Measuring Workforce Performance

Businesses use three main performance indicators to measure the effectiveness of a workforce. These are:

- Labour Productivity
- Absenteeism and Labour Turnover

Low productivity and high labour turnover/absenteeism may imply that a business is under poor management.

Businesses should compare these figures over time to look for trends instead of just examining data from one year or one day. They should then compare the data with industry averages to see if they are having problems.

Labour Productivity

Productivity is the output per worker over a certain period of time. Measuring productivity is relatively easy in the manufacturing industry because the number of products can be counted, but businesses that offer services struggle to calculate it (eg: hospitals).

Labour Productivity does not always come down to who works the hardest. **Modern equipment** should speed up production and therefore increase productivity. Not all businesses can afford top machinery though, so better maintenance, extra shifts and small changes in Kaizen groups may help.

A skilled and well-trained workforce may also increase Productivity by producing more at a faster rate, whilst making fewer mistakes. Motivated workers are also more likely to produce more than un-motivated ones.

Labour Turnover

Labour Turnover is the amount of staff leaving a business. The formula for calculating Labour Turnover is:

*Staff leaving per year / average number of staff * 100 = % Turnover Rate*

If the Labour Turnover rate is increasing, it may be a sign of workforce dissatisfaction. If this is the case, the business should look at whether the causes or internal or external. There are some examples below…

Internal	External
Poor leadership	More local vacancies
Wages are too low	Better wages

Businesses should make sure they get the right balance of Labour Turnover so that they can enjoy the positive benefits of losing staff without suffering the negative consequences too.

Positive	Negative
New workers bring in new ideas and enthusiasm	Additional costs of recruitment and selection
New workers are employed with needed skills	Additional costs of training new staff
There are new ways of solving problems	A loss of productivity while new staff settle in

Absenteeism

As well as Labour Turnover, Workforce Absenteeism can be a good indicator of satisfaction. It can be calculated with the following formula…

*Average number of staff absent per day / total number of staff * 100 = % Absenteeism*

Like with Labour Turnover, businesses should look for **trends** in Absenteeism instead of focusing on one day.

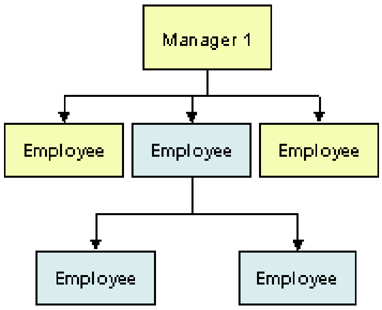
Organisational Structures

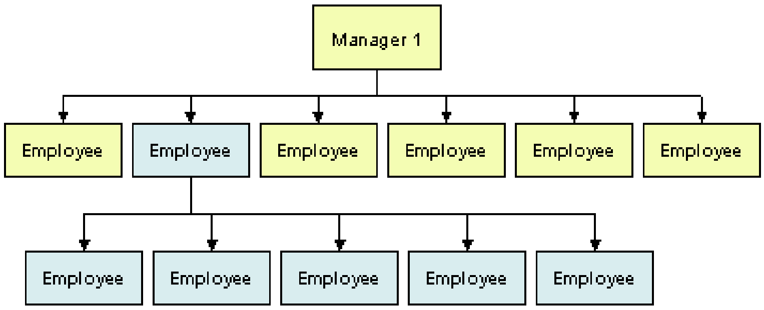
An organisational structure is the formal way that the management of a business is organised. It is often presented as a diagram and shows who is in charge of whom.

In the early stage of a business, it is not usually necessary to have an organisational structure as most of the day-to-day decisions are carried out by the owners. However, as a business grows more people become involved, so there is a need for a formal structure which shows the roles and responsibilities of each employee.

The **Level of Hierarchy** shows the number of different levels between the top and bottom of the workforce.

The **Span of Control** refers to the number of people directly under the supervision of one manager.





The blue employee on the second row of the Narrow Span of Control is accountable for at least 2 others, so for this business the Span of Control is at least 2. In the wider diagram the Span of Control is at least 5.

Advantages (Narrow)	Disadvantages (Narrow)
Allows close control and managerial supervision	Staff may feel over-supervised and untrusted
Communication can be good between small teams	It may drive away enterprising staff
Those at the lower end of the hierarchy have good career prospects in terms of promotions	Communication may be slow as there are more levels of hierarchy (delayed decisions)

Advantages (Wide)	Disadvantages (Wide)
Staff are able to make moderate decisions	Lower hierarchy workers may become stressed
Less management means less overhead costs	Managers may feel a loss of power

The **Chain of Command** is the reporting system from the top to the bottom of the hierarchy. The more levels of hierarchy in the longer for messages to get through – this could delay decisions.

Communication Flows describe the communication within the structure. The growth of a business and the implementation of new layers may have a negative effect on Communication Flows. Here are some examples...

