



Pareto Principle

Vilfredo Pareto (1848–1923) was a French-born Italian economist and sociologist, known more widely for his theory on mass and elite interaction as well as his application of mathematics to economic analysis.

The fundamental concept of Pareto Analysis or the Pareto Principle is that a business derives 80% of its income from 20% of its customers (known as the 80:20 rule). In other words, this 20% of loyal customers are the foundations upon which a business can build its profits and its market share. On the reverse, the remaining 80% of its customers only provide the business with 20% of its income. This is largely due to the fact that these customers are irregular purchasers and are far more prone to brand switching.

Marketing aims to ensure that the profitable 20% of customers retain their customer loyalty and that, gradually, significant numbers of the remaining 80% are transformed into loyal customers, thus increasing market share and profitability.

Partnership

In partnerships those involved share the control, responsibility and finances. A partnership can consist of between 2 and 20 people and in essence the partners take on joint or shared responsibility for the running of the business. Both the profits and the liabilities are shared.

In the majority of countries there are two forms of partnership; an ordinary partnership means that the partners have unlimited liability and all profits are shared equally. Another feature of an ordinary partnership is that partners take on equal responsibility for decision making. Limited partnerships, on the other hand, offer limited liability – profits are shared equally, but the responsibility and control of the business lies with the ordinary partners. Limited partners do not necessarily involve themselves with the day-to-day running of the business.

Legally the partnership has to be set up in accordance with the Partnership Act (1890) and it is usual for partners to draw up a **partnership agreement** which legalizes the partnership. This details profits, liabilities and responsibilities.

Partnership agreement

A partnership agreement is generally drawn up either by the partners themselves or by a legal advisor. In essence the partnership agreement incorporates the following features:

- the amount of capital that each partner will invest;
- the profit ratio linked to the amount that was originally invested or will be subsequently invested;
- debt liabilities;
- seniority and control;
- rules regarding the admission of new partners;
- rules on ending the partnership.

In Britain, should disputes arise as a result of there not being a partnership agreement, the guidelines as set out in the Partnership Act (1890) are followed.

Passing off

Passing off occurs when a business adopts a similar name to an existing business, with the purpose of trying to use the other business's reputation in order to attract customers and sales. In effect, they are trying to take advantage of the **goodwill** which has been built up by the original business. In the vast majority of countries, passing off, if proved, is an illegal action, punishable by court action.

Password authentication procedure

A password authentication procedure is a validating process when a user requests network connection. Once a link is established, the user sends the network a password and identification. The server then validates and acknowledges this request. If the password and identification cannot be validated then the server will request that the information be entered once again, or will terminate the connection. A more secure version of this authentication procedure is known as the **challenge-handshake authentication protocol**.

Payback

Payback, or the payback period, is the time required for a project to repay the initial investment which was made by the business. Although the payback period calculations are not very sophisticated, they are often used as a method of investment appraisal. Typically, the formula to work out the payback period is:



$$\frac{\text{Investment outlay}}{\text{Contribution per month}} = \text{Payback period}$$

The payback method is particularly useful for businesses which have somewhat erratic **cash flow** as it helps them to assess how long it will take for an investment in a particular project to repay itself. Unfortunately, the payback method is somewhat short-term in the way it approaches the possible return on investments. Should a project take a considerable amount of time to payback, it becomes increasingly difficult to predict exactly what might happen far into the future. This methodology also ignores profits and focuses on time, which means that this form of investment appraisal needs to be coupled with other assessment methods.

Payment processing

Payment processing refers to the use of third-party processors to assist in dealing with transactions. Typically, this would include banks and other organizations capable of dealing with **electronic payment systems**, including the use of debit and credit cards, ATMs, corporate purchasing and the payment of wages and salaries (**payroll processing**). For the most part, businesses **outsource** these payment systems, particularly as a result of the payment processors offering hardware, software and support services to allow a fully integrated payment-processing transaction system.

