

PEARSON EDEXCEL INTERNATIONAL A LEVEL

BUSINESS

Student Book 2

Rob Jones

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UNIT 3: BUSINESS DECISIONS AND STRATEGY

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ABOUT THIS BOOK

This book is written for students following the Pearson Edexcel International Advanced Level (IAL) Business specification. It covers the second year of the International A level qualification.

The book has been carefully structured to match the order of topics in the specification although teaching and learning can take place in any order, both in the classroom and in any independent learning. This book is organised into two units (Unit 3: Business decisions and strategy and Unit 4: Global business), each with several topic areas.

Each topic area is divided into chapters to break the content down into manageable chunks. Each chapter begins by

listing the key learning objectives and includes a getting started activity to introduce the concepts. There is a mix of learning points and activities throughout including global case studies to show a range of businesses within real-life contexts. Checkpoint questions at the end of each chapter help assess understanding of the key learning objectives.

The content for Unit 3 is applicable for Paper 3 (Business decisions and strategy) and the content for Unit 4 is applicable for Paper 4 (Global business). Knowing how to apply learning to both of these papers will be critical for exam success. There are exam-style questions at the end of each chapter to provide opportunity for exam practice. Answers are provided in the online teaching resource pack.

Topic openers

Introduce each of the key topics in the specification.

Learning objectives

Each chapter starts with a list of key assessment objectives.

Specification reference

The specification reference is given at the start of each chapter and in the running header.

BUSINESS DECISIONS AND STRATEGY

This section looks at the goals and aims of corporations and the way that they might present strategy in mission statements. It explores the different theories of corporate strategy, such as Ansoff's Matrix and Porter's Strategic Matrix. It identifies the effects of strategic and tactical (i.e. carefully planned) decisions on the resources of the business. The section also considers the way a corporation might assess the strengths, weaknesses, opportunities and threats that it faces. Finally, it will investigate the impact of external influences on businesses such as political, economic, social, technological, legal and environmental factors.

SPECIFICATION 3.3.1 **1 CORPORATE OBJECTIVES** **3**

1 CORPORATE OBJECTIVES **UNIT 3**
3.3.1

LEARNING OBJECTIVES

By the end of this chapter you should be able to understand:

- the development of corporate objectives from mission statement/ corporate aims
- the critical appraisal of mission statements.

GETTING STARTED

An objective is something that a business aims to achieve. The nature and purpose of business objectives is discussed in Student Book 1, Chapter 21. This chapter explores the role of corporate aims and corporate objectives influencing the strategy that a business follows.

Look at the following two statements.

- R&F Fitness Centre corporate aim: To encourage targeted activity to improve levels of fitness.
- A&L Entertainment Group corporate objective (one of several): To establish two new attractions every new season.

The first is an aim and the second an objective. What is the difference between an aim and an objective? How do the two work together?

BUSINESS AIMS

All businesses have **aims**. These are the things the business wants to achieve in the long term – its purpose or reason for being. The aims of a business are less specific than its objectives and can be expressed as a vision. Business aims are discussed in detail in Student Book 1, Chapter 21. A business will often communicate its aim through a mission statement.

MISSION STATEMENTS

A mission statement states the business's main purpose. It may also reflect its goals and values. It describes in general terms the company's core activities. It may also reference information such as:

- the markets in which it operates
- what its key commercial objectives are
- in what way it values its stakeholders
- what its ethics involve (i.e. what it believes to be good or correct).

The main elements of a mission statement are as follows.

- Purpose** – a mission statement should outline why the business exists. It should communicate what the business does, for whom and why.
- Values** – businesses are likely to state the corporate values that they emotionally invest in. These might include qualities such as integrity, sustainability, innovation and quality. The values held by a corporation are likely to influence its culture.
- Standards and behaviour** – some mission statements may communicate a business's commitment to high standards. For example, always conducting ethical behaviour (i.e. behaviour that is good or correct).
- Strategy** – some mission statements may outline how the business will try to achieve its main objective. For example, a car manufacturer may say it is committed to the development of driverless cars to help achieve its aim of making transport as easy and convenient as possible.

A good mission statement should help guide the decision-making of the firm. Running a business can be very complicated. It is very easy to get lost in the small details of business decision-making. A good mission statement makes it clear which direction a business should take by reminding the owners and directors why the business exists. Many people may argue that the only purpose of a business is to generate a profit for its owners. However, most employees would like to believe that they go to work to achieve something more than this. A mission statement makes this point.

There are two reasons why a business may create and share a mission statement. The first is to make a commitment to its customers. A mission statement expresses a promise to customers of what they can expect the business to aim for. Secondly, a mission statement can be used to bring a company's workforce (i.e. all the people who work for a company) together with a shared purpose. Many successful businesses have a mission statement that their employees believe in. This is why a mission statement is important in forming a strong corporate culture (see Chapter 14).

Some mission statements are brief. Others are long and detailed. Some examples of mission statements are given below.