- Vertical communication within the structure becomes slower and less effective
- There may be a need for departmental meetings with notes taken – making a business bureaucratic

Centralisation and Decentralisation describes how decision-making power and authority is distributed within an organisation. In a centralised structure the power and control is in the hands of the top layers, while in a decentralised structure this power is delegated to people lower down.

Delegation is when an organisation passes authority down the hierarchy. Delegation can be very motivating for the staff on the lower levels of the hierarchy, but may also have a negative effect on managers as they may feel a loss of power. Delegation may also provide managers with more time.

To gain the benefits from delegation, and organisation must ensure they think about the following…

- Meaningful tasks are delegated, not just the ones that nobody wants to do
- Staff are trained to do the jobs they are expected to do
- Staff should feel trusted without over-supervision, or the business returns to a narrow structure

Workforce Roles

Workforce Roles explain the different tasks that individuals are responsible for. There are three concepts closely associated with Workforce Roles…

- **Responsibility**
  Carrying the burden of blame for an error even if the task was performed by someone else

- **Authority**
  Having the power to carry out a decision or perform a task

- **Accountability**
  The extent to which an individual is held responsible for their decisions and actions

Directors – those who deal with setting overall aims and objectives. They may be Executive (appointed from inside the business) or Non-Executive (appointed from outside the business)

Managers – These are responsible for setting tasks and making sure tasks are performed by others.

Line Managers – These are the people immediately above someone else in an organisational structure.

Team Leaders – These workers are chosen to lead and manage a particular team or project

Supervisors – These are responsible for the day-to-day performance of a small group. They do not usually have the power to hire or fire staff, but may pass on recommendation to higher levels in the structure.

How Organisational Structures affect Business Performance

Growth of a business usually means growth in the number of people involved. Therefore, it becomes more and more important to make sure that everybody is clear about their role and to who they are answerable to.

As businesses expand it is important to put into place organisational structures that accommodate growth. Below are some possible problems which may arise from a poor organisational structure…

- There may be mistakes due to poor communication (eg: replicated tasks)
- There may be a poor quality of performance due to things being overlooked
- Different functions and departments may fail to work together successfully

In the **past** it was very common to find tall and narrow hierarchical structures, however in the **present** businesses prefer to go with a flatter structure.

Recruitment and Selection

Recruitment and Selection is the process of seeking new employees. It involves defining the job, attracting suitable candidates and selecting those best suited to fill it.

The Recruitment Process

1. Establish the number and type of employees needed
2. Carry out a job analysis for each vacancy, to identify all duties and responsibilities involved
3. Create a Job Description and Person Specification
4. Advertise the vacancy internally or externally
5. Draw up a short-list of the most suitable applicants, and invite them for interview
6. Appoint the successful candidate, and inform those who have been unsuccessful

Selection Process Techniques

Interviews – The most common form of selection. These can consist of a one-to-one interview or to a panel.

Advantages	Disadvantages
They are relatively cheap to conduct	Can be influenced by interviewer bias or prejudice
They allow info to be obtained by both sides	

Internal/External Recruitment

Internal Recruitment – This where an employer recruits from within the workforce. It can be done by redeploying or promoting a worker from elsewhere in the organisation.

Advantages	Disadvantages
More likely to be cheaper and quicker than external	May not always be an option as there may not be enough people within the business
Promotions are motivational for current employees	The current employees may not have required skills
There is often no need to induction training	May lose out on the advantages of new employees

External Recruitment – This is where people are employed from outside of the business. Various methods of external recruitment can be used…

- Media Advertising
- Job Centres/Recruitment Agencies

Advantages	Disadvantages
There is a wider range of candidates to choose from	Can be expensive and time-consuming
The candidate may already have the skills required so there would be no need for training	It can have a demotivating effect on current workers who did not get the promotion

Training

Training is work-related education where employees learn new skills or develop skills they already possess.

- **Induction Training**
  This is aimed at newly-appointed workers by helping them become familiar with the business as soon as possible. This should help them become fully-productive faster.

- **On-the-job Training**
  Employees do not need to leave their workplaces as they get trained while carrying out their job.

- **Off-the-job Training**
  This training allows the trainee to concentrate on learning instead of having to work at the same time

Motivation

Taylor	Mayo	Maslow	Herzberg

Taylor

(Money is a motivator and workers should be constantly supervised)

The work of Taylor shaped the views of managers on motivation for most of the twentieth century and remains influential today. His ideas formed the basis for the mass-production assembly lines.

