OCR GCSE BUSINESS – PAPER 2

Topic 4 - Operations

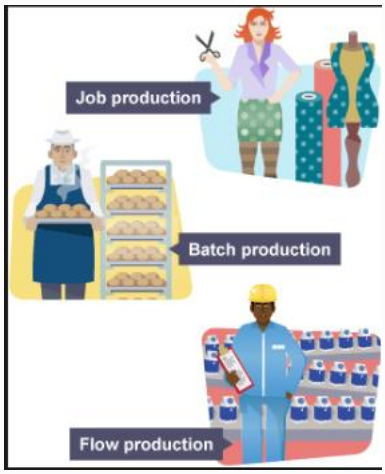
Topic 5 – Finance

Topic 6 – Influences on Business

Topic 4 - Operations

Production Processes

Production is the process of turning resources, such as raw materials and labour, into finished goods or services. Businesses choose different production processes depending on what they sell and how much they need to produce.



Job production

Job production makes a product **individually**, usually to meet a specific customer's requirements. It is often used for expensive or customised products.

Example: A specialist company building a custom yacht may use job production because each yacht can be designed differently.

Advantages: Products can be highly personalised and businesses can often charge a higher price.
Disadvantages: It can be slow and expensive because skilled workers are often needed.

Batch production

Batch production involves making a **set number of identical products** before changing to another product.

Example: A bakery might produce 500 chocolate cakes, then change its equipment and ingredients to produce 500 vanilla cakes.

Advantages: More products can be made than with job production, while businesses can still offer some variety.
Disadvantages: Changing between batches takes time and can increase costs.

Flow production

Flow production involves producing **large quantities of identical products continuously**, usually on a production line.

Example: Toyota uses production lines to manufacture cars.

Advantages: High output, lower average costs and consistent quality.
Disadvantages: Machinery can be expensive and repetitive work may reduce employee motivation.

Technology in production

Automation allows machines to carry out tasks with little human involvement. **Robots** can perform repetitive or precise tasks, while **computers** can control machinery and monitor production.

For example, car manufacturers use robots to weld and paint vehicles. This can increase **speed, accuracy and productivity**, but the business may have high initial costs and some workers may be replaced by machines.

Quality of Goods and Services

Quality means how well a product or service meets the needs and expectations of customers. Good quality products are reliable, work as expected and are free from faults. In services, quality could mean being friendly, efficient and providing a good customer experience.

Quality control

Quality control involves **checking products after or during production** to identify faults. This might involve employees inspecting products or testing a sample from a batch.

Example: Cadbury checks its chocolate products to make sure they meet required standards.

Advantage: Faulty products can be identified before reaching customers.
Disadvantage: If faults are discovered after production, the business may have to repair or replace products, increasing costs.

Quality assurance

Quality assurance aims to **prevent mistakes from happening in the first place**. Businesses establish systems and procedures to make sure quality standards are met throughout the production process.

Example: A car manufacturer may have workers and automated systems checking each stage of production so that problems are identified early.

Advantage: Fewer faulty products should reach customers, reducing waste and complaints.
Disadvantage: Setting up quality assurance systems can be expensive and employees may need training.

Why is quality important?

Quality is important because it can help a business to **build a strong reputation**. Customers who receive good-quality products or services are more likely to buy again and recommend the business to others.

Good quality can therefore help a business **gain and retain customers**, increasing sales and profits.

Poor quality can have the opposite effect. Customers may return products, leave negative reviews or stop buying from the business. In serious cases, products may need

to be **recalled**, which can be extremely expensive and damage the business's reputation.

Exam tip: When explaining why quality matters, link it to **customer satisfaction → reputation → repeat purchases → sales and profit**.

The Sales Process and Customer Service

Businesses need effective **sales methods** and good **customer service** to gain new customers and encourage existing customers to return.

Methods of selling

Face-to-face selling involves a customer speaking directly to a salesperson, either in a shop or another business. The salesperson can answer questions and recommend products.

Example: At Apple stores, employees can demonstrate products and help customers choose the right device.

Telesales involves selling products or services over the telephone. It can allow businesses to contact many customers, but some customers may find unsolicited calls annoying.

E-commerce means buying and selling products or services online. Websites and apps allow customers to shop at any time without visiting a physical store.

Example: Amazon uses e-commerce to sell a huge range of products directly to customers.