- R&F Fitness Centre: 'We improve levels of fitness by providing individual plans for people of all ages and helping them to achieve their aims.'
- R&B Furniture Maker: 'To help create practical and beautiful homes for our customers.'
- DHC Coffee Shop: 'To offer a comfortable environment and an excellent range of coffee to refresh our customers in body, mind and spirit.'

Getting started

An activity to introduce the key concepts in each chapter. Questions are designed to stimulate discussion and use of prior knowledge. These can be tackled as individuals, pairs, groups or the whole class.

Key subject terms are colour coded within the main text.

Activity

Each chapter includes activities to embed understanding through case studies and questions.

Skills

Relevant exam questions have been assigned key skills, allowing for a strong focus on particular academic qualities. These transferable skills are highly valued in further study and the workplace.

SPECIFICATION 3.5

Provisions. Provisions have to be made if a company is likely to incur (i.e. owe) expenditure in the future. Such expenditure might occur as a result of agreements in contracts or warranties. An example for Cattle Snaffle Ltd might be a possible bad debt that it may incur. If these provisions are short term they will appear under current liabilities. In 2017 Cattle Snaffle Ltd had €4.1 million in provisions. The total value of its non-current liabilities was €36.4 million. Its total liabilities were €40.5 million.

Net assets: Net assets is the value of all assets minus the value of all liabilities. It will be the same value as shareholders' equity at the bottom of the balance sheet. The value of Cattle Snaffle's net assets in 2017 was €108.7 million. The net assets provide a guide to the value of a business.

Equity: The bottom section of the balance sheet shows the amounts of money owned to the shareholders. It will contain details of share capital and reserves.

- **Share capital.** The amount of money paid by shareholders for their shares when they were originally issued. It does not represent the current value of those shares on the stock market. Share capital is not usually repaid to the shareholders in the lifetime of a company. The value of Cattle Snaffle's issued share capital in 2017 was €30 million.
- **Share premium account.** This shows the difference between the value of new shares issued by the company and their nominal value. For example, the nominal value of a share may have been €1. The company may decide to issue 2 million new shares. If the company sold them for €3, each new share is now worth €2 more than the nominal price. In total, this would be €4 million (€2 × 2 million). This €4 million would be entered on the share premium account in the balance sheet. Cattle Snaffle Ltd does not have any share premium.
- **Other reserves.** Refers to any amounts owing to the shareholders not covered by the other entries under equity. Cattle Snaffle Ltd had €17.7 million in other reserves in 2017.
- **Retained earnings.** The same as retained profit. It is the amount of profit kept by the business to be used in the future. For example to fund investment projects. Cattle Snaffle Ltd had €61 million retained profit in 2017.

The total value of shareholders' equity, €108.7 million in the case of Cattle Snaffle Ltd, is the same as net assets. This will always be the case and explains why the statement of financial position is sometimes called the balance sheet. Company law requires companies to show both this year's and last year's figures in published accounts. This allows comparisons to be made.

17 INTERPRETATION OF FINANCIAL STATEMENTS 137

ACTIVITY 2 SKILLS PROBLEM SOLVING ANALYSIS

CASE STUDY: GROSCICKI & CO

Polish baker, Grosicki & Co, makes cakes and biscuits for supermarkets and large retailers. Table 7 shows the statement of financial position for the company as at 31/12/16.

	2016 (PLN 000)	2017 (PLN 000)
Non-current assets		
Intangible assets	8667	8009
Property and equipment	11 987	12 134
	20 654	20 143
Current assets		
Investments	4501	4511
Trade and other receivables	3444	4100
Cash and cash equivalents	1200	1300
	9145	9911
Total assets	29 799	30 054
Current liabilities		
Trade and other payables	4888	4976
Current tax liabilities	7777	2009
	6009	6985
Non-current liabilities		
Borrowings	4222	4777
Pensions	1233	1341
	5455	6118
Total liabilities	11 464	13 103
Net assets	???????	16 951
Shareholders' equity		
Share capital	10 000	10 000
Retained earnings	8335	6951
Total equity	18 335	16 951

1 Complete the balance sheet by calculating the missing values for (a) net assets and (b) current tax liabilities.
 2 Give two examples of trade and other payables for Grosicki & Co.
 3 Explain the difference between current liabilities and non-current liabilities.
 4 What has happened to the value of Grosicki between 2017 and 2016?

130 17 INTERPRETATION OF FINANCIAL STATEMENTS

EXAM HINT

Remember that retained profit in the balance sheet is not cash. It is the amount owed to shareholders that has accumulated over the years of trading. The amount of cash a business has is shown in current assets. Some of the retained profit may have been used to buy more assets. Only if the company was liquidated would retained profit be returned to shareholders.

STAKEHOLDER INTEREST

The statement of financial position can be used to help evaluate the performance of a business. It shows different information from that of the statement of comprehensive income, and stakeholders are likely to be interested in both statements together.