Payment systems

Payment systems can include a variety of hardware and software systems aimed at automating payment transactions. These would include payment systems at point of sale, credit card transactions and commercial accounts receivable. Internally, payment systems are also used for **payroll processing**.

Kou W. (ed.), *Payment Technologies for E-commerce*. Berlin and Heidelberg: Springer-Verlag, 2003.

Payroll processing

Payroll processing is the business function which deals with employee compensation. As an integral part of payroll processing, the employer needs to maintain records which track employer-paid benefits, deductions, pay and expense details, attendance records and a variety of other payroll-related issues. Payroll processing can be carried out internally

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using proprietary software programs or, increasingly, the function is **outsourced** to a specialist organization which also provides human resource management and administrative backup.

Performance appraisal/evaluation/review

Performance appraisals are the most common form of performance management, but the concept also incorporates employee feedback, development and compensation. Overwhelmingly, however, the majority of employees are dissatisfied with performance management systems (the Society of Human Resource Management quotes a 90% figure).

Framing an effective performance management system can be fraught with difficulties; however, the following aspects are seen to be integral to the creation of such a scheme:

- A clear definition and measurement of performance is vital.
- Content and measurement should derive from internal and external customers.
- There should be a formal process of investigating and correcting situational influences and constraints on performance.

Above all, accurate and fair performance management needs to assess employees in relation to the factors listed in Table 19.

360-degree appraisal has rapidly become an integral part of performance management. A standard 360-degree appraisal system requires face-to-face feedback sessions, where employees are given an opportunity both to ask their own questions and to listen to feedback.

Table 19 Performance management requirements

Communication, coordination and support	Equipment and environment
Amount and relevance of training received.	Equipment and tools necessary to do the job.
Information, instructions and specifications needed to do the job.	Process for obtaining and retaining raw materials, parts, supplies.
Coordination of work activities.	Dependability of equipment.
Cooperation, communication and relations between co-workers.	Conditions in which job is performed.
Financial resources available and time allowed to produce quantity and quality of work.	



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Many businesses have instituted a more sophisticated system in which employees are evaluated by a number of individuals, including senior staff and colleagues. The quality of the data which is collected is high and becomes the primary focus and driving force behind training programmes. In order to ensure that the system works to its best potential, there are six steps which need to be considered. These are summarized in Table 20.

After these six steps, a development plan needs to be agreed in order to identify specific steps and intended outcomes. There also needs to be a genuine commitment by the business to provide resources and other support in order for these outcomes to be achieved.

Table 20 Six requirements for employee evaluation

Steps	Description
Open mind	Those undergoing the appraisal need to have commitment, vision and often the courage to face how they are viewed, as well as a willingness to implement any suggestions. As drawbacks are highlighted, an objective and open-minded view needs to be taken towards criticism.
Self-evaluation	A clear and honest listing of current competences is essential. The gaps in competences should be highlighted and prioritized, as this gives a clear message to those providing feedback that the individual is prepared to discuss critical areas of his or her abilities.
Plan of action	There needs to be a clearly established set of performance categories. Normally feedback will be provided by managers and peers, both direct and indirect colleagues. The ideal number should not exceed 6–8 individuals.
Mental preparation	Self-evaluation techniques require an individual not to be defensive and to be prepared to receive feedback. Whatever is said needs to be listened to and accepted.
Action	During the interviews those providing feedback are delivering the information for a positive purpose. Advice, suggestions and assistance should be sought, as well as clarification. The interview should be frank and honest.
Analysis	In essence, the feedback needs to be analysed in terms of strengths and weaknesses that have been identified. The strengths and weaknesses need to be categorized in order to identify areas of improvement or, perhaps, clarification. Specific areas may need specific actions.



Appraisals are, in effect, a way of judging an employee's performance in a given job. The performance appraisal considers more than productivity, but is often used as the basis upon which increases in wages or salaries are considered. Whilst managers and colleagues constantly form and reform opinions of those who work for them or with them, a formal appraisal meeting puts these considerations into a more formal context.

