

ENGLISH FOR ACADEMIC PURPOSES SERIES

General Editor: Vaughan James

BUSINESS STUDIES

C. V. James

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INTRODUCTION

This course has three purposes. It is intended:

- to introduce you to the **contents** of Business Studies:
- to provide examples of authentic texts written in the **language** typical of the subject:
- to help you to practise the **skills** you will need in order to study the subject via English and to use it when you have learned it.

No knowledge of Business Studies is assumed, but if you work through the book carefully you will certainly learn a great deal about it. We do not set out to give comprehensive coverage, but the material does embrace most of the basic concepts. In this sense it is a basic textbook of Business Studies.

All the texts are taken from publications about Business Studies. They are not simplified for learners of English: the language you will encounter in them is exactly what you will meet in real life. We assume that you will have already taken a course of general English and are familiar with the main grammatical structures and much of the vocabulary of everyday use. There may be no such thing as Business Studies English, but there are a number of words and expressions commonly used in Business Studies contexts and there are a number of structures also in common use, and these have been isolated for you to practise. So in this sense, this is a textbook of English.

The most important aim of the course, however, is to help you to acquire and develop the skills you will need in order to learn your subject and, when you have finished the course, to use what you will have learned.

When you begin to study a new subject, you do so in two main ways: by **reading** and by **listening**. These are the major means of access to new knowledge and it is on these that we concentrate, via the **book** — for reading, and the **tapes** — for listening. In order to attack all these aims, we have divided each of the 15 units into 8 sections, closely related but each with a slightly different emphasis. Below we give a brief description of each section, so that at any point in any unit you will know exactly what you are expected to do and why you are doing it. The pattern is the same for all units.

A. UNDERSTANDING A PRINTED TEXT (1): In this section you are given a passage to read, usually including a diagram or table, to introduce the topic of the unit. You should first read it through, even if you do not understand it all, looking especially at the way it is set out in paragraphs, with side headings, marginal notes, captions, etc. This will give you a general idea of what it is about and how it is arranged. To help you to identify the most important points in the reading passage, a small number of questions are given, the answers to which you can look out for as you read. You will probably need to read it several times.

B. CHECK YOUR UNDERSTANDING: When you are clear about the general meaning of the passage, you can work through it in more detail with your dictionary. In this section you will be asked to answer a number of detailed questions. You could tackle them by jotting down a few notes and then turning your notes into complete answers, which your teacher will check. You should *always* have a dictionary handy and *never* be too proud (or too lazy!) to look things up.

C. INCREASE YOUR VOCABULARY: In this section you are asked to look at certain words which are used in the text, and there are several kinds of activity to help you remember them. Notice that they are not all new or technical terms; it is often familiar words used in an unfamiliar way that will cause you trouble.

D. CHECK YOUR GRAMMAR: There are probably no new grammatical structures in the texts, but you may need reminding of some of them. The most important ones arising from the texts are revised and practised in this section.

E. UNDERSTANDING A LECTURE / H. UNDERSTANDING DISCOURSE: Sections A-D are all concerned with gaining access to new information through reading, but an important source of information is through listening — to lectures, talks, discussions, even simple conversations between fellow students — so sections E and H are both based on the recordings, to which you should listen (usually several times) before attempting to answer the questions or perform the activities given in your book. You will hear a variety of voices and accents, all speaking at the sort of speed that is customary in an English-speaking environment.

F. UNDERSTANDING A PRINTED TEXT (2) / G. CHECK YOUR UNDERSTANDING: These two sections are very similar to A and B, but the questions in section G are presented in several different ways.

Although we hope that you will enjoy working through this course, we do not expect you to find it easy. At various times you will probably start wondering how much you have been learning — or your teacher will want to find out what progress you are making. So after Units 5 and 10 we have included progress checks (not tests!) so that you can get a fairly clear idea of this. By the time you have completed Unit 15, you will be ready for anything!

Some of the texts are written in American English, which has some differences from British English, especially in spelling (e.g. *Br.* vapour, *Am.* vapor). You might find it useful to keep a running list of such examples. Remember that they are equally acceptable, but you should avoid mixing them in a single piece of writing.

Vaughan James

Oxford, 1989

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STARTING A BUSINESS

UNIT

1

A. Understanding a printed text (1)

The following text introduces some of the problems — especially **financial** — which arise when a new business is to be started. Look at the way the passage is constructed, with different paragraphs dealing with specific aspects. Pay attention to the side-headings and to the diagram and caption.