Shareholders: Shareholders might use the balance sheet to analyse the asset structure of the business. This shows how the funds raised by the business have been put to use. For example, shareholders in Cattle Snaffle Ltd in Table 5 can see that more than 60 per cent of the assets (€37.7 million) are invested in property, plant and equipment. The balance sheet also shows the capital structure of the business, i.e. the different sources of funds used by the business. For Cattle Snaffle Ltd, nearly 90 per cent of the firm's funding comes from the shareholders.

The balance sheet can also be used to assess the solvency of the business. A business is solvent if it has enough liquid assets to pay its bills. The value of working capital will help to assess solvency. The working capital of a business can be calculated by subtracting current liabilities from current assets. For Cattle Snaffle Ltd the value of working capital is €17.7 million (€15.1 million – €13.4 million). It might be considered inadequate because the value of current liabilities is only just covered by current assets.

Suppliers and creditors: Suppliers will be most interested in the solvency of the business. Suppliers are less likely to offer trade credit to a business that only has a small amount of working capital. As a result, it might struggle to get generous trade credit terms. However, this will also depend on Cattle Snaffle's trading history and its past credit record. Banks and other lenders will be interested in the balance sheet for the same reasons.

Others: It is possible that employees might use the balance sheet to assess whether a business can afford a pay rise or whether their jobs are secure. Government agencies responsible for gathering statistics might also extract information from the balance sheet to compile national statistics.

Managers and directors: The balance sheet might be used by the senior managers of a business. For example, it is important for senior managers to be aware of the firm's financial position at all times. It will need regular working capital levels to ensure that the business does not overspend. Also, if the business is considering raising some more finance, it will need to consider the current capital structure before choosing a suitable source. For example, it might want to avoid borrowing more money if the business is already in debt. Raising fresh capital might be the option.

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WORKED EXAMPLE

Hassani Ltd is an Algerian manufacturer of sweets and desserts. It supplies supermarkets and other large retailers. Table 8 shows some financial information taken from its statement of financial position.

	2016 (DZD million)
Current assets	
Investments	34.9
Trade and receivables	28.6
Cash and equivalents	31.8
Current liabilities	
Trade and other payables	25.1
Borrowings	32.1
Total liabilities	11.9

Table 8 Extract from statement of financial position for Hassani Ltd, 2016

Exam hint
 Tips give practical advice and guidance for exam preparation.

Worked Example
 Practical worked examples help you apply new methods and formulae.

Checkpoint

Questions to check understanding of the key learning points in each chapter. These are NOT exam-style questions.

Exam practice

Exam-style questions are found at the end of each chapter. They are tailored to the Pearson Edexcel specification to allow for practice and development of exam writing technique. They also allow for practice responding to the command words used in the exams.

Thinking bigger

These sections provide opportunity to explore an aspect of business in more detail to deepen understanding.

Subject vocabulary

An alphabetical list of all the subject terms in each chapter with clear definitions for EAL learners. Please note: A collated glossary is available on the ActiveBook.

Links

Suggest ways that topics link to others to build on knowledge and develop synoptic skills.

SPECIFICATION 3.3.2

THINKING BIGGER

Quantitative sales forecasting is an important technique for businesses, but it is not without disappointment. At some point, the judgement about what the forecast will be needs to be made by a person within a business, even with the most powerful statistical models and forecasts available. From this forecast, decisions will be made concerning staffing, ordering of materials, marketing and so on. Importantly, ultimate decisions are subjective in the sense that they are judgements made by individuals or departments. Individuals may be driven by competing motives. The sales manager may be motivated to have forecasts that paint a positive picture.

This lack of certainty is a good opportunity for the development of balanced arguments in any written response to a question. The statistically produced trend may well point to a particular level of sales. However, wider economic factors might make this forecast unlikely. A rise in average incomes in an economy, combined with a weakening exchange rate, for example, may mean that the forecast is an under-prediction.

The topic tends itself to an evaluative approach. Essentially, avoid basing forecasts on a very small range of factors. Time-series analysis is a useful tool for business, but it is risky to rely heavily on what has gone before.

LINKS

Sales forecasting was discussed in Student Book 1, Chapter 30. However, this chapter focuses on the quantitative techniques that might be used when making future sales forecasts. Although the quantitative techniques in this chapter are very specific, links can be made with other subject areas. For example, a line of best fit might be drawn to show the relationship that exists for other variables such as interest rates and costs (see Student Book 1, Chapter 23) or costs and capacity utilisation (see Student Book 1, Chapter 38). In general, reference to sales forecasting techniques can also be made when discussing the advantages and disadvantages of quantitative techniques in decision making, for example.

9 QUANTITATIVE SALES FORECASTING 69

CHECKPOINT

- 1 Why might a business want to predict the future?
- 2 What are the four components of time-series data that a business will take into account?
- 3 What does a trend show?
- 4 How might a business use the calculation of a trend?
- 5 What does a scatter graph show?
- 6 What is meant by casual modelling?
- 7 State two difficulties with quantitative sales forecasting.
- 8 How would a line of best fit be useful for a business when looking to forecast sales?