Taylor's ideas to improve efficiency became known as **Scientific Management**. He believed that managers could find the best way to complete a job through observation. He set out a number of recommendations…

- Managers should study the tasks being carried out by workers and identify the quickest way of completing each one. Any unnecessary tasks should be eliminated
- The skills of each employee should be matched to the task that they are assigned to
- All workers should be supervised and controlled, and those who do not work efficiently are punished
- Workers should be financially rewarded for being efficient

A number of objections have been raised concerning Taylor's theory…

- The does not account for differences between different organisations and employees
- The theory refers to workers as machines there to be used and controlled, perhaps creating a bad relationship between workers and management
- The theory assumes that money is the only motivator and ignores personal and social needs

Mayo

(Breaks, team-work and staff perform better if they have good relationships with managers)

Initial experiments suggested that regular rest-breaks boosted productivity. This led Mayo to call for more humane treatment of employees at work. Mayo drew two conclusions from these results…

- **The importance of team-work**
  A sense of team-spirit motivated employees to work harder

- **Managers to take an interest**
  Workers responded well to being observed. This suggested that managers who communicated with workers/showed an interest in them would be rewarded with higher productivity. ***(Hawthorne Effect)***

Mayo's findings led to a number of practical conclusions for motivating workers…

- Getting the physical conditions and financial rewards right is less important than social conditions
- Giving workers the opportunity to be involved in making decisions and to be creative is more likely to motivate them than **Taylor's** assembly-line approach
- Personnel departments that focus on the well-being of workers are central to business success

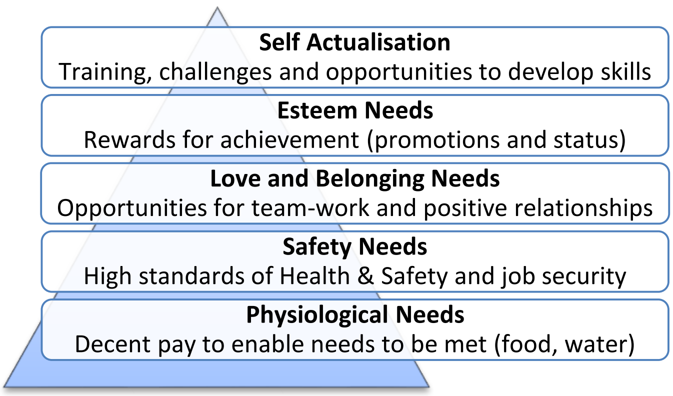
However Mayo's theory has been criticised on at least two grounds…

- Only small groups were observed and subsequent experiments have failed to confirm their findings
- Trade Unions may see these efforts as management attempting to fool workers into boosting productivity when there is little to gain for workers in doing so

Maslow

(Believed in the Hierarchy of Needs)

Maslow suggested that all human beings have the same types of needs and these could be organised in the **Hierarchy of Needs**. He believed that motivation stems from the desire to have the needs of each level of the hierarchy met.



Once the needs of one level of the hierarchy have been met, it no longer remains a focus/motivation. It is then the next level in the hierarchy that people try to satisfy.

To motivate a workforce requires an approach that will identify the level of need for each individual…

- Each worker will first need sufficient pay to provide their basic physiological needs
- Financial rewards alone will not motivate workers. Boosting esteem and developing talents will be crucial, but without decent pay and job security they were worthless

Opponents of Maslow have found his theory unconvincing on several grounds…

- Businesses may find that their workers place little value on gaining praise or developing their skills
- Workers may be satisfied with their wages at work and get the other needs from outside of work

Herzberg

(Motivators and Hygiene factors)

Herzberg's results from an experiment shows that six factors, including achievement and recognition, were frequently mentioned as causing satisfaction at work. Other factors such as bad company policy and working conditions were mentioned as causes of dissatisfaction.

He used this research to develop the **Two-factor Theory** of motivation (motivators and hygiene factors).

- **Motivators** (Factors that tend to increase job satisfaction)
    - A sense of achievement
    - Recognition of effort
    - Interesting work
    - Responsibility
    - Promotional opportunities

- **Hygiene Factors** (Factors that can cause dissatisfaction)
    - Bad Company Policy
    - Bad relationships with management and colleagues
    - Bad working conditions
    - Low wages
    - A lack of job security

Several practical conclusions can be drawn from the Two-factor Theory…

- To motivate a workforce a business must make sure that hygiene factors are being met
- The motivators must be present (ensuring that the job is meaningful and interesting, making sure that workers are trained to do their jobs well and that they have the opportunity to develop their skills)

Herzberg's theory has encountered major criticisms…

- Research has failed to suggest that his theory is applicable to workers in every type of business
- Some jobs cannot easily be enriched, and workers may not want enrichment and empowerment

Piecework

Piece-rate work is where workers get paid per unit they produce.

Advantages	Disadvantages
There is hardly any supervision as employees know they won't be paid for bad work	Employees may rush work to get paid more
There is usually higher productivity	There is no incentive for good quality
Fast workers are rewarded with more money	Workers may only work hard if they need the money (for example: near Christmas or summer holidays)

Performance-Related Pay

These are rewards for employees who produce particularly high-quality work.

Advantages	Disadvantages
It encourages staff to work hard	Rewarding individuals doesn't promote team-work

Profit Sharing

This provides staff with a share of annual profit (eg: John Lewis). It is seen as a reward rather than an incentive.