Now look at the following questions and read the passage through quickly to find the

answers. Remember that you do not need to understand every word in order to answer the questions.

1. What is the passage about?
2. What is the first thing you need if you want to start a business?
3. Why is it good to start production as soon as possible?
4. What does Figure 1 show?

THE FLOW OF FUNDS

The object of running any business is to make money, and the first requirement in order to start up a new business is, likewise, money. It does not necessarily have to be a very large amount — it depends on the business — and there are lots of encouraging stories of entrepreneurs making vast fortunes out of very small initial funds. But however much it is, it has to be managed well if the business is to survive and prosper. Perhaps a more reliable guide is the old saying that 'money breeds money'.

In this unit we shall look first at how money flows through a small manufacturing business, rather like water flowing through a circulation system. This is illustrated in Figure 1.

- 1 If a business is to be started, funds must first be obtained from some source. The money may come from the would-be businessman's personal savings — in which case it is called *equity capital* — or it may be borrowed from a bank. *Loans* to be repaid over a period of one to four years are short-term loans; loans for a period of five years or more are long-term. Whatever the source, the money has to be obtained and, when it has been obtained, it must be properly handled.

When a business has been formed, a number of important decisions will have to be made, such as what premises are to be used and, for a manufacturing concern, what plant and machinery will be needed. Such items are known as *fixed assets* and require a heavy outlay of money. Then a supplier has to be found, from whom the materials needed for manufacturing the product — the *raw materials* — will be obtained, and the *terms of credit* will have to be agreed. Then there are a number of other decisions to be made, such as how many people are to be employed and what equipment they will need, how many telephones are to be installed, etc. And all of these will require financing.

- 2 Once these decisions have been made, it will be necessary to implement them and start the manufacturing process as soon as possible. Until the business has a product for which there is a demand, and has succeeded in selling that product, there will be a continuous drain from the pool of money. If the business finances are not properly managed, it may well disappear altogether. The 'pumps' in Figure 1 represent the points at which good management can speed up the whole process. The successful integration of people and materials requires good management, and the more effectively this is done, the better for the business.

Introduction

The first requirements in starting a new business

The need for decisions

Starting production

- 3 There is always a leak of resources through the tap at the pool of stock (Tap 1). This is a controllable leak and its size depends upon the success or otherwise with which the raw materials are managed. If store facilities are poor, and the storeman is not very interested in his job, the leak will be large. The loss can be minimised by a good system of stores control backed by well trained staff.
- 4 During and immediately following the production process, there are two other 'pools' in which the resources employed in a business become trapped. These are *work in progress* (WIP) and *finished stock*. In even the most successfully managed businesses there will be, at the end of each accounting period, some items that are between the raw material and finished goods stage. Management would like all items to be produced as quickly as possible but, as things take time to make, work in progress can never be eliminated. It should not, however, be allowed to build up to an unnecessarily high level. There are problems, too, in deciding how work in progress should be valued, and the system necessary to keep track of it has to be specified. Finished stock should be sold and delivered as quickly as possible, although in some cases — where the demand for the goods is seasonal — it may be necessary to have facilities to hold quite a lot of finished stock. Toy manufacture, where the bulk of the sales takes place at Christmas, is one example of this. The loss of resources at the finished stock stage can be serious unless a good system of stores control is employed. The loss can be due to pilfering, breakages and general deterioration. Stock levels in the UK used to be much higher in the manufacturing sector than in America, Germany and Japan, but the destocking brought about by recession lowered them.