SUBJECT VOCABULARY

centring a method used to calculate a moving average, where the average is plotted or calculated in relation to the central figure

correlation the relationship between two sets of variables

extrapolation forecasting future trends based on past data

line of best fit a straight line drawn through the centre of a group of data points plotted on a scatter graph

moving average a series of averages derived from successive segments typically of constant size and overlapping of a series of values

scatter graph a graph showing the performance of one variable against another independent variable on a variety of occasions. It is used to show whether a correlation exists between the variables

time-series analysis a method that allows a business to predict future levels from past figures

70 9 QUANTITATIVE SALES FORECASTING

SPECIFICATION 3.3.3

EXAM PRACTICE

PROSPER-I

SKILLS DIGITAL THINKING ANALYSIS INTERPRETATION REASONING

From April to June 2017 (Q2), i-do sold only 16 000 units. This was down 59 per cent on the previous three months. Some retailers were considering whether to continue to stock i-do.

	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Sales (000)	31	51	61	191

Table 13 i-do sales 2018

The sales performance led Prosper-i to lower its 2018 sales forecast by 70 per cent from 900 000 units to 280 000. The reported actual sales for 2018 are shown below.

In 2019, Prosper-i reported that sales of i-do were running ahead of its sales forecast.

- 1 Define the term 'sales forecast'. (4 marks)
- 2 Explain the extent to which sales of i-do could be described as being influenced by seasonal factors. (4 marks)
- 3 Assess the extent to which quantitative sales forecasting is useful to Prosper-i. (12 marks)

EXAM HINT

There are lots of opportunities for exam questions requiring analysis and evaluation in this topic. The statistical element of quantitative sales data means that analytical considerations can be made. For example, you may be required to analyse data in tables which represent sales forecasts.

In 2016 Prosper-i, a global electronics company and developer of toys and games, launched the latest version of its popular robot toy. Called the i-do, the robot offered new features such as the ability to be controlled by a smart phone app and could be programmed to play music and video. The new features were designed to appeal to new parts of the market including adults. It was also designed to compete with two main competitors – ChiroBot and Pal-i.

i-do was initially well-received by consumers and by reviewers. In the USA the entire stock of over 400 000 units was sold in the first three months of release. Over 300 000 units were sold in 2016. Table 12 summarises sales in 2017.

	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Sales (000)	29	16	30	195

Table 12 i-do sales 2017

ASSESSMENT OVERVIEW

The following tables give an overview of the assessment for this course. You should study this information closely to help ensure that you are fully prepared for this course and know exactly what to expect in each part of the assessment.

PAPER 3	PERCENTAGE OF IA2	PERCENTAGE OF IAL	MARK	TIME	AVAILABILITY	STRUCTURE
BUSINESS DECISIONS AND STRATEGY Written exam paper Paper code WBS13/01 Externally set and marked by Pearson Edexcel Single tier of entry Calculators can be used	50%	25%	80	2 hours	January, June and October First assessment: January 2020	There will be three sections, A, B and C. Students must answer all questions. Section A: short- and extended-response questions based on sources (40 marks) Section B: one 20-mark essay question, based on one or more sources (20 marks) Section C: one 20-mark essay question, based on one or more sources (20 marks)
PAPER 4	PERCENTAGE	PERCENTAGE OF IAL	MARK	TIME	AVAILABILITY	STRUCTURE
GLOBAL BUSINESS Written exam paper Paper code WBS14/01 Externally set and marked by Pearson Edexcel Single tier of entry	50%	25%	80	2 hours	January, June and October First assessment: June 2020	There will be three sections, A, B and C. Students must answer all questions. Section A: short- and extended-response questions based on sources (40 marks) Section B: one 20-mark essay question, based on one or more sources (20 marks) Section C: one 20-mark essay question, based on one or more sources (20 marks)

ASSESSMENT OBJECTIVES AND WEIGHTINGS

ASSESSMENT OBJECTIVE	DESCRIPTION	% IN IAS	% IN IA2	% IN IAL
A01	Demonstrate knowledge and understanding of terms, concepts, theories, methods and models	27.5	20	23.8
A02	Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues	25	22.5	23.8
A03	Analyse business issues, showing an understanding of the causes, costs and consequences for individuals and organisations	27.5	30	28.8
A04	Evaluate evidence to make informed judgements and propose evidence-based solutions to business issues	20	27.5	23.8

Note: Totals have been rounded either up or down.

RELATIONSHIP OF ASSESSMENT OBJECTIVES TO UNITS

UNIT NUMBER	ASSESSMENT OBJECTIVE			
	A01	A02	A03	A04
Unit 1	6.9%	6.3%	6.9%	5%
Unit 2	6.9%	6.3%	6.9%	5%
Unit 3	5%	5.6%	7.5%	6.9%
Unit 4	5%	5.6%	7.5%	6.9%
Total for International Advanced Level	23.8%	23.8%	28.8%	23.8%

Note: Totals have been rounded either up or down.