The influence of e-commerce

E-commerce allows businesses to reach customers **24 hours a day and potentially around the world**. It can reduce the need for expensive physical shops. However,

businesses face strong online competition and need to provide secure websites and reliable delivery.

Customer service

Good customer service helps businesses **gain and retain customers**. This can lead to repeat purchases, positive reviews and a stronger reputation.

After-sales service is support provided after a customer has purchased a product. This could include warranties, repairs, returns, technical support or help with using a product.

Employees also need good **product knowledge** so they can answer questions accurately and recommend suitable products.

Customer engagement means communicating with customers and building a positive relationship with them. For example, a business might respond quickly to questions on social media or personalise recommendations.

Exam tip: Link good customer service to **customer satisfaction → repeat purchases → customer loyalty → increased sales and profit**.

Consumer Law

Consumer law consists of laws that protect customers when they buy goods and services. Businesses must make sure their products are **safe** and of **satisfactory quality**.

Safety of goods

Businesses have a responsibility to make sure the products they sell are safe when used as intended. Products should not put customers at unnecessary risk.

Example: A toy company must make sure its toys are safe for children and meet the required safety standards. If a business sells an unsafe product, it may have to remove it from sale or recall products that have already been sold.

This can be expensive and may damage the **reputation of the business**. Customers may lose trust and choose to buy from competitors instead.

Satisfactory quality

Goods should be of an acceptable standard. They should work properly, be free from significant faults and be suitable for their intended purpose.

For example, if a customer buys a new washing machine and it does not work correctly, the business may have responsibilities under consumer law to provide an appropriate remedy, such as a repair, replacement or refund.

Impact on businesses

Consumer law means businesses need to take greater care when **designing, producing and selling** their products. This may increase costs because businesses need to carry out safety checks, quality control and staff training.

However, following consumer law can also benefit a business. Safe, reliable products can lead to **customer satisfaction, positive reviews and a strong reputation**.

If a business breaks consumer law, it could face **financial costs, product recalls and damage to its reputation**. This may result in customers switching to competitors and lower sales and profits.

Exam tip: When explaining the impact of consumer law, consider both the **costs of complying with the law** and the **benefits of protecting customers and maintaining the business's reputation**.

Business Location

Choosing the right **location** is an important decision for a business. The best location depends on the type of business and the products or services it provides.

Costs

Businesses need to consider the **cost of land, rent, wages and other operating costs**.

For example, a clothing shop may want a location in a busy city-centre shopping area because there are lots of potential customers. However, rent is likely to be expensive. A business may choose a cheaper location outside the city centre, but this could mean fewer customers.

Proximity to the market

A business may locate close to its **target market** so that it is convenient for customers to access its products or services.

Example: A fast-food restaurant is likely to benefit from being in an area with lots of potential customers, such as a busy town centre or near a shopping centre.

For an online business, being close to customers may be less important, although the business may still need warehouses in locations that allow fast and affordable delivery.

Labour

Businesses need to consider the **availability, skills and cost of workers**.

For example, a technology business may locate near an area with a large number of skilled IT workers. A business that needs many employees may choose an area where wages are lower and there is a large supply of suitable labour.

Materials

Manufacturing businesses often consider how close they are to their **raw materials and suppliers**.

For example, a furniture manufacturer may benefit from being located close to suppliers of timber. This can reduce **transport costs and delivery times**.

Exam tip

The importance of each factor depends on the type of business. A **retailer** may prioritise proximity to customers, while a **manufacturer** may place greater importance on access to materials and suitable labour.

Working with Suppliers

Businesses often rely on other businesses to provide the **goods, materials and services** they need. **Procurement** is the process of finding and purchasing these goods and services from suppliers.

The role of procurement

Procurement involves several important stages:

- **Identifying** the goods and services the business needs.
- **Choosing suppliers** by considering factors such as price, quality and reliability.
- **Ordering** the required goods or services.
- **Receiving deliveries** and checking that they are correct and meet the required quality standards.

Example: A restaurant needs to buy food ingredients from suppliers. It must choose suppliers that provide good-quality ingredients at a suitable price and deliver them when needed.

Logistics and supply decisions

Logistics involves managing the movement and storage of goods from suppliers to the business and, in some cases, to customers.

Businesses need to consider the **time** it takes for supplies to arrive. If a delivery is late, production could stop or customers may not receive their orders on time.