The basic functions of an appraisal system are:

- to determine the short-, medium- and long-term future of the employee;
- to identify possible training needs;
- to motivate the employee;
- to assist management in deciding what levels of pay increases will be accorded to that individual.

Typically, appraisals will take the form of a performance review, a potential review or a rewards review. There are, of course, a number of different ways in which appraisal schemes are organized, which include the ranking method, the 360-degree performance appraisal, rating scales and behaviourally anchored rating scales (BARS).

Appraisals rely on being able to provide positive criticism to individuals, and the setting of realistic standards which require the employee to give maximum effort in order to achieve the set goals. Appraisal systems need to have clearly defined rules and expectations and, above all, the appraiser (the individual delivering the appraisal) and the appraisee (the individual being appraised) need to be speaking the same language. This implies, therefore, that a degree of training for both parties needs to be instituted prior to the running of an appraisal system. This not only sets the pattern and nature of the appraisal, but also allows for the unscheduled reviewing of factors which have been brought up during the appraisal interviews. Clear documentation needs to be drawn up, as well as a log to note performance deficiencies and performance improvements.

DeNisi, A. S. and Kluger, A. N., 'Feedback Effectiveness: Can 360-degree Appraisals be Improved?' *Academy of Management Executive*, 14 (1) (2000), pp. 129–39.

Ghorpade, J., 'Managing Five Paradoxes of 360-degree Feedback', *Academy of Management Executive*, 14 (1) (2000), pp. 140–50.

Maddux, Robert B., *Effective Performance Appraisals*. New York: Crisp Publications, 2000.

Neal, James E. and Neal, James E., Jr, *The #1 Guide to Performance Appraisals: Doing it Right!* Perrysburg, OH: Neal Publications, 2001.

Neal, James E., Jr, *Effective Phrases for Performance Appraisals: A Guide to Successful Evaluations*. Neal Publications, 2003.

Soltani, Ebrahim, Gennard, John, van der Meer, Robert and Williams, Terry, *Content Issues of HR-Related Performance Measurement: A Total Quality Management Approach*. Research paper, University of Strathclyde.

Performance gap

A performance gap is the difference between an objective and the actual results. Most businesses will establish their own key **performance indicators**, which will allow them to focus on the **critical success factors**. The indicators can be used to determine the degree of change and are invariably an established target associated with a particular date. The performance gap is, therefore, the difference between where the business is at that date and where it had hoped or assumed it would be.

See also gap analysis.

Performance goal

Central to the concept of performance goals is the setting of specific measurable goals. In achieving all conditions of a measurable goal a business can be confident and comfortable in its achievement. However, if it consistently fails to meet measurable goals, these will need to be adjusted or an analysis needs to take place to find out the reason(s) for the failure. Businesses will often set unrealistically high goals for various reasons, including:

- setting the goals in accordance with an external party's over-optimistic appraisal, which may not take into account the actual abilities of the business;
- insufficient information – the business will often not have a clear, realistic understanding of what it is trying to achieve or the skills and knowledge that are required;
- expecting that the business will always perform well and at its optimum; this is an unrealistic suggestion as many factors can affect performance and it is often better to set goals based on average performance, which could be consistent.

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Alternatively, goals can be set too low for the following reasons:

- Fear of failure – a business that lacks self-confidence will not consider it wise to set goals which are risky. It will ignore the fact that failure can be positive as it shows where skills and performance need to be improved.
- Taking the easy option – this is an attractive basis for goal setting as it does not require the business to stretch itself, but the achievement of these goals would probably be worth very little.

Goal-setting needs to be at the correct level and this is a skill which can

only be acquired by practice. Unrealistic goals are self-defeating because the business will quickly realize that there is little point in putting serious effort into goals which cannot be reached. Goals should not be set in stone; they need to be continually measured and adjusted.