RELATIONSHIP OF ASSESSMENT OBJECTIVES TO COMMAND WORDS

COMMAND WORD	NUMBER OF MARKS	MARK SCHEME	ASSESSMENT OBJECTIVES
Calculate	4	Points based	AO1, AO2, AO3
Construct	4	Points based	AO1, AO2, AO3
Explain	4	Points based	AO1, AO2, AO3
Analyse	6	Points based	AO1, AO2, AO3
Discuss	8	Levels based	AO1, AO2, AO3, AO4
Assess	12	Levels based	AO1, AO2, AO3, AO4
Evaluate	20	Levels based	AO1, AO2, AO3, AO4



BUSINESS DECISIONS AND STRATEGY

This section looks at the goals and aims of corporations and the way that they might present strategy in mission statements. It explores the different theories of corporate strategy, such as Ansoff's Matrix and Porter's Strategic Matrix. It identifies the effects of strategic and tactical (i.e. carefully planned) decisions on the resources of the business. The section also considers the way a corporation might assess the strengths, weaknesses, opportunities and threats that it faces. Finally, it will investigate the impact of external influences on businesses such as political, economic, social, technological, legal and environmental factors.

1 CORPORATE OBJECTIVES

UNIT 3

3.3.1

LEARNING OBJECTIVES

By the end of this chapter you should be able to understand:

- the development of corporate objectives from mission statement/ corporate aims
- the critical appraisal of mission statements.

GETTING STARTED

An **objective** is something that a business aims to achieve. The nature and purpose of business objectives is discussed in Student Book 1, Chapter 21. This chapter explores the role of **corporate aims** and **corporate objectives** influencing the strategy that a business follows.

Look at the following two statements.

- **R&F Fitness Centre corporate aim:** To encourage targeted activity to improve levels of fitness.
- **A&L Entertainment Group corporate objective (one of several):** To establish two new attractions every new season.

The first is an aim and the second an objective. What is the difference between an aim and an objective? How do the two work together?

BUSINESS AIMS

All businesses have aims. These are the things the business wants to achieve in the long term – its purpose or reason for being. The aims of a business are less specific than its objectives and can be expressed as a **vision**. Business aims are discussed in detail in Student Book 1, Chapter 21. A business will often communicate its aim through a **mission statement**.

MISSION STATEMENTS

A mission statement states the business's main purpose. It may also reflect its goals and values. It describes in general terms the company's core activities. It may also reference information such as:

- the markets in which it operates
- what its key commercial objectives are
- in what way it values its **stakeholders**
- what its ethics involve (i.e. what it believes to be good or correct).

The main elements of a mission statement are as follows.

- **Purpose** – a mission statement should outline why the business exists. It should communicate what the business does, for whom and why.

- **Values** – businesses are likely to state the corporate values that they emotionally invest in. These might include qualities such as integrity, sustainability, innovation and quality. The values held by a corporation are likely to influence its culture.
- **Standards and behaviour** – some mission statements may communicate a business's commitment to high standards. For example, always conducting ethical behaviour (i.e. behaviour that is good or correct).
- **Strategy** – some mission statements may outline how the business will try to achieve its main objective. For example, a car manufacturer may say it is committed to the development of driverless cars to help achieve its aim of making transport as easy and convenient as possible.

A good mission statement should help guide the decision making of the firm. Running a business can be very complicated. It is very easy to get lost in the small details of business decision making. A good mission statement makes it clear which direction a business should take by reminding the owners and directors why the business exists. Many people may argue that the only purpose of a business is to generate a profit for its owners. However, most employees would like to believe that they go to work to achieve something more than this. A mission statement makes this point.

There are two reasons why a business may create and share a mission statement. The first is to make a commitment to its customers. A mission statement expresses a promise to customers of what they can expect the business to aim for. Secondly, a mission statement can be used to bring a company's workforce (i.e. all the people who work for a company) together with a shared purpose. Many successful businesses have a mission statement that their employees believe in. This is why a mission statement is important in forming a strong corporate culture (see Chapter 14).

Some mission statements are brief. Others are long and detailed. Some examples of mission statements are given below.

- R&F Fitness Centre: 'We improve levels of fitness by providing individual plans for people of all ages and helping them to achieve their aims.'
- R&B Furniture Maker: 'To help create practical and beautiful homes for our customers.'
- DHC Coffee Shop: 'To offer a comfortable environment and an excellent range of coffee to refresh our customers in body, mind and spirit.'

ACTIVITY 1

SKILLS

CRITICAL THINKING, CREATIVITY

WRITING A MISSION STATEMENT

Choose one of the industries listed below and plan a mission statement for a business in that sector. Use some of the examples for inspiration but try to link your mission statement to the context of the industry. Present your mission statement and explain your thinking. How does it express the vision and aims of the business you have chosen?