The **length of the supply chain** is also important. A longer supply chain may involve more businesses and countries, increasing the risk of delays and making it harder to manage.

Businesses also need a **reliable supply**. For example, a supermarket could lose sales if a supplier regularly fails to deliver products.

Costs and customer service

Businesses need to balance **costs** with quality and reliability. Choosing the cheapest supplier may reduce costs, but if the supplier provides poor-quality goods or unreliable deliveries, this could damage the business.

Good supply decisions can therefore improve **customer service** by helping businesses provide products on time and avoid stock shortages.

Exam tip: Remember that a cheap supplier is not always the best choice. Consider **cost, reliability, delivery time and quality** when explaining a supplier decision.

Topic 5 - Finance

The Role of the Finance Function

The **finance function** is responsible for managing a business's money. It provides financial information that helps managers **plan, make decisions and control the business**.

Providing financial information

The finance department collects and analyses information about the business's **sales, costs, revenue, profit and cash flow**.

For example, if a business's costs are increasing faster than its sales, the finance department can identify this problem and inform managers.

Financial information can be used to answer questions such as:

- How much profit is the business making?
- Can the business afford to buy new equipment?
- Are costs too high?
- Does the business have enough cash to pay its bills?

Supporting planning

Businesses use financial information to **plan for the future**. For example, a business planning to open a new shop needs to estimate the costs involved and decide whether it can afford the investment.

A simple profit calculation is:

Profit = Revenue – Costs

Example:

A business has:

- Revenue = £80,000
- Costs = £55,000

Profit = £80,000 – £55,000 = £25,000

Managers can then use this information when deciding whether to expand, reduce costs or invest in the business.

Supporting decision making

The finance function helps managers make informed decisions rather than relying on guesses.

For example, if a business is considering buying a new machine for **£30,000**, the finance department could calculate whether the expected increase in sales and reduction in costs are likely to make the investment worthwhile.

The impact on business activity

Good financial information can help a business **control costs, increase profitability, plan investment and make better decisions**.

However, financial information is only useful if it is **accurate and up to date**. Poor financial information could lead managers to make decisions that damage the business.

Exam tip: When explaining the role of finance, remember the chain:

Financial information → better planning → better decisions → improved business performance

Sources of Finance

Businesses need **finance** to pay for the activities needed to start, run and grow the business. The amount of finance needed depends on the size and type of business.

Why do businesses need finance?

A new business may need finance to pay for **premises, equipment and stock** when it starts trading.

Established businesses may need finance to:

- **Fund expansion**, such as opening a new shop.
- Pay for **recruitment** of new employees.
- Pay for **marketing and advertising**.
- Purchase new equipment.
- Cover the everyday costs of running the business.

Sources of finance

Source	What is it?	Particularly suitable for
Owners' capital	Money invested by the owner(s)	Starting a business
Loan	Money borrowed and repaid with interest	Large investments and expansion
Overdraft	Borrowing from a bank when the account has insufficient funds	Short-term cash-flow problems
Trade credit	Receiving goods now and paying the supplier later	Buying stock
Retained profit	Profit kept in the business rather than taken by the owners	Established businesses

Sale of assets	Selling unwanted business assets to raise cash	Established businesses
New partner	A new owner invests money in return for a share of the business	New or expanding businesses
Share issue	A limited company sells shares to investors	Larger companies
Crowdfunding	Raising small amounts of money from many people, usually online	New products or businesses

Choosing the right source

Different sources are suitable in different situations.

Example: A new business is unlikely to have **retained profit**, because it has not made profits yet. It might instead use the owner's capital, a loan or crowdfunding.

An established business that has made profits may use **retained profit** to fund expansion. This means it does not have to borrow money or pay interest.

A business with a **short-term cash-flow problem** might use an overdraft. However, relying on borrowing for a long period could become expensive because of interest.

Worked example: borrowing

A business borrows **£20,000** at an annual interest rate of **6%**.

Interest = £20,000 × 6% = £1,200

The business would therefore have to repay the **£20,000 loan plus £1,200 interest**, assuming the calculation covers one year.

Exam tip: Don't just name a source of finance. Explain **why it is suitable**.

For example:

A loan could be suitable for expansion because the business may need a large amount of money immediately, while the loan can be repaid over several years. However, the business will have to pay interest, increasing its costs.

Revenue, Costs, Profit and Loss

Businesses need to understand their **revenue, costs and profit** to judge how well they are performing and to make decisions about pricing, expansion and controlling costs.