Performance indicator

Performance indicators are the key measurement of performance in a business and are continually monitored and assessed. They aim to identify particular strengths and weaknesses. Whilst many businesses may adopt a series of key performance indicators (KPIs), measuring efficiency (input versus output), adaptability (reconfiguring time), financial strength (return on equity) and effectiveness (non-defects produced), others divide them into the following key areas:

- Behaviour – relating to the management of staff, including labour turnover, absenteeism, accidents, etc.
- Confidence – examining the relationship between the organization and its broader environment, specifically its **stakeholders**.
- Ethics – considering the standards of behaviour of the organization against set criteria.
- Operation – which considers profitability, product mixes, portfolios, productivity and output.
- Specific issues – such as profit per employee, returns on investment, delivery speed and quality targets.
- Strategy – considering the overall effectiveness of the organization.

Businesses will attempt to identify leading indicators which will help them quickly respond to conditions just as the situation is beginning to have an impact on their operations. They can then make adjustments to their processes before unexpected outcomes affect them.

Performance management

Performance management can be seen as a systematic and data-oriented approach to managing employees, based on positive reinforcement as the primary driver to maximize their performance. Performance management assumes that there is a disparity between what an employee is currently achieving (on the basis that they have to do this work and perform to this standard) and the possibility that they desire to perform better (based on the assumption that they have desires to perform more effectively if given the opportunity and the encouragement). In many respects, the concept behind performance management

is a recognition of this potential gap between actual performance and desired performance. This can be illustrated in the graph in Figure 21, which identifies the discretionary effort of an individual. This discretionary effort is applied according to circumstances and is variable. Performance management seeks to identify the gap between 'having to' and 'wanting to' and to push the performance up to the 'want to' level.

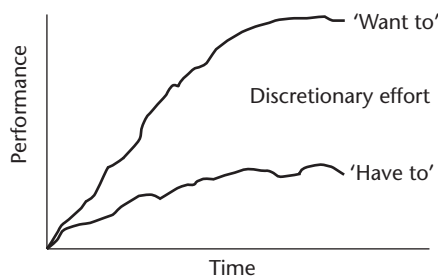


Figure 21 The performance gap

Source: www.p-management.com

Performance management has been used in its various forms since the mid-1970s and it is believed to be applicable to almost every area of a business. Its primary focus is, of course, employees. The first major step in implementing a performance management system is to move away from negative reinforcement of standards, which seeks to punish individuals for not performing to (often) unspoken levels of performance. Performance management uses positive reinforcement to generate effort beyond what is normally (minimally) exhibited by the employees. In this way, the discretionary effort is encouraged and the organization as a whole can move towards a maximization of performance.



Kotter, John P. and Heskett, James L., *Corporate Culture and Performance*. New York: Free Press, 1992.

Porter, Michael, *The Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Simon & Schuster, 1998.

Performance measurement

Performance measurement is a means by which a business can monitor its key **performance indicators**. Typically, these may include output, cost and asset utilization and other measures. Performance measurement is an important tool in business improvement.

Permission marketing

Permission marketing is also known as request marketing and involves direct marketing approaches to customers who have expressed an interest in receiving further information, news and updates from a particular business. Permission marketing is used in several different areas of marketing and across a wide variety of different industries. Conventional forms of permission marketing relate to the continued contact with customers who have requested brochures or sales literature on a previous occasion, but who may not have yet purchased products or services from the business. Alternatively, they may be lapsed customers who are still on a business's database.

Permission marketing has developed considerably over the last few years alongside the increased intensity of business use of the internet. It is closely associated with concepts such as opt-in **email** or other positive customer-initiated contacts with a business. Permission marketing practitioners distinguish their form of marketing from the more intrusive forms of direct mailing or emailing unsought sales messages to customers. Permission marketing, by its very nature, assumes that the customer has a basic form of interest in what the business is offering and that they welcome the periodic contact with the business.

Godin, Seth, *Permission Marketing: Turning Strangers into Friends and Friends into Customers*. New York: Free Press, 2002.