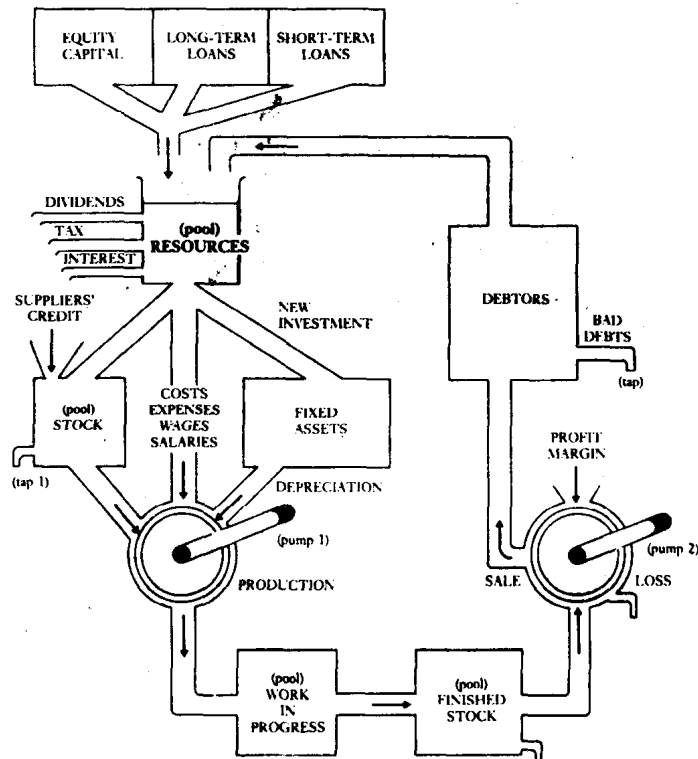


Figure 1 Business Funds Flow

B. Check your understanding

1. Now read the text carefully, looking up anything you do not understand, and answer the following questions:

1. What is the object of running a business?
2. What is the first thing you need if you want to start up a new business?
3. What are personal savings invested in starting a business called?
4. What alternative sources of funds might be used?
5. What is long-term loan?
6. What kinds of fixed assets can you name?
7. What do you call the materials from which the product is to be made?
8. Why should the manufacturing process be started as soon as possible?
9. What determines the size of leak from the pool of stock?
10. What may happen if storage facilities are poor?
11. How can the resulting loss be minimised?
12. In what other 'pools' may business resources be trapped?
13. In general, should the amount of work in progress be kept high or low?
14. In what circumstances should large stocks be built up?
15. What was the cause of destocking in the United Kingdom and many other countries in recent years?

2. Look at Figure 1 and answer the following questions:

1. What are the main inputs of funds?
2. What expenditures have to be met from the pool of resources?
3. What payments have to be made in addition to costs?
4. What additional input enables you to acquire stock?
5. What would be the effect of slowing down at pump 1?

C. Increase your vocabulary

Explain in your own words the meaning of the following words and expressions as used in the text:

- Introduction, line 4: entrepreneurs
- paragraph 1, line 3: equity capital
- 7: 'money breeds money'
- 4: short-term loan
- 5: long-term loan

- paragraph 1, line 9: plant and machinery
10: fixed assets
10: heavy outlay
- paragraph 3, line 1: leak of resources
2: controllable leak
4-5: the loss can be minimised
- paragraph 4, line 4: accounting period
11-12: the demand for the goods is seasonal
13: finished stock
16: general deterioration

D. Check your grammar

Remember?

The nature of the business *will already have been decided*.
You *will already have decided* the nature of the business.

cf: However much it is, it has to be managed well. (indirect/impersonal)
However much it is, you have to manage it well. (direct/personal)
The first example is not addressed at anyone in particular; it is an impersonal statement.
The second example is directed at you, the reader, personally. The difference is not one of meaning but one of style.

Now make the alternative forms of the following (taken from the text) and explain the difference:

1. If a business is to be started, funds must first be obtained.
2. It may be borrowed from a bank.
3. When it has been obtained, it must be properly handled.
4. When a business has been formed, a number of decisions will have to be made.
5. All of these will require financing.

Can you find other examples in the text and explain them?



E. Understanding a lecture

Listen to the lecture given on your tape. It is split into sections to make it easier to understand. Then look at the questions given below and listen again for the answers. You may find it useful to stop after every section and perhaps repeat it. Answer the questions in your own words:

1. What are the three general reasons for failure cited by the lecturer?
2. Which does he think is the most important?
3. What does he say is the most important aspect of management?
4. What are the five lessons he draws from examples of bad management?
5. What does he give as the golden rule?

F. Understanding a printed text (2)

STARTING TO TRADE

1 The next point at which good management can greatly improve the resources available to the business is by selling and distributing the finished goods as quickly as possible and obtaining the money from the firm's customers in the shortest possible time. There is a loss at the time of sale, which good procedures can largely eliminate, caused by damage, pilferage and below-standard items that are returned, as well as by items incorrectly delivered. It is here that the greatest potential loss occurs, that of bad debts — people who take delivery of goods but do not pay for them. Most business is conducted on credit, and, with the difficulty in obtaining sales, credit has become easier to obtain. It is one element in the marketing mix and its terms depend on many things, including the custom and practice of the trade, and the pressures on the company to make a sale. Nearly all businesses suffer from bad debts, and, in order to keep them to a minimum, an efficient system of credit control is essential. The practice of *factoring* your debts, which entails employing a third person who obtains your money for you for a fee, is widespread in America and growing elsewhere. It has the advantage of giving the business money to use more quickly than would otherwise be the case. The criticism most usually levied against it is that it destroys the special relationship between the organization and its customers.