Advantages	Disadvantages
Encourages staff to consider their contribution to the overall business	Profit given is usually a small amount and may be seen as a meaningless token of gesture
May encourage staff to try and cut costs for the business as they will receive more of the profit	If the business pays out large sums, it may affect dividends for shareholders

Fringe Benefits

These are non-financial rewards, including: company cars, gym memberships, discounts, high pensions, etc.

These financial payments are designed to persuade workers into doing something (perhaps something that they don't really want to do) but will do as the reward is too good to refuse.

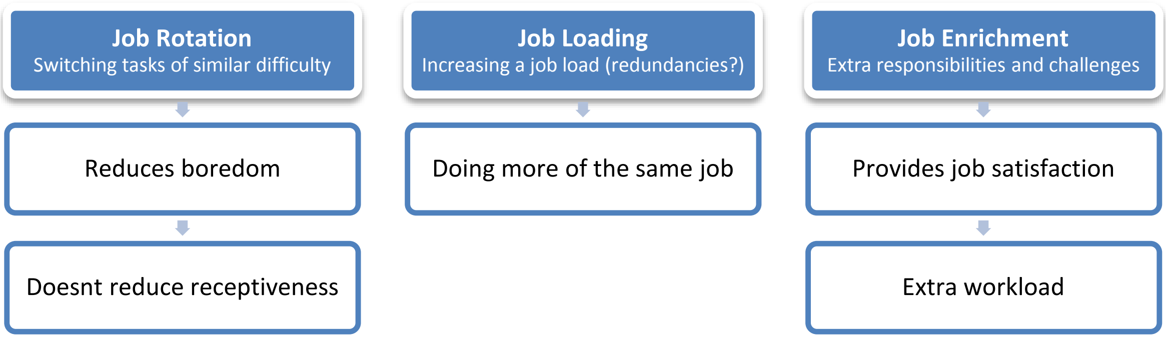
Job Design

Job Design is the tasks each employee must do, what equipment they use, their decision-making power, etc.

The aim for most employees is to create jobs with maximum scope for motivation. In the past, Taylor influenced job design with simple, repetitive tasks that were easily. Nowadays, Herzberg has influenced Job Design which is associated with employee involvement, job enrichment and job enlargement.

Job Enlargement

This is the general term for anything that increases the scope of a job and can be done in three ways…



Job Enrichment

According to Herzberg, enrichment can motivate workers because it gives them the opportunity to develop their skills. However, it can be difficult to enrich some jobs.
Businesses can enrich jobs by using Job and by organising workers in groups where there is an opportunity for feedback and improvement discussions.

Empowerment

This is the delegation of power which gives workers the authority to manage large-scale projects.

Advantages	Disadvantages
It is motivational and can give employees control over their working-lives	Workers may need to be trained
It is a reflection of the Maslow and Herzberg theories	Some workers may not want empowerment
It should improve customer satisfaction, as those who are being empowered are usually the ones who interact with the customers	

Team-Working

Team-working is where employees are put into teams in order to maximum staff satisfaction. They can be functional (eg: customer service team, shop-floor team, etc) or geographical (eg: IKEA Nottingham, Derby, etc)

- Many of the workers have the same skills, so job rotation is possible
- They're working together which gets things done faster
- It can form the basis of a Kaizen Group

Job Design with Organisational Structure

In tall, hierarchical structures the opportunity for empowerment is restricted as most of these jobs are heavily supervised. At best, job rotation and small task-delegation may be all that is possible.
In flatter structures with wider spans of control, it may be necessary to delegate tasks and enrich and empower staff, as management may not be able to oversee all events.

Operations Management: Overview

Operations Management is the central business function from creating a product to delivering it to customers.

Design – Products must meet the needs of customers. Operations team work closely with the Marketing team.

Supply Chain – In the manufacturing process the heart of the operation will be in the factory, where a collection of materials and components are turned into a finished product.

Working with Suppliers – Very few businesses produce 100% of a product. Almost all suppliers do most of the operational work, so organisations need to coordinate all their suppliers and the quality of their work.

Managing Quality – Quality should meet or exceed customer's expectations

Using technology effectively – Technology evolves quickly. Within the Operations department the key requirement will be to find software that will satisfactorily manage the day-to-day processes.

Customer Service

Customer Service is term used to describe all contact with a customer – both directly and indirectly. Effective Customer Service should meet or surpass expectations that customers have of the business. It may include:

- Face to face communication
- Communication over the phone/internet

Businesses should…

- Train all staff to be able to provide the Customer Service level that the business hopes to achieve
- Monitor and improve Customer Service (eg: recorded phone calls)

A business that builds up a reputation for good Customer Service may encounter the following advantages:

- Brand loyalty
- Free word of mouth promotion

Quality Management

To meet basic quality, businesses must ensure that a product is fit for purpose and meets (or exceeds) customers' expectations.

