Business Studies Key Terms

Operations Department

Location Considerations: State Dis/incentives	• To encourage businesses to set up or expand - grants, subsidies, tax breaks • To discourage firms from locating in overcrowded areas/areas of natural beauty or environmental interest - building restrictions, greenbelts, high tax rates.		
Break-even Point (Output) (https://www.youtube.com/watch?v=DSJZjISQrLA)			
		Productivity	**A measure of operational efficiency . Output measured against inputs used to create it, e.g. labour.** Labour productivity = Output per time period / number of employees Increasing productivity through, improved factory/office organisation, labour skills and efficient machinery, makes a business more competitive.

Inventory	Materials, work in progress or completed goods held by a business which are or will be ready for sale. The **buffer inventory level** is inventory held to deal with unexpected changes. It gives: • consumers choice and good availability • keeps production supplied with resources • provides cover for supplier hold up.	Batch production	Products made in groups - A quantity (batch) of one product is made, followed by another and then another (e.g. bread). • Output higher than job production • some product flexibility • High inventories of work in progress • Machine reset after each product • If quality is poor, a whole batch must be written off.
Lean production	Cutting out waste and inefficiency in the production process. Reduces waste by cutting: • overproduction • waiting • unnecessary transport • excess inventories • defects • over processing • movement of goods	Flow production	Large quantities of a product are produced in a continuous process. • High output of standard product • Unit costs low • Capital intensive and specialised labour • Can be inflexible and risk of boredom • Fewer quality issues than job or batch, but when it does go wrong, it can be very expensive • If a machine goes wrong, all production is stopped, costing a lot in obsolescence
Kaizen	Continuous improvement through the elimination of waste.	Operations management	Responsible for: • Production • Quality • Purchasing inventory • Distributing goods • Stock control • Research and development
Just-in-time	**Reducing or eliminating the need to hold inventories of materials and finished goods.** • Zero or low inventories held • Suppliers arrive when needed • Goods made to order or sold immediately • Cuts costs/storage space • Risk if suppliers fail to deliver.	Production process	**Converts inputs into outputs** **Inputs:** factors of production (land, labour, capital and enterprise) **Outputs:** goods and services. **Factors influencing method of production:** • nature of product • size of market • demand for standard or unique product • size of the business.
Job production	**A single product is made at a time.** • One-off products and personal service • Flexible designs meet customer needs • High skilled varied work • Costs high and time consuming	Technology in production: Impact of tech	• Higher productivity and quality • New products • High skill level • Jobs lost • Higher training costs • Loss of capital

Technology in production	• Automation • Computer aided design - CAD • Computer aided manufacture - CAM • Computer-integrated manufacturing - CIM • Electric point of sale - EPOS • Electronic funds transfer at point of sale - EFTPOS	**Economies of scale**	**Factors that lead to a reduction in average costs as a business increases in size.** • Purchasing • Marketing • Financial • Managerial • Technical
Fixed costs	**Costs that do not vary with the number of items produced (in the short-term).** • Rent • Interest on loans • Insurance • Management salaries.	**Diseconomies of scale**	**Factors that lead to an increase in average costs as a business increases in size.** • Poor communication • Low morale leading to low efficiency • Slow decision making
Variable costs	**Costs that vary directly with the number of items sold or produced.** • Raw materials • Electricity used in production • Some labour costs, e.g. piece rate pay and wages of temporary workers	**Break-even output**	**The quantity that must be sold for total costs to equal total revenue.** $\frac{\text{Fixed costs}}{\text{Contribution per unit}}$ Uses: • can determine output • may influence bank decisions for loans to new business • make break-even comparisons, e.g. location
Total costs	These can be compared with revenue (in the same period) to calculate profit/loss **Fixed costs +variable costs** Cost info helps: • when making pricing decisions • to calculate profit and loss • to compare different options, e.g. location, which machinery, cease production on a product.	**Break-even chart**	Graph showing: • how costs and revenue of a product change at different output levels • break-even point. • margin of safety • impact on break-even if costs/prices change. **Show:** fixed costs (FC), total costs (TC), sales rev (SR), break-even where TC=SR **But:** costs and prices may change frequently, it assumes all products are sold, and cost and revenue might not be straight lines.
Average costs/ Cost per unit	AKA: cost per unit (unit costs), and form the basis of 'cost plus pricing'. $\frac{\textbf{Total costs}}{\textbf{number of units sold/produced}}$	**Contribution**	**Selling price minus variable cost per unit.**

Quality	**A good or service is produced which meets customer expectations.** • Establishes a brand image • Builds brand loyalty • Maintains a good reputation • Increases sales • Attracts new customers	External economies of scale	**Cost benefits to a business resulting from locating in a region with other businesses or organisations operating in the same industry.**
Quality control	**Checking at the end of the production process to see if the good or service is of the correct quality before a customer receives it.** • Attempts to eliminate faults before customer receives the product/serice • Less workforce training required compared with quality assurance and TQM • Expensive - need to pay for quality checkers. • IDs faults, but not why problem occurs, problem not removed • Increase costs to scrap product or repeat service	Location Considerations: for a manufacturing business	• Production methods • Location of the market • Raw materials/components • External economies of scale • Availability of labour • Government influence • Transport/communications • Site costs • Power/water supply
Quality assurance	**Checking the standard of the good or service throughout the production process to ensure there are no errors or defects.** • Attempts to eliminate faults before customer receives the product/service • Fewer customer complaints • Reduced costs if product not scrapped pr service repeated • Expensive to train employees • Relies on employees following instructions of standards set.	Location Considerations: for service sector business	• Customers' location • Personal preference of owners • Technology • Availability of labour • Near to other businesses • Rent/taxes
Total quality management (TQM)	**The continuous improvement of goods and services and processes by focusing on quality at each stage of production.** • Quality built into every part of production • Eliminates all faults and errors • No customer complaints • Waste removed and efficiency improved • Expensive to train employees • Relies on employees following TQM ideology	Location Considerations: for a retailing business	• Shoppers • Nearby shops • Customers parking available • Suitable premises available • Rent/taxes • Delivery vehicles access • Security
Infrastructure	**The basic physical systems of a business or nation, e.g. transportation, communication, sewerage, water and electric systems**	Location Considerations: to a different country	• New markets overseas • Cheaper or new sources of material • Labour force requirements • Rents/taxes • Government grants • Trade and tariff barriers