial terminology

- *Financial terminology:* income, expenditure, transaction, cashflow, accounts, gross profit, net profit, capital, debtors, creditors, turnover, profit and loss account, balance sheet, fixed costs, variable costs, break-even point, tax, VAT, assets, depreciation, investments, accruals, stock, liabilities, shares

AC4.1: Explain the uses of a budget

- *Budget:* financial plan; types (master, capital, sales, production, cashflow, marketing)
- *Uses:* to control income and expenditure; to establish numerical priorities and targets; to provide direction and co-ordination; to assign responsibilities; to improve efficiency; to monitor performance; to inform management decisions; to plan future activities; supporting innovation; funding training

AC4.2: Explain how to manage a budget

- *How to manage a budget:* identifying priorities and timescales; negotiating and agreeing financial resources; accurate recording of income and expenditure; monitoring income and expenditure against planned activity; taking corrective actions if budgets are not met; investigate unaccounted variances; updating budgets; dealing with unforeseen internal and external situations and changes; negotiating revisions to budget; reporting and communicating changes

AC5.1: Explain the principles of marketing

- *Marketing:* a process that identifies and anticipates customer needs and satisfies those needs profitably

Principles of marketing (marketing mix: the 7 Ps)

- *Product:* features and appearance of goods and services
- *Price:* how much customers pay for products
- *Place:* point where products are made available to customers
- *Promotion:* how customers are informed about products
- *People:* those responsible for all aspects of marketing
- *Physical presence:* how customers view the product, service, staff, organisation, brand
- *Process:* how products and services are delivered to customers

AC5.2: Explain a sales process

Sales process

- *Prospecting for sales:* identify target market, identifying possible leads, networking, initial contact, business to business referrals; social media
- *The approach:* sales calls, mailings, e-shots, qualifying leads, arranging the sales meeting; establish rapport and trust

- *Establish customer needs:* identifying needs and requirements, questioning, listening, gaining understanding
- *The presentation:* meeting the established customer needs, explanation, demonstration, establishing the benefits of the product/service
- *Overcome objections:* negotiating, fine-tuning
- *The close:* deal, agreement, next steps
- *Follow-up:* after-sales contact, relationship management

AC5.3: Explain the features and uses of market research

- *Features:* qualitative, quantitative; primary and secondary research; customer surveys, questionnaires, comment cards, word of mouth recommendations
- *Uses:* to measure customer behaviour, buying patterns, preferences and sales trends, success of product development, brand awareness/reputation, changes in markets, emergence of new markets; consider PESTLE (political, economic, social, technological, legal, environmental factors), competitor activities, test ideas

AC5.4: Explain the value of a brand to an organisation

- *Brand:* name, logo, image, design, symbol, key product identifiers, brand language, perceived quality, unique selling point
- *Value of a brand:* brand equity, consumer perception, consumer recognition of brand, consumer relationships, consumer loyalty, differentiation from competitors, trust; market share, profit margins, prestige, competitive advantage

AC5.5: Explain the relationship between sales and marketing

- *Positive relationships between sales and marketing:* information sharing, joint planning, alignment, common goals, trust and respect between functions and activities, open communication to achieve common agendas, consultation on important topics, teamwork, shared Client Relationship Management functions
- *Positive effects of the sales and marketing relationship on the overall business:* improved knowledge of the consumer need, feedback from sales team on marketing campaigns to inform and improve future efforts, increased sales, increased customer satisfaction, improved product development, increased business innovation
- *Potential areas of conflict between sales and marketing:* cultural (differing mind-sets leading to misunderstanding), economic (profit margin vs. ease of sale), informational (communication, physical separation), organisational (responsibility, decision making)
- *Negative effects of the sales and marketing relationship on the overall business:* lack of communication, information not shared, distrust and misunderstanding, conflicting goals, constrained product development, constrained business innovation

Information for tutors

Suggested resources

Books

Brassington, F. and Pettitt, S. – *Essentials of Marketing*, 3rd Edition, (Pearson, 2012) ISBN 9780273727644

Dyson J R – *Accounting for Non-Accounting Students*, 8th Edition (FT/Prentice Hall, 2010) ISBN 9780273722977

Jobber D and Ellis-Chadwick F – *Principles and Practice of Marketing*, 7th Edition (McGraw-Hill Education, 2013) ISBN 9780077140007

Marsh C – *Financial Management for Non-Financial Managers (Strategic Success)*, (Kogan Page, 2012) ISBN 9780749464677

Shim A, Shim J and Siegel J – *Budgeting Basics and Beyond*, 4th Edition (John Wiley and Sons, 2012) ISBN 9781118096277

Websites

www.acas.org.uk – The Advisory, Conciliation and Arbitration Service (ACAS) website, which provides advice on industrial relations and employment issues

www.accountingweb.co.uk – website that is the UK's largest community for accountants, providing accounting news, information and case studies

www.bbc.co.uk/business – the BBC's business website, providing the latest business news and useful articles

www.businessballs.com – the business skills website provides free information including skills for personal and professional development

www.gov.uk – the Government services and information website, which provides tools and guidance for businesses

www.youtube.com – the YouTube website, a community site for videos, including videos on the topic of business

Assessment

This unit can be assessed internally through a Portfolio of Evidence, or it can be assessed externally through an onscreen, multiple choice test. More information about each method of assessment is given below. This should be read in conjunction with *Section 8 Assessment*.

External assessment

External assessment is through an onscreen test. Pearson will set and mark this test. The test lasts for 45 minutes and is worth 30 marks. The assessment is available on demand.

The test assesses all of the learning outcomes and uses each individual assessment criterion and the associated *Unit amplification* as a base for the questions.

Internal assessment

Internal assessment is through an internally and externally quality assured Portfolio of Evidence. To pass this unit the evidence that the learner presents for assessment must demonstrate that they have met the required standard specified in the learning outcomes and assessment criteria.

To ensure that the assessment tasks and activities enable learners to produce valid, sufficient, authentic and appropriate evidence that meets the assessment criteria, centres should follow the *Unit assessment guidance* given below.

There are no sector-related assessment requirements for this unit.

Unit assessment guidance

The following is the required assessment method for this unit.

All learning outcomes must only be assessed by structured written assessment to allow the learner to demonstrate the depth and breadth of evidence required to meet the assessment criteria. This could be one single project or a series of linked or separate tasks. While the learning outcomes mainly require the learner to demonstrate knowledge and understanding of general business concepts and principles, there are some opportunities for learners to relate this to their working environment and working experiences and this should be utilised in the design of the assessment. Evidence could be presented in a range of formats such as reports, presentation slides, workbooks and directed assignments, as long as they allow the learner to present the evidence required to meet the assessment criteria.