Quality management should always be an ever-rising target and is a highly-competitive issue. In any market where a customer has a choice of different businesses, quality is **crucial**. When a business is able to establish a reputation for good quality they will usually encounter the following advantages…

- Higher levels of repeat-purchases
- Able to charge premium prices due to quality and the brands reputation
- New products are easier to get onto shelves

If the competition in a market is fierce, quality should be even more important. Businesses that establish a reputation for bad quality may encounter the following problems…

- Loss of sales and brand reputation
- Retailers may be unwilling to stock their products
- They may have to cut prices in order to get sales

Total Quality Management – This requires commitment from the entire business. The business considers quality in every stage of a product's design.

Quality Control – This is the traditional way of managing quality. A quality control inspector checks that units meet minimum acceptable standards (usually every 100^{th} unit)

Quality Assurance – This is a system that assures customers that detailed processes are put in place to ensure the quality of their products. A documented system is put into place to cover all stages of a product's production process.

Working with Suppliers

Suppliers are other businesses that provide products or services to a firm. Some firms may be a supplier to another business whilst also having other businesses supplying to them. There are 6 key factors to consider when choosing a supplier…

Cost – Cheaper costs usually mean higher profit-margins so finding a cheap supplier is important to any firm

Quality – There may often be a difference between the prices that a supplier charges and with the quality of their goods. The cheapest supplier may have a reputation for bad quality. These suppliers may ruin reputation

Reliability – If a supplier fails to deliver products on time a business may consider them unreliable as this could delay a manufacturing process or lead to a disgruntled customer

Frequency – Depending on the type of business, frequent deliveries are needed from suppliers

Flexibility – Businesses will need to consider whether suppliers can deal with surprise orders. Some products (like Sun cream) are more sought-after at certain times of the year so a large quantity will be needed at once.

Payment Terms – Most business transactions are on credit (buy now, pay later) rather than in cash. By using this system, businesses have the time to sell the goods and make profit before having to pay suppliers.

Technology in Operations Management

Few businesses have the favour of being able to ignore technological changes, as they may discover that the products or services that they offer, and the processes used to create them, may no longer satisfy customers.

Some new technologies (like the internet) have had a huge impact over almost all industries. Technological change can affect raw materials and components used to create products, the production process its self, or the software that supports the sale and delivery of products.

Advantages of new technology	Disadvantages of new technology
New technology should increase efficiency and productivity, and reduce costs	Employees may resist the implementation of new technologies
Technology such as the internet allows businesses to reach their customers globally	New technology can cost a lot of money (purchase, installation, maintenance, training, etc)
Robots and automated systems can take over boring, repetitive tasks while maintaining 100% accuracy	It can lead to a loss of jobs. This may cause conflict between the management and workforce

<u>Automated Stock Control</u>

This is where a database records the stock levels of each product and can automatically reorder products

Advantages	Disadvantages
It is a quick and easy way of keeping track	It can lead to job-losses
It knows what is and isn’t selling	
It can reorder successful products automatically	

Computer-Aided Design

This system allows designs to be saved, changed and re-worked without having to start from scratch..

Advantages	Disadvantages
It improves productivity	The software may be expensive
It is good for hard-to-make, unique designs	It can lead to job-losses

Robotics

Advantages	Disadvantages
Repetitive tasks are completed with 100% accuracy	They are expensive to purchase, install and maintain
They prove cheaper than people in the long-run	They can lead to job-losses

Electronic Data Interchange

Electronic Data Interchange is communication between different businesses (for example: Heinz’s link with Tesco so they can keep track on sales)

Advantages	Disadvantages
It improves communication between businesses	It may lead to job-losses
It can often save a lot of time	

Database Management

A database is a store of information and can hold millions of customer details. Information may be gathered from warranty cards, loyalty cards, buying databases from marketing companies, etc. Databases may be used for things like Junk Mail and Telephone Sales.

Making Operational Decisions

Operations Management is the function of business that turns plans into delivered goods or services. Operational Targets are the numerical goals set by management at the start of the year. Operational Targets…

- They can give a business something to work towards
- They can be used to measure performance
- Achieving targets is an indicator of successful Operations Management

Operational Targets usually include…

- **Maintaining High-Quality**
  Producing products as quickly as possible can lead to mistakes and wastage

- **Reducing Unit Cost**
  Unit Costs are the average cost per unit of output. It is calculated by <u>Total Costs/Output.</u>

How to cut Unit Costs…

- Cut Variable Costs and Fixed Costs
- Increase sales **without increasing Fixed Costs**
- Increase Capacity Utilisation

Most businesses do not operate at full capacity because it does not allow for…

- Maintenance or repair of equipment
- Unexpected large orders

Capacity Utilisation can be calculated by <u>*Current Output/Maximum Possible Output * 100 = %*</u>

How to increase Capacity Utilisation	How to decrease Capacity Utilisation
Cut Selling Prices	Make redundancies
Increase demand	Sell machinery
Create a Unique Selling Point	Downgrade factory size

Matching Production to Demand

It is important that businesses match production to demand. If production is below demand a business will miss out on sales. Customers will also be disappointed and it may damage reputation. However, if production is higher than demand, the costs of storing goods plus the cash invested in the goods will decrease profits.