- 1 Airline industry
- 2 Soft drinks industry
- 3 Container shipping industry



DEVELOPMENT OF CORPORATE OBJECTIVES

Corporate objectives are objectives set by senior managers and directors for a company. They should be specific to the company, its particular history and vision of the future, and fit well with its mission statement. They should focus mainly on the desired performance and results of the business over time. They may include goals such as market share, profit levels, creation of new products or processes, resource usage and scale economies, management of people and ethical behaviours.

To help a business achieve its aims, corporate objectives must be: Specific, Measurable, Agreed, Realistic and Time specific. These criteria are known as **SMART** criteria. An example of a SMART objective for a corporation might be to increase global market share from 10 to 13 per cent in the next two years.

- **Specific** means that the objective clearly states what the business is aiming to achieve. It should refer to a particular aspect or function of the business.
- **Measurable** involves evidence to demonstrate whether or not the objectives have actually been

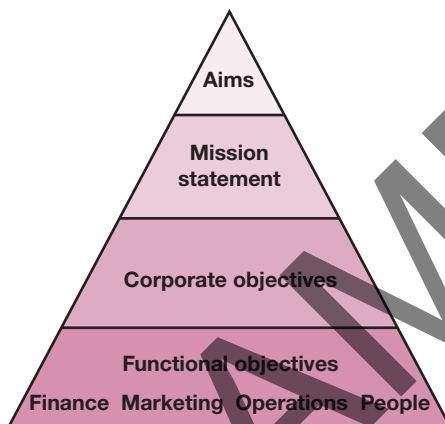
achieved. For this reason, most corporate objectives will have a financial or quantifiable element (i.e. an element that can be expressed by a number). This is because it makes it easier to measure the success of that objective.

- **Agreed** implies that everyone responsible for achieving the objective is happy with the objective and understands what it means for them. Without an objective being agreed by all those involved, there will be no motivation or commitment to achieve it.
- **Realistic** ensures that the objective can be met given the resources available and the current market conditions. If an objective is unrealistic, people may begin to ignore it. This means that the objective will not be achieved. This is likely to have a negative impact on the business.
- **Time specific** gives the stated time frame required to achieve the objectives. All objectives must have a deadline to ensure urgency and a point at which the objective can be assessed.

DEPARTMENTAL AND FUNCTIONAL OBJECTIVES

We now know that general objectives come from the mission statement of a business. Once we have established the general objectives, we can then develop more specific corporate objectives that explain exactly what the business does. These help to inform even more **departmental and functional objectives**. These set the daily goals that may include human resources, finance, operations, logistics and marketing. These all refer back up the **hierarchy** to the corporate objectives and mission statement, so that the goals and activities of the business are consistent. In this way, functional objectives will directly support the corporate objectives. Business functions should be aligned with one another because they are guided by these corporate objectives. For example, if the operations department sets a departmental objective to reduce waste by 25 per cent within the next year, it is likely that this will have to feed into the objectives set by the human resources (HR) department. HR will need to ensure all production workers complete a specific training programme focusing on quality management (see Student Book 1, Chapter 40).

THE OBJECTIVES HIERARCHY



An objective will ultimately flow from the firm's overall aim and be effective if it contributes to achieving the level above.

▲ Figure 1 Objectives hierarchy

THE DIFFERENCE BETWEEN SMALL AND LARGE FIRMS

Chapter 1 in Student Book 1 explores the possible objectives that may motivate a business. Usually, a business aims to make a profit. However, it may have other goals as well, such as:

- maximising sales, sales revenue or market share
- achieving cost efficiencies

- looking after its employees
- ensuring that its customers are satisfied.

A business may even aim to achieve a social purpose. An objective is a desired outcome that allows a business to achieve its stated aims. While some objectives are general, others can be very specific. This includes the quantification (i.e. expressing something as a number) or precise statement of a goal for a department or functional area.

Small businesses may have a wide variety of objectives, such as the following examples:

- to ensure that the company **breaks even** at the end of the tax year (see Student Book 1, Chapter 31)
- to improve the firm's liquidity in the next six months (see Student Book 1, Chapter 35)
- to increase sales by 10 per cent over the next three years (see Student Book 1, Chapter 30)
- to increase pre-tax profits by 5 per cent over the next 12 months (see Student Book 1, Chapter 34)
- to hire five new staff with skills in sales and marketing and build a strong marketing department over the next year
- to reduce energy consumption by 2 per cent and cut the use of non-recyclable packaging over the next three years.

By contrast, the objectives of large firms and multinationals tend to be mostly financial. This is because they have many stakeholders to satisfy (mainly the **shareholders**). Financial objectives are more objective and quantifiable. Therefore, they are easier to communicate to a wide variety of interested parties. For example, a supermarket chain such as Carrefour® might state an objective that covers its entire operation: 'To increase market share by 5 per cent over the next two years.'