Revenue

Revenue is the total amount of money a business receives from selling its products.

Revenue = Price × Quantity sold

Example:
A business sells 2,000 products for £15 each.

Revenue = £15 × 2,000 = £30,000

Costs

Fixed costs stay the same as the level of output changes. Examples include **rent, insurance and salaries**.

Variable costs change as the level of output changes. Examples include **raw materials, packaging and delivery costs**.

Total costs = Fixed costs + Variable costs

If fixed costs are £10,000 and variable costs are £12,000:

Total costs = £10,000 + £12,000 = £22,000

Profit and loss

Profit = Revenue − Total costs

Using the figures above:

£30,000 − £22,000 = £8,000 profit

If total costs were higher than revenue, the business would make a **loss**.

Gross and net profit

Gross profit = Revenue − Cost of sales

Gross profit shows how much money is left after paying for the direct costs of producing the goods.

Net profit = Gross profit − Other operating expenses

Net profit shows what is left after other costs, such as rent, wages and advertising, have been paid.

Profitability ratios

Gross profit margin = (Gross profit ÷ Revenue) × 100

If gross profit is £40,000 and revenue is £100,000:

(£40,000 ÷ £100,000) × 100 = 40%

This means the business makes **40p gross profit for every £1 of revenue**.

Net profit margin = (Net profit ÷ Revenue) × 100

If net profit is £15,000:

(£15,000 ÷ £100,000) × 100 = 15%

A higher margin generally indicates that a business is keeping more of its revenue as profit.

Average Rate of Return (ARR)

ARR measures the expected profitability of an investment.

ARR = (Average annual profit ÷ Initial investment) × 100

Example: A business invests £50,000 in new equipment. It expects total profit of £30,000 over 5 years.

Average annual profit = £30,000 ÷ 5 = £6,000

ARR = (£6,000 ÷ £50,000) × 100 = 12%

This means the investment is expected to generate an average return of **12% per year**.

Exam tip: Always **interpret your answer**. Don't just write "ARR = 12%". Explain what it means for the business and consider whether the return is high enough compared with other investment opportunities.

Why do these figures matter?

Managers can use revenue, costs and profitability information to decide whether to **increase prices, reduce costs, launch new products, invest in equipment or expand**.

Break-Even

Break-even is the point where a business's **total revenue equals its total costs**. At this point, the business makes **neither a profit nor a loss**.

A business wants to sell enough products to reach its break-even point. Sales **above** the break-even point generate a profit, while sales **below** it result in a loss.

Calculating break-even quantity

The formula is:

Break-even quantity = Fixed costs ÷ (Selling price per unit − Variable cost per unit)

The amount in brackets is sometimes called the **contribution per unit**.

Worked example

A business sells a product for **£20**.

- Fixed costs = £10,000
- Variable cost per unit = £8
- Selling price = £20

First calculate the contribution:

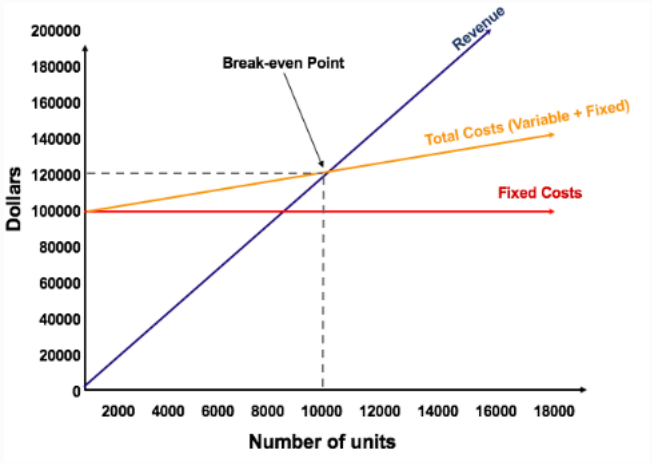
£20 − £8 = £12

Then:

Break-even quantity = £10,000 ÷ £12

= 833.3 units

The business cannot sell 0.3 of a product, so it would need to sell **834 units** to break even.



What does the graph show?

The **break-even point** is where the **total revenue line crosses the total cost line**.

- **Before break-even:** the business is making a **loss**.
- **At break-even:** the business makes **no profit or loss**.
- **After break-even:** the business makes a **profit**.