What causes demand to fluctuate?

- The economy
- Trends and fashions
- Seasonal demand

Methods of helping a business cope with varying levels of demand may include…

Method	Limitations
Overtime	Staff are paid more, thus increasing costs. Workers may purposely slow down so that overtime is offered
Temporary Contracts	Recruitment and training increase costs. Temporary workers may also lack loyalty and commitment
Sub-Contracting	Quality Assurance becomes harder to monitor, so standards have to be agreed
Managing Stocks Efficiently *Materials and finished goods may be held back*	Held goods may go out of date or go out of fashion
Rationalisation *This is cutting-back of production capacity in order to match lower demand-levels. It may include…* - *Selling/leasing factory space or machinery* - *Making redundancies*	Redundancies may reduce motivation/job security. Also, if capacity is cut permanently and then increases in the future, capacity shortages will occur

Effective Marketing

Effective Marketing is when firms achieve sales and profit targets by attracting customers and convincing them to make repeat purchases. To market well, businesses must:

1. **Use an effective Marketing Mix**

   This means not only getting the product right, but also its price, its distribution, and making the customer aware that the product is in the right market (promotions!)

2. **Identify the Target Market**

Businesses must know and understand the needs and wants of the customers in the target market. They may consider factors such as lifestyles, ages and genders of customers (**Market Segmentation**).

3. **Use Market-Orientated Marketing**

This where businesses make decisions revolving around what is best for the customer, rather than what is best for the business.

4. **Develop a Coherent Brand Image**

Firms that market their products well use an integrated Marketing Mix that creates an attractive brand image. Some businesses have developed brands that have been around for years; however it is important not to destroy the longevity of the brand by making too many changes. To achieve this, products should be…

- Properly priced
- Distributed well
- Promoted properly to the Target Market

Marketing well must be a long-term goal, not a short term way of exploiting customers to gain more profit.

Mass Marketing v Niche Marketing

A Niche market is a small segment of a much larger market, where customers have specific wants and needs. These products are produced for one type of customer. Mass Marketing is making a product with mass appeal.

Advantages of Mass Marketing	Disadvantages of Mass Marketing
It can produce a high volume of sales, therefore only a small Contribution Per Unit is needed	There may be lots of substitute products available, so Mass Marketing can be Price Elastic

Advantages of Niche Marketing	Disadvantages of Niche Marketing
They can be sold by specialist retailers on the internet	The market may not be big enough to be profitable
	Small Niche Operators usually lack Economies of Scale, so they cannot compete on price

In the past, large businesses stuck to Mass-Market products and ignored small gaps in the market. However, technology is changing this. Therefore, small businesses are coming under threat from larger companies that have begun to target their niches.

Marketing Mix

A Marketing Mix is the balance between the four main elements needed to carry out a Marketing Strategy.

- **Product** – *The business must offer products to the Target Market which suits their needs*
- **Price** – *Prices shouldn't be too high, but the lowest price doesn't always win the customers*
- **Place** – *Distribution to customers must be perfect*
- **Promotion** – *Advertising on TV, Radio, the Internet, etc*.

Every business must use the 4 P's in a way that balances costs and effectiveness.

The Product is the key factor in most cases…
No amount of Marketing will make a poor product succeed! Market Branding is very important, so careful promotion in creating the brand and having it available at the right time and place is essential.

Influences on the Marketing Mix…

Finance…
Budgets must be divided between the 4 P's. In the development stage, money also needs to be invested into Product Development. Distribution and Promotion will take most of the budget when introducing a product.

Technology…
Product Development must move with technology. As well as spending millions on TV advertising, businesses should also consider other media advertising such as Facebook, Google and YouTube. Placement decisions are also important because more customers are choosing to shop online.

Market Research…
If finance and technology are important to a successful Marketing Mix, then Market Research is vital! It is important that this is ongoing to enable feedback of the Marketing Mix.

Product – *Is the business still producing what the customer wants? What are competitors doing?*
Price – *Do different economic circumstances mean that prices need changing? What are competitors doing?*
Place – *Are new Markets available to sell the product in? Where do competitors sell?*
Promotion – *Is the money that the business is spending promotion actually reaching the Target Market?*

Analysis with the Marketing Mix…

- The Mix depends on the budget available, the competitive situation and the objectives
- Although the product is likely to be the most important aspect of the Mix, every case is different. Coca Cola often loses out to Pepsi on taste tests, yet they sell more than Pepsi does in nearly every country
- This Mix must be integrated and matched to the Business Plan and also meet the Objectives

Marketing Mix – Product

In order to be successful, products must not just satisfy customers but also delight them! Influences on the development of new products are…

- New Technology
- Market Research
- Similar Products

In order for the above points to be effective they have to be noticed, combined and acted upon. This is where the entrepreneurial skills of managers and owners are important. In many cases it is vital for a business (except in a “me too” situation) to gain **First Mover Advantage**. **Product Differentiation** and **USP’s** will also increase popularity.