Credit

2 The money collected from the customers now replaces some of that used in starting the business, but the 'taps' of dividends, tax and interest have to be considered. Shareholders' dividends can be paid only out of profits, so if no profits have been made no dividends will be expected. If profits have been made, dividends may be paid at the discretion of the owners, but this is not a requirement. If a business is continually making a profit but refuses to pay dividends, without good reason, it will find it difficult to obtain money from the public when it next needs it. Interest has to be paid whether the business is profitable or not, which means that businesses have to ensure that they do not borrow so much that they cannot afford the interest charges. The amount of interest to be paid depends on the size and terms of borrowing, which good management can ensure remain within the capability of the business. Tax is chargeable on profits but is at a minimum in the early years of manufacturing businesses, because of capital allowances, as well as when any large capital investment programme has been undertaken.

Dividends, tax and interest

3 The amount of money that a business has at its disposal to enable it to operate until more money has been received is called its *working capital*, the difference between the capital it will have available within the next four or five months and what it will have to pay within the same period. It may need enough working capital to keep it going for five months before it receives any further resources.

Working capital

This may be broken down as:

Obtaining raw materials	4 weeks	} These periods are for example only and will vary from industry to industry
Manufacturing process	4 weeks	
Held in stock	4 weeks	
Collect money from customer	8 weeks	
Total	20 weeks	

All this time the costs, expenses, wages and salaries have to be met. It is for this reason that it is important to ensure that the working capital and other financial resources of the business are properly managed.

G. Check your understanding

1. Read through the text very carefully, looking up anything you do not understand. Then answer the following questions:

- What is the benefit of selling the product as soon as possible?
- What is the purpose of credit control?
- What is the disadvantage of factoring debts?
- Does a profitable business *have* to pay dividends?
- What is meant by working capital?

2. Say whether the following statements are true or false:

- When it is difficult to get sales, it is also difficult to get credit. ☐
- Getting someone else to collect the money owed to you improves your relationship with your customers. ☐
- Profitable businesses do not have to pay dividends to their shareholders. ☐
- If a business is not profitable, it does not have to pay interest on the money it has borrowed. ☐
- The tax charged on profits is greater in the first few years after a business is started. ☐



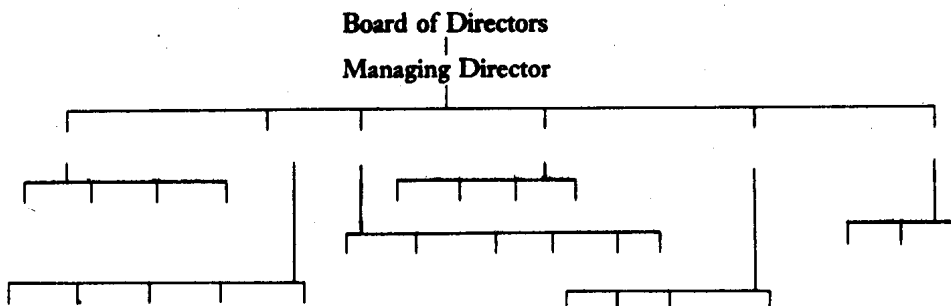
H. Understanding discourse

Listen to the recording on your tape of a talk given by the Managing Director of a company. Play it right through in order to get a general idea of what it contains. Then look at the questions below and at the scheme of the organisation of a company. Then play the tape again, section by section, and make notes for your answers to the questions. When you have done this, expand your answers into complete sentences and enter the titles of the departmental managers in the appropriate place in the scheme. (You will add to this for the next three units, until it is complete.)

1. Are all companies organised in the same way?
2. Why is it sometimes necessary to change the organisation?
3. Who appoints the Chairman?
4. What is his function?
5. What are the duties of the Managing Director?

Now list the six departmental managers and enter them on the scheme below.

The Organisation of a Company



Reading passages (1) and (2) were taken, amended, from: David Davies, *The Art of Managing Finance*, McGraw-Hill (UK), 1985.

THE PROBLEM OF CASH FLOW (1)

UNIT 2

A. Understanding a printed text (1)

The following passage introduces the topic of the **management of cash resources** in a business, the problem of cash flow. Look at the way the passage is constructed, with paragraphs dealing with different aspects. Pay special attention to the side-headings, the illustrations and the captions.