The difference between actual sales and the break-even quantity is called the **margin of safety**.

For example, if the business expects to sell 1,000 units:

Margin of safety = 1,000 – 834 = 166 units

This means sales could fall by 166 units before the business reaches its break-even point.

Why is break-even useful?

Break-even analysis helps managers understand **how many products need to be sold to avoid making a loss**. It can help when:

- Setting a selling price.
- Deciding whether to launch a new product.
- Planning production levels.
- Assessing the risk of an investment.
- Comparing different business options.

For example, if a new product has a very high break-even quantity, managers may decide that it is **too risky** because they would need to sell a large number of products before making a profit.

Cash Flow

Cash flow is the movement of money **into and out of a business**. Cash is essential because a business needs enough available money to pay its bills, wages, suppliers and other short-term expenses.

A profitable business can still fail if it **runs out of cash**.

Cash inflows and outflows

Cash inflows are money coming into the business. Examples include:

- Cash from customers
- Sales receipts
- Loans
- Investment from owners

Cash outflows are money leaving the business. Examples include:

- Wages
- Rent
- Paying suppliers
- Advertising
- Buying equipment

Cash is not the same as profit

Profit is calculated by subtracting costs from revenue.

Profit = Revenue − Costs

Cash flow focuses on when money actually enters and leaves the business.

For example, a business might sell £10,000 of products to a customer **on credit**. The sale contributes to revenue and potentially profit, but if the customer does not pay for another 60 days, the business does not have that £10,000 in cash yet.

This could cause a **cash-flow problem**, even if the business is profitable.

Cash-flow forecasting

A **cash-flow forecast** predicts the expected cash inflows and outflows of a business over a future period.

	January	February
Opening balance	£5,000	£2,000
Cash inflows	£8,000	£12,000
Cash outflows	£11,000	£9,000
Net cash flow	**–£3,000**	**£3,000**
Closing balance	**£2,000**	**£5,000**

Net cash flow = Total inflows – Total outflows

Closing balance = Opening balance + Net cash flow

In January:

£8,000 – £11,000 = –£3,000

£5,000 – £3,000 = £2,000

Why is cash-flow forecasting useful?

Cash-flow forecasting is an important **planning tool**. It can help a business:

- **Anticipate cash shortages** before they happen.
- Arrange finance, such as an **overdraft**, to cover a shortage.
- Delay spending or reduce costs.
- Make sure there is enough cash to pay short-term debts and expenses.
- Set financial **targets** for future months.

For example, if a forecast shows that a business will have a cash shortage in March, the owner could arrange an overdraft in advance rather than waiting until the business cannot pay its suppliers.

Exam tip: A cash-flow forecast is a **prediction**, so the actual figures may be different. If expected sales are lower or costs are higher than forecast, the business may experience an unexpected cash shortage.

Key exam distinction

Profit ≠ Cash

A business can be **profitable but have cash-flow problems**, or have plenty of cash temporarily while making a loss.

Remember:

Cash keeps the business running → forecasting identifies problems → action can be taken before the business runs out of cash.

Topic 6 – Influences on Business Decisions

Ethical and Environmental Considerations

Businesses do not only have to think about making a profit. They also need to consider the **ethical and environmental impact** of their decisions.

Ethical considerations

Ethical considerations are decisions about what is **morally right or fair**.

Businesses may need to consider how they treat their **workers, suppliers and customers**.

For example, a clothing business might choose suppliers that pay workers fairly and provide safe working conditions. It could also make sure its marketing is honest and does not mislead customers.

Businesses may also consider where their **materials are sourced**. A furniture company could choose timber from responsibly managed forests rather than materials linked to environmental damage.

Being ethical can improve a business's **reputation**, helping it attract and retain customers. However, ethical choices can increase costs. For example, paying workers higher wages or buying responsibly sourced materials may increase production costs.

Environmental considerations

Businesses need to consider how their activities affect the **environment**.

Sustainability means using resources in a way that meets today's needs without preventing future generations from meeting their needs.

Businesses can improve sustainability by:

- Reducing **waste** and recycling materials.
- Using less energy and water.

- Reducing **pollution**.
- Choosing sustainable raw materials.
- Reducing their contribution to **climate change**.

For example, a manufacturer could invest in energy-efficient machinery and reduce the amount of packaging it uses.