Issues for Analysis for the Marketing Mix – Product…

- Businesses operating in competitive markets need to sell products with USP’s to keep Market Share
- Product Differentiation reduces Price Sensitivity
- Product Differentiation also boosts Added-Value as it can make Premium Prices possible
- However, Product Development and USP’s are rarely permanent. Changes in customer tastes and technological advances will wipe away the difference in products

Marketing Mix - Product Life Cycle

A Product Life Cycle is the theory that all products will follow a similar pattern over time – development, introduction, growth, maturity, sometimes Market saturation, and finally decline. Product Life Cycle can be drawn for a brand or for a generic product (eg: Chocolate is generic whilst Cadbury’s is a brand).

Many products are rejected at the Development stage (eg: Dragons Den turn down hundreds of ideas). Of the ones that are launched, many fail to reach their targets and are withdrawn before hitting the Growth stage.

The Product Life Cycle and Capacity – An Operational Management Issue…
When planning the launch of new products, managers must bear in mind the capacity of the business. Will existing products be affected by the new product’s demand? If they cannot cope with Capacity, potential sales may be lost and the Marketing work will have been a waste.

The Product Life Cycle and Cash Flow – A Financial Issue…
In the Development stage Cash Flow will most probably be negative, especially in smaller businesses. The firm will be relying on cash from other products or banks in order to support R&D of the new product.

Introduction Stage – Cash will slowly start to come in. Outgoings will be spent on heavy promotion and production, so Cash Flow may remain negative.

Growth Stage – A Breakeven Point should hopefully have been achieved by this point, and Cash Flow should be positive. It is important that Cash Flow is managed carefully!

Extension Strategies…
Once a product is in the Growth stage, managers may want to think of how to prolong a products' Life Cycle.

- **Modifying the Product slightly**
  New flavour? New shape? This could help increase the product's Life Cycle

- **Targeting a new segment of the Market**
  Overseas? Teenagers? Aiming the product at a different Target Market should also extend the Cycle

Is a Sales Decline inevitable?
While this may be true for products that go out of fashion or are constantly upgraded, for others it may be down to poor marketing. Effective Extension Strategies can keep products going for longer.

It is extremely difficult to predict when changes to the Life Cycle will happen. Managers should try to influence the future to shape the Life Cycle of the products that the business produces.

Marketing Mix – Product Portfolio Analysis

The Product Portfolio Analysis examines the existing position of products and allows a business to plan what to do next. The best known way of considering the portfolio of products is through the **Boston Matrix**.

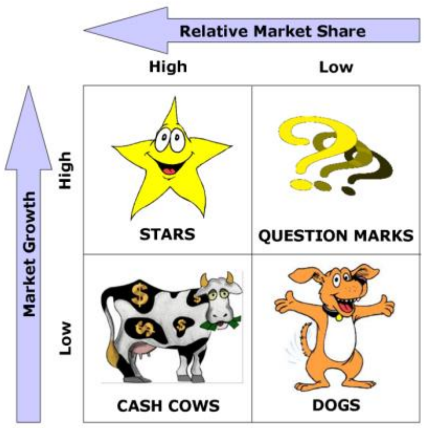
The Boston Matrix shows the Market Share of each product and the growth of the markets in which they operate. By highlighting the position of each product in terms of market share and market growth, businesses can analyse their situation and decide where the marketing effort (and cash) can go.

- **Cash Cows** – *These are high shares of slowly growing markets (these products generate high profits as sales are high)*

- **Question Marks** – *These are low shares of fast growing markets (the market is growing fast and the product could provide high returns if it can gain more market share)*

- **Stars** – *These are high shares of fast growing markets (it is doing well and must be protected from substitute products)*

- **Dogs** – *These are low shares of slowly growing markets (although the market is small, it holds some appeal to the business)*



The purpose of Product Portfolio Analysis…

- **Building the product**
  Businesses can invest in promotion and distribution to support the product (Question Marks and Stars)

- **Holding the product**
  Businesses can maintain promotion and distribution to keep their position (Stars and maybe Cows)

- **Milking the product**
  Businesses can take the profits from Cash Cows to support other products

- **Divesting the product**
  This is when businesses discontinue products (Dogs and Question Marks)

The decisions above depend on the analysis of the products in the first place. If the majority of a business's products are Cash Cows, Research and Development spending needs to be a major part of the decision, as they will eventually turn into Dogs.