Personal development plan

Increasingly, individuals have ultimate career ambitions or career goals. With many organizations offering fewer advancement opportunities, individuals are gradually taking ownership of their own careers. In order to achieve this they set themselves time-related career objectives. These detail a list of knowledge and skills which are required, and which form the basis of a training plan. This is the very essence of a personal development plan: the gradual and timely acquisition of knowledge and skills by participation in seminars, workshops, secondments and conferences. Personal development plans do not necessarily have to evolve around traditional qualifications. Increasingly, knowledge and skills are acquired by experience rather than examination.

Personal digital assistants (PDAs)

A personal digital assistant is a hand-held device which offers a variety of functions, including diaries or internet access. PDAs are essentially the modern-day equivalent of a Filofax but these hand-held mini-

computers are capable of storing all the data an individual may need during the day, incorporating spreadsheets and word processors. PDAs can use keyboards, computer stylus or touch screen displays and allow the user to transfer information to and from desktops or laptops into the PDA. The great advantage of PDAs is their battery life, weight and size, making them an increasingly viable alternative to laptops.

Personal information management (PIM)

PIM is a software program which enables users to organize the information which they have to deal with on a daily basis to suit their own personal style. It can be loaded onto a standard desktop, laptop or **personal digital assistant**. PIMs are also available on the internet and they are currently being offered free in order to improve their **stickiness**.

Personalization

Personalization is a growing area of sales and marketing, as it seeks to provide individual customers, or groups of customers, with adapted versions of the basic product. Specific changes or amendments can be made to the standard offering – for example, customers can buy a regular model of a vehicle but determine the colour, the trim and the internal colours and layout. Personalization has become possible as businesses adopt a more market-orientated approach and adapt their production systems to produce products and services on demand, rather than stockpiling supplies in the anticipation of sales. Personalization allows marketing to focus on the individuality of the products and the options and choices available to each and every customer.

Kasanoff, Bruce, *Making it Personal: How to Profit from Personalization without Invading Privacy*. Chichester: John Wiley, 2001.

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Personnel specification

A personnel specification highlights the main characteristics which will be required from the individual who is to undertake a job role. Dependent on the requirements of the job, these characteristics will include:

- physical attributes;
- current attainments;
- intelligence levels;
- aptitudes;

- interests;
- disposition;
- circumstances.

The personnel specification is used in relation to a **job specification**, from which a **job description** is written.

PEST analysis

See Five Forces.

Piecework

Piecework means that employees are not paid for the hours that they work but instead are paid for the number of items produced. A worker should, theoretically, not get less than the minimum wage if paid on a piecework basis.

Many factories pay staff a flat rate per hour plus 'piece' work (so much extra per piece of work), which allows experienced staff the opportunity to increase their wages.

Portal

A portal is, in effect, a gateway onto the internet. From this initial gateway users can access all information, connect to other websites or check their **email**. The most common forms of portal include Yahoo and AOL which are designed to be user-friendly and offer a variety of general information on the portal page. Businesses have developed their own portals, which are designed for employee access to information from the databases, human resources, press releases and on-line newsletters. Some portals are essentially directories or a catalogue of information regarding websites. Increasingly, towns and cities have their own portal, linking to sporting events, cultural activities, classified advertising and weather forecasts, etc.

Portfolio analysis

Product portfolio analysis is probably most closely associated with attempts to assess the market growth rate and a product's relative market share. Product portfolio analysis is a key marketing activity in determining the direction and intensity of marketing strategies.

See also Boston Growth Matrix.



Preference share

Preference shares pay a fixed dividend and compared with **ordinary shares** they offer greater security to the investor, as they are repaid in full before ordinary **shareholders** are paid. Unlike ordinary shares, however, preference shares do not normally have voting rights and neither do the shares entitle the owner to a slice of the business's profits, in as much as if profits are up, the fixed dividend remains the same.

Press releases

Press releases, or news releases, are an integral part of **public relations**. They are written and designed in order to provide the media with an easy to translate, newsworthy story regarding the business or its products and services. Press releases are sent to reporters and editors, in the hope that some editorial space will be assigned to the story. Typically, press releases will include quotes that have a personal angle and may be accompanied by relevant photographs or other illustrative material, in order to reduce the amount of legwork that needs to be done to follow up and present the story in the media.