Now look at the following questions and read through the passage quickly to find the

answers. Remember, you do not have to understand every word in the passage in order to answer the questions.

1. What, in your own words, is the passage about?
2. What main form of cash does it deal with?
3. What does Figure 11.1 show?
4. What is the point of Table 11.1?

MANAGING THE CASH

- 1 More businesses fail for lack of cash than for any other factor, and while profits are important because in the longer term they generate cash, it is the management of cash resources in the business that is of prime importance.

Without cash a company cannot:

- Pay creditors.
- Pay wages and salaries.
- Invest in stocks of materials, parts, and finished products.
- Invest in the future.
- Design and develop new products or services.

Why businesses fail

The uses of cash

- 2 The major flows of cash income are:

1. Cash arising from sales revenue (invoiced goods).
2. Cash arising from the sale of current assets—unwanted finished stocks, materials, and parts stocks.
3. Cash arising from the sale of fixed assets, i.e., from liquidating the capital resources of a business. This is good when the assets are unused, but not if the assets may be necessary for future business.

Other forms of cash income are:

4. Loans, mortgages, overdrafts, share or stock issues.

These have to be paid back, and usually at some interest or cost of capital.

Major cash flow of income

3 In this section we will deal mainly with the forms of cash that can be released most easily, namely, working capital. Figure 11.1 shows typical cash flow periods for some UK companies.

An example of the working capital cycle for a five-year period is given in

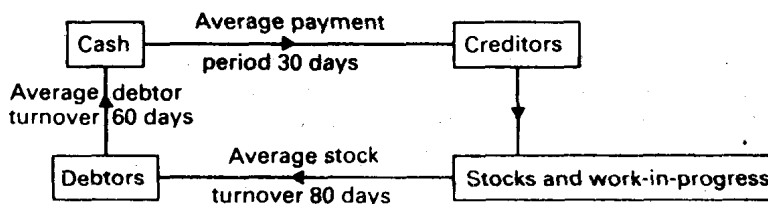


Fig. 11.1 Typical cash flow periods for some UK companies

Table 11.1. It can be seen just how rapidly the working capital needs have expanded during that time. The question then arises: have these increased in proportion to sales or as a result of poor cash flow management? The ratio of working capital needs to sales can be seen by the number of days required for total working capital: this has generally risen, largely because of the increase in the average stock turnover, which has increased from 50 to 80 days. Stock turnover improvement is necessary.

4 Effective cash management usually means control over two main factors:

1. *Control of debtors.* Standards should be set for the typical payment periods normally expected for the country in question. In some countries no debtors are allowed: invoices are sent to the customer and their banks and the amount is credited immediately. Other countries may have laws about the number of days over which debts are allowed.

If there is no legal stipulation, then an analysis of debtor payment times (an 'age analysis') is needed, and those customers in arrears need chasing in order to get payments.

Alternative arrangements may also be applicable for those who persistently take too much credit, e.g., requiring cash in advance or on delivery, bankers' drafts, export credit guarantees, etc. Some companies rely on 'factors' to pay them the cash for invoiced goods The factors are responsible for the collection of debts, but this is always at a high cost to the company.

Table 11.1 Example of a working capital cycle for a five-year period

Year	Average stock turnover £'000 days		Average debtor turnover £'000 days		Average payment period £'000 days		Total working capital needs £'000 days	
1	150	50	100	60	80	30	170	80
2	250	60	120	65	100	35	270	90
3	400	65	180	55	160	40	420	80
4	600	70	240	55	200	35	640	90
5	900	80	80	60	250	30	950	110

2. *Control over stocks and work in progress.* More precise means of managing and controlling stocks and work in progress in companies is generally essential. This is achieved by:

- (a) Using the 80/20 rule, in which 20 per cent of the products give rise to 80 per cent of the value. The planning, scheduling and control of the 20 per cent needs detailed attention compared to the 80 per cent of the products that provide only 20 per cent of the value.
- (b) Using material requirement planning and/or scientific stock control methods for controlling the purchase and use of materials.
- (c) Using modern production control methods of planning factory activities. This may involve the methods given in (a) and (b) above, plus planning and controlling the capacity of both people and machines so as to ensure good material flows, uninterrupted supplies, and the reduction of delays on the shop-floor.