However, if the majority are Question Marks, this is when difficult and risky decisions have to be made. Product Life Cycles usually follow the pattern of ***Question Marks -> Stars -> Cash Cows -> Dogs***.

Bear in mind though that these models do not tell the marketing manager what to do. They must be interpreted and acted upon, and do not guarantee success. Also, remember that Life Cycles are becoming shorter and shorter due to technology and the levels of competition in most markets.

Key Terms

Term	*Definition*
Adverse Variance	A difference between actual and budgeted amounts which is **higher** than expected
Advertisement	Paid-for communication designed to persuade customers to buy products
Automation	The replacement of workers in order to complete a task
Boston Matrix	Analyses a product portfolio into categories (stars, cash cows, question marks, dogs)
Branding	The use of a name, symbol or logo which differentiates a product or service
Capacity Utilisation	The proportion of total capacity that is being used
Communication	Exchanging information or ideas between individuals or groups
Competition	The businesses that compete for a share of the market
Cost Reduction	Actions aimed at reducing total costs or lowering average unit costs
Customer Service	The way a business interacts with its customers
Delegation	Where the responsibility of a task is passed onto someone else in the business
Direct-Selling	Where a business trades with a customer without the use of third-party (eg: retailer)
Distribution Channel	How a business gets its products to the consumer (with/out the use of third-parties)
Empowerment	Delegating power to employees so they can make their own decisions

Factoring	A source of finance where a business receives a proportion of the amount owned by trade debtors from a specialist finance-provider
Favourable Variance	A difference between actual and budgeted amounts which is **lower** than expected
Flexible Working	Different working practices which suit the job in hand and the needs of employees
Hierarchy	The structure and number of layers of management and supervision in a business
Interview	Part of the recruitment process where a candidate is met face-to-face
Job Description	A summary of the main duties and responsibilities of a job
Job Design	The way in which tasks are combined to form a job
Job Enlargement	Giving employees more tasks of similar complexity
Job Enrichment	Makes jobs more interesting or varied so they are more rewarding
Loss-Leader	Where a price is set deliberately below costs in order to attract customers
Marketing Mix	The set of marketing tools that businesses use to pursue marketing objectives
Merchandise	Promotion of a product at the point-of-sale, usually in a retail environment
Net Profit	Profit that remains after all operating costs are taken away from sales revenue. Net profit is usually stated before any deductions for tax
Net Profit-Margin	A measure of profitability (Net Profit/Sales Revenue)
Org. Structure	The way that the roles and responsibilities are structured
Payment Terms	The period of time that a supplier allows for an invoice to be settled
Penetration Pricing	Setting low prices in order to achieve a large market share
Person Specification	A description which identifies the skills and experience that are likely to be held by a successful applicant for a job vacancy
Price Elas. of Demand	The responsiveness of demand to a change in the price of a product
Price Leader	A business whose prices are followed by rivals
Price Skimming	A strategy where high prices are charged for new products in order to take advantage of customers prepared to pay for it
Price Taker	A business that has no option but to charge the leading market price
Pricing Strategies	The overall strategic approach to pricing over the medium-to-long term
Pricing Tactics	Short-term pricing decisions and approaches
Product Lifecycle	A theory which predicts the stages a product goes through from introduction to withdrawal from a market
Product Portfolio	The collection of products and brands owned by a business
Profitability	The ability of a business to generate profits from its activities
Promotional Mix	The approaches used to promote a product (advertising, direct selling, etc.)
Psychological Pricing	Using price as a way of influencing a consumer's behaviour or perceptions (eg: using high prices to reinforce a quality image)

Public Relations	The promotion of a business through news stories, sponsorship, etc.
Quality	Where a product meets a customer's requirements
Quality Assurance	Organising every process to get the product 'right first time' and prevent mistakes
Quality Control	Inspection of products to ensure adequate production standards have been achieved
Rationalisation	Cutting prices in order to increase productivity and efficiency (eg: selling machinery)
Return on Capital	A measure of the return made by investing in a business or business project ((Net profit / Capital Invested) x 100 = %)
Sale and Leaseback	A method of raising finance involving a business selling major assets (eg: property) and then leasing the same asset back from the new owner
Sales Promotion	Point of sale material or other incentives designed to stimulate purchases
Selection	Deciding which applicant a business should accept for a job
Span of Control	The number of employees who're directly under the supervision of one manager
Spare Capacity	When a business is able to produce more with existing resources (excess capacity)
Stock Control	The processes and controls used by a business to ensure that it has sufficient (but not too much) stock for its purposes
Stocks	Raw materials goods held for resale. Stocks are also referred to as 'inventories'
Supplier	A business which provides goods or services to a customer or consumer
T.Q Management	Attitudes to quality where the aims are zero defects and total customer satisfaction
Unit Cost	The average production cost per unit
Variance	A feature of a product that makes it stand out from competition
Workforce Role	The tasks involved in a particular level or type of job
Workload	The amount of work assigned to a particular worker