Impact on businesses

Environmental decisions can involve **higher costs in the short term**, such as investing in renewable energy or changing production methods. However, they may reduce costs in the long term and improve the business's reputation.

Customers may prefer businesses that demonstrate ethical and environmental responsibility. This can lead to **increased customer loyalty and sales**.

However, businesses must balance these considerations against their need to remain **competitive and profitable**.

Exam tip: For a longer answer, consider both sides:

Ethical/environmental decision → higher costs → potentially higher prices

but also:

Ethical/environmental decision → better reputation → customer loyalty → increased sales

The Economic Climate

The **economic climate** refers to the overall state of the economy at a particular time. Changes in the economy can affect how much consumers spend and how easy it is for businesses to operate and grow.

Two important factors are **consumer income** and **unemployment**.

Consumer income

Consumer income is the amount of money people have available to spend.

When consumer incomes **increase**, people generally have more money to spend. This can increase demand for goods and services, particularly **non-essential products** such as holidays, restaurant meals and new cars.

For example, a restaurant may experience higher sales if its customers have more disposable income.

However, if consumer incomes **fall**, people may reduce their spending. They might choose cheaper alternatives or stop buying non-essential products.

This can reduce a business's **sales and revenue**.

Unemployment

Unemployment occurs when people are willing and able to work but do not have a job.

When unemployment **increases**, fewer people have wages to spend. This can reduce demand for products and services, causing businesses to experience lower sales.

However, higher unemployment may also mean there is a **larger supply of available workers**, making it easier for some businesses to recruit and potentially reducing wage costs.

When unemployment **falls**, more people have jobs and incomes, which can increase consumer spending. However, businesses may find it more difficult to recruit suitable workers and may have to offer **higher wages**.

Impact on businesses

The economic climate can therefore create both **opportunities and threats**.

Economic growth:

Higher incomes → increased consumer spending → higher demand → increased sales → potentially higher profit

Economic downturn:

Lower incomes → reduced consumer spending → lower demand → reduced sales → potentially lower profit

The impact depends on the type of business. A business selling **luxury goods** may be affected more by falling incomes than a business selling essential products.

Globalisation

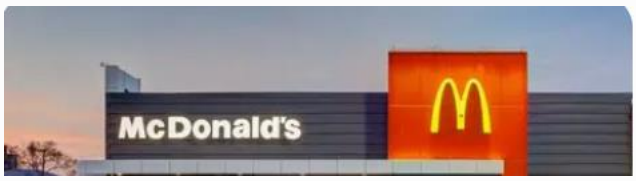
Globalisation is the increasing connection and integration of countries around the world. Businesses can sell products internationally, source materials from other countries and locate production in different parts of the world.

Multinational companies

Globalisation has contributed to the growth of **multinational companies (MNCs)**. These are businesses that operate in more than one country.

Example: McDonald's operates restaurants in countries around the world.

Operating internationally gives businesses access to **larger markets**, which can increase sales and profits. However, businesses may face increased competition from companies around the world.



Business location

Globalisation gives businesses more choice about where to locate different parts of their operations.

A manufacturer might locate production in a country where **labour or other costs are lower**, while keeping its headquarters in another country.

Businesses may also locate close to **suppliers, raw materials or major markets** to reduce transport costs and delivery times.

However, businesses need to consider factors such as infrastructure, political stability, skills of the workforce and the reliability of suppliers.

International branding

Businesses can use the same **brand name, logo and identity** in different countries. A strong international brand can help a business become recognised by customers around the world.

However, businesses may need to adapt their products or marketing to suit **different cultures, languages and customer preferences**.

Competing internationally

Businesses competing internationally may compete through:

- **Price** – offering lower prices or keeping costs low.
- **Quality** – providing reliable or high-quality products.
- **Branding** – creating a strong and recognisable brand.
- **Product differentiation** – offering features that make the product different from competitors.
- **Customer service** – providing excellent support and customer experiences.

Impact of globalisation

Opportunities:

Global markets → more potential customers → increased sales → potential growth

Challenges:

More international competition → pressure on prices → need to control costs and differentiate products

Exam tip: Globalisation can have both positive and negative impacts. A business may gain access to **new markets and cheaper suppliers**, but it may also face **greater competition and increased complexity** from operating internationally.

For further revision see...

BBC Bitesize GCSE Business - Cambridge OCR - BBC Bitesize

Just the Operations, finance and influences on business section for Paper 2