Stocks and WIP

5 A good cash flow constitutes the life-blood of a business; therefore it has to be planned and monitored carefully to ensure that a company has sufficient cash in hand at all times to meet its immediate needs. Failure to meet financial obligations as they come due may be most serious and could lead to bankruptcy.

The running of a business involves the acquisition of assets, purchase of stocks, and payment of wages and other expenses, all of which normally have to be settled by means of cash outgoings. The use of money also incurs outgoings in the form of interest or dividends.

Measures may have to be adopted to enable the company to manage with only small cash balances, thereby releasing the maximum amount of cash for investment in fixed assets and work in progress.

The financial soundness of an organization is of interest not only to the company itself but to many people outside:

1. Creditors will want to know its financial status.
2. Shareholders, banks, and others advancing funds to the company will want to be assured of the security of their investment.
3. A bank loan is much easier to obtain if the bank is satisfied that the cash requirements have been foreseen and estimated in advance.

The planning of cash requirements enables the organization to foresee both surpluses and shortages. If it is anticipated that additional funds will be required at a particular date, it should be possible to choose the most advantageous time to raise share capital or other loans. On the other hand, temporary surplus cash may be used for short-term investments while permanent surplus funds may be used to develop the business by acquiring additional assets, subsidiaries, or ordinary long-term outside investments.

Managing cash flow

B. Check your understanding

Now read the text carefully, looking up in your dictionary anything you do not understand. Then answer the following questions:

1. What is the main cause of failure of businesses?
2. Is the sale of fixed assets a good thing?
3. What is the disadvantage of borrowing money?
4. What is the usual name for forms of cash that can be easily released?
5. What two main factors are involved in effective management of cash?
6. What happens in countries where no debtors are allowed?
7. What is 'age analysis'?
8. What steps can be taken with customers who take too much credit?
9. What does the 80/20 rule state?
10. What may result from failure to meet financial obligations in time?
11. Who is interested in the financial soundness of an organisation?
12. If additional funds are needed, what should be done?
13. What makes a bank more willing to lend money?
14. What use may be made of temporary cash surpluses?
15. How can permanent cash surpluses be used to develop the business?

C. Increase your vocabulary

1. Say in your own words what the following items mean as they are used in the text:

- paragraph 1, line 3: cash resources
5: creditors
- paragraph 2, lines 5–6: liquidating the capital resources
line 9: share or stock issues
- paragraph 3, line 10: stock turnover
- paragraph 4, line 12: banker's drafts
export credit
guarantees
- paragraph 5, line 6: acquisition of assets

2. What could you use in this passage instead of the following, without changing the meaning?

- paragraph 1, line 2: generate
- paragraph 2, line 9: mortgages
overdrafts
- paragraph 4(1), line 1: debtors
6: stipulation
12: 'factors'
- paragraph 4(2), line 5: scheduling
12: capacity
13: good material
flows

D. Check your grammar

Remember?

This has to be done at once.

You have to do this at once.

Change the following quotations from the text into the alternative form and explain what difference this makes:

- These have to be paid back.
- The forms of cash that can be released most easily . . .
- An example of the working capital cycle . . . is given.
- It can be seen how rapidly the needs have expanded.
- Standards should be set for typical payment periods.
- Invoices are sent to the customer.
- The planning . . . needs detailed attention.
- It has to be planned and monitored.
- Measures may have to be adopted.
- Temporary surplus cash may be used for short-term investment.

E. Understanding a lecture



You are now going to hear part of a lecture, divided into sections to help you understand it. As you listen to each section, note down what seem to you to be the most important points (there will usually be one major point in each section). The notes do not have to be full sentences: if you try to write complete sentences, the lecturer will have gone on to new points, which you will miss. You can always come back to your notes and expand them after the lecture has finished. Then look at the following questions, which you should also read *before* listening to the lecture, and see if you can answer them, first of all from your notes, and, if not, by replaying the tape. You will find this technique gets easier as you practise it:

1. What does the lecturer say is the aspect that has to be got right — in addition to finance — if a company is to avoid getting into trouble?
2. What government measure controls the registration of companies in the United Kingdom?
3. How many main types of company does the lecturer set out to explain?
4. What is meant by 'unlimited'?
5. In what sort of organisation are you likely to find a company limited by guarantee?
6. What is the aim of such a company?
7. What liability for paying the company's debts does a fully paid up shareholder in a limited company have?
8. What is the minimum value of shares that a company must issue if it wishes to achieve plc status?
9. What do plc and Ltd mean?
10. Is it possible to change from one to another?