ACTIVITY 2

SKILLS

CRITICAL THINKING

CASE STUDY: FORD

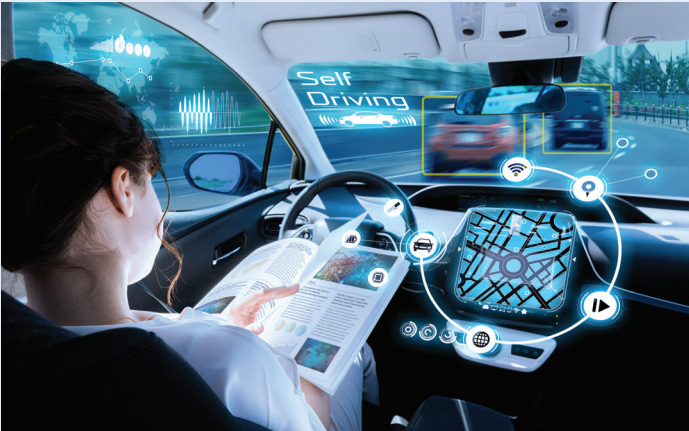
Ford® is a USA-based multinational automobile manufacturer. It was founded by Henry Ford in 1903 and is now one of the biggest car makers in the world. In 2016 it employed over 200 000 people across the globe and generated a revenue of \$US141.5 billion.

Ford's mission statement emphasises the need for its employees to work together efficiently to achieve automotive and mobility leadership for customers.

Ford is committed to the development of electric vehicles (EVs) and automated vehicles like many automobile companies around the world. In the 2016 annual report and accounts the president and CEO of Ford, Mark Field, outlined some corporate objectives

relating to this development. Two of these are summarised below.

- Over the next five years, we'll create 13 electrified vehicles. These will include a fully electric SUV (Sport Utility Vehicle) that will deliver a range of around 300 miles, and hybrids of the F-150 and Mustang.
- We intend to make an SAE level 4 fully autonomous vehicle (i.e. no steering wheel, brake or gas pedal) by 2021.



- 1 How could the functional objectives of Ford's marketing department support the 2016 corporate objectives stated above?
- 2 How might the objectives of large firms, such as Ford, and those of small firms differ?

CRITICAL APPRAISAL OF MISSION STATEMENTS AND CORPORATE AIMS

Some argue that mission statements are a little unrealistic and too optimistic. As a result, this may have a negative impact on employees. For example, employees may become demotivated because they know that the mission cannot be achieved. Also, unrealistic mission statements are not useful to anybody. Therefore, they are a waste of management time. They may also be vague and appear insincere, which might cause stakeholders to see the statement as just a marketing tool or a slogan.

This means mission statements must be constantly assessed to ensure they have continued relevance for the business. Sometimes, they are not appropriate.

For example, a company with a mission statement that includes respect and honesty would not be supported if there were reports of fraud in a business.

Many organisations may have a mission statement that is appealing to its customers. However, if it is not believed and followed by employees, then customers may soon lose faith in the business. On any corporate website, you will find objectives relating to corporate social responsibility (CSR), ethical behaviours and sustainable business growth. However, businesses may need to consider the balance of the appeal of some of these objectives to their customers. This is especially true if the organisation is not achieving a profit for **shareholders**.

A critical reassessment (i.e. assessing what is good and bad about something) should involve an appraisal (i.e. a judgement of the value) of the following.

- What is the purpose of the mission statement?
- What audience is it intended for?
- How does the business strategy fit in with its stated mission?
- Are the aims and objectives realistic and achievable?

ACTIVITY 3

SKILLS
CRITICAL THINKING

APPRAISING MISSION STATEMENTS

- **RWDC Technology Company.** 'RWDC innovates and creates cutting-edge mobile technology and software. It is a leader in games and music technology and its focus is on increasing shared experiences and customer fun.'
- **PM Camping, active guides company.** 'PM Camping unites a community of campers, suppliers and advertisers online, in print and on-site, sharing experiences in a spirit of trust and co-operation.'
- **Thomas Therapeutics and Pharmacy.** 'To research, develop, monitor and deliver complementary therapy that eases patients' symptoms and helps to overcome cancer.'

- 1 What is the purpose of each statement?
- 2 Who are the intended audiences?

EXAM HINT

When analysing a case study, always try to identify the business's objectives. If a business achieves its objectives, then it is a successful business. Remember that not all objectives are as important as one another. Therefore, by prioritising an objective with a clear justification (i.e. a good reason), you can provide the basis for a recommendation when answering a question. For example, if you can justify that the objective to 'develop leaders at all levels' is the most important, then this helps you justify a decision to invest in a new employee training programme.

Evaluation is about picking out the key issues facing a business. Therefore, if you can argue that a certain course of action will support a business in achieving its objectives, then you have a strong point of evaluation.

website be more general than those discussed around the boardroom table?

It is common for a business to have a number of objectives that cover a lot of areas. As a result, these objectives may sometimes conflict with each other. So, the achievement of one objective can prevent a business achieving another. For example, providing rewards for staff performance could reduce financial profit. This may be the same for environmental objectives. Although it is attractive to promote a company as an ethical business, the development of technologies and strategies to ensure environmental compliance could lead to the company not achieving its financial objectives.

THINKING BIGGER

Most large businesses identify various corporate objectives that cover a range of issues and areas of the business. These range from objectives focusing on profitability to corporate social responsibility. For example, see the list of corporate objectives below for LPW car rental company.

- Customer loyalty: We conduct business in an honourable and transparent way that develops customer loyalty and respect.
- Growth: We target new opportunities and ideas to encourage and extend high performance.
- Profit: We deliver high returns for our shareholders through achieving our objectives.
- Market leadership: We provide excellent service and trusted products, continually innovating to lead provision for changing customer needs.
- Commitment to employees: We are committed to open and supportive teamwork, providing honest feedback and rewarding employee achievement.
- Leadership capability: We encourage leadership qualities at all levels, developing career opportunities for those who achieve business results. We enhance individual potential to lead to growth and profitability.
- Sustainability: We research, adopt and promote best working practices that help protect the environment. We contribute to local and global environmental sustainability as part of our charitable giving.

Most large businesses state their corporate objectives on their websites. How SMART are the objectives above? Why might the objectives shown on a company

CHECKPOINT

- 1 Suggest two corporate objectives that a confectionery manufacturer might set.
- 2 What is the difference between a functional objective and a corporate objective?
- 3 Why should objectives be SMART?
- 4 Why might corporate objectives mainly be expressed as financial objectives?
- 5 What is the purpose of a mission statement?
- 6 State three areas of business activity that corporate objectives might refer to.

SUBJECT VOCABULARY

break-even when a business generates just enough revenue to cover its total costs

corporate aim the specific goal a corporation hopes to achieve. For example, to become market leader

corporate objectives the objectives of a medium to large-sized business as a whole

departmental and functional objectives the objectives of a department within a business

hierarchy the order or levels of responsibility in an organisation, from the lowest to the highest

mission statement a brief statement written by the business, describing its purpose and objectives, designed to cover its present operations

objective (or goal) a target of, or outcome for, a business that allows it to achieve its aims

shareholder somebody who owns shares (i.e. one of the parts a company is divided into) in a company or business

SMART acronym for the attributes of a good objective: Specific, Measurable, Agreed, Realistic and Time specific

stakeholder somebody who has invested money in a business or has an important connection with it. They are therefore affected by the success or failure of the business

vision a view of what the corporation wants to be like in the future

EXAM PRACTICE

LEGO® CORPORATE OBJECTIVES

SKILLS

ANALYSIS, INTERPRETATION,
REASONING

LEGO® is the world's largest toy manufacturer, making a toy that is highly popular with children. LEGO's mission is 'to inspire and develop the builders of tomorrow'. In Danish, the word 'LEGO' is an abbreviation meaning 'play well'. This unique value is at the centre of what the company does to change the way people understand learning. It focuses on the huge role play has in helping children to learn essential (i.e. extremely important and necessary) skills for life in the twenty-first century.

In 2013, LEGO assessed the needs and attitudes of its stakeholders through an online survey of more than 1500 participants. They interviewed almost 1500 additional participants from their most significant stakeholder groups and industry associates. LEGO found that the following three issues were the most important:

- the safety and quality of their products
- supporting children's right to develop
- communication with children.

In 2014, a letter to the company employees from the Chief Executive Officer, Jørgen Vig Knudstorp, said that LEGO should continue to work very hard to be the best. He said that 2014 was a good year but 'there was also room for improvement'. As part of the LEGO Group Responsibility Report 2014, the company analysed its performance against a set of corporate objectives that were defined in 2009. These were:

- zero product recalls – always
- to be ranked in the Top 10 companies for employee safety by 2015
- to support learning for 101 million children by 2015
- to use 100 per cent renewable energy by 2020
- to adopt a zero-waste mindset.

The LEGO Group believes in transparency. It always tries to provide a very honest assessment of its performance against specific targets. The 2014 report highlighted a number of targets related to its corporate objectives.

LEGO now plans to expand overseas with the opening of offices in Malaysia and China. LEGO still has a relatively

small market share of the toy market in Asia compared to Europe and North America. However, as countries such as Malaysia and China become wealthier, so will consumers' willingness and ability to purchase LEGO products.

Objective	Target	Actual
1	Zero product recalls	0
2	Score of +10 for employee satisfaction and motivation	+14
3	101 million children educated	95.4 million
4	+10 per cent improvement in energy efficiency by 2016	+9%
5	90 per cent of waste recycled	91%

▲ Table 1 LEGO Group targets linked to corporate objectives



Q

- 1 Define the term 'corporate objective'. **(2 marks)**
- 2 Explain one reason LEGO might have for setting an objective to achieve 100 per cent renewable energy by 2020. **(4 marks)**
- 3 Explain one possible reason why LEGO might have a mission statement. **(4 marks)**
- 4 Assess which of the LEGO Group's corporate objectives is the most important for the long-term success of the business. **(12 marks)**