Northmore, David, *How to Get Publicity for Free: How to Write a Press Release, Contact the Media, Gain Radio and Television Interviews and Organise Press Conferences*. London: Bloomsbury, 1993.

Private limited company

A private limited company is a joint stock, privately owned business which raises capital through selling parts of the business in the form of shares. Normally, limited companies were either former **partnerships** or family concerns. Under Britain's Companies Act no more than 50 people can hold shares with a company and they must be 'desirable individuals'. A private limited company needs a board of directors who will control the business and these are usually elected or appointed by the shareholders. This usually means that some form of election process needs to be carried out. In addition to this the business needs to have the following:

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- a **memorandum of association**, which details the business's name, address, what they do, liabilities and the amount and division of shares;
- **articles of association** stating who owns the shares, the qualifications and duties of the directors, the division of profits and the methods of audit;

- a statement of the nominal capital;
- a list of the directors;
- a list of declarations, which state that the business has put in place the regulations as set out in the Companies Act.

Once this has been completed the business will receive its **certificate of incorporation** and will be able to trade as a limited company. As a private limited company the business must publish its annual accounts and send them to Company's House, where they will be available for inspection. Shareholders have limited liability, so beyond the amount which they originally invested, or have subsequently invested, in the business, they do not stand to lose further.

Privatization

Privatization is the process of selling publicly owned operations to the private sector. This is also known as denationalization. Politically, in Britain, privatization was a major trend during the 1980s and 1990s when the majority of large nationalized industries were sold, including the railways, telecommunications, electricity supply and generation, and the water authorities. It was argued that many of the businesses had become inefficient and bureaucratic and that they were monopolies which exploited consumers. The government used the money received from the sale of these nationalized industries to reduce the tax burden.

Process characterization model (PCM)

This is a model which aims to describe the behaviour and capabilities of a particular process, independent of a particular application. Typically it would attempt to capture numerical data regarding the dynamic behaviour of a process.

Process management

Process management involves the investigation of the activities of a business which contribute towards the total activity of the organization. Typically this would include the **procurement** of materials and equipment, the development of products and services, the production or creation of those products and services, delivery, distribution and customer support. A key aspect of process management is to break down each of the steps and see where improvements need to be implemented. In ensuring this process, a process-orientated model needs to be developed, an example of which can be seen in Figure 22.

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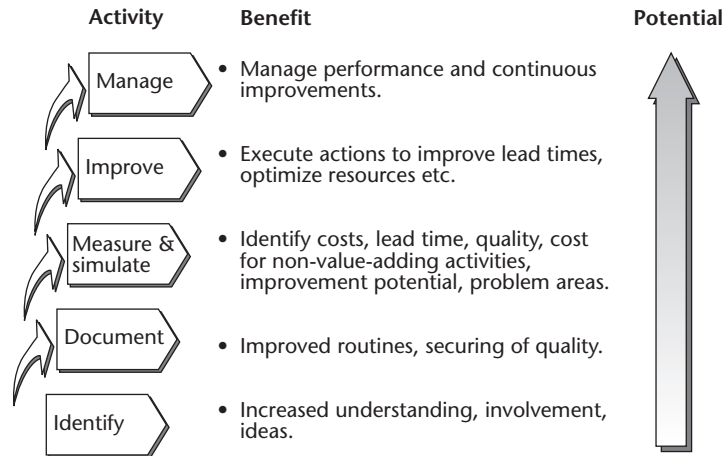


Figure 22 A process management model

Building models such as these requires an intimate knowledge of all of the functions of the business, as a full model would include specific activities, steps in the process, functions of different parts of the organization, and available information and materials. Models can also contain information regarding potential problems and ideas for future improvement.

Process mapping

There are four major steps in process mapping:

- 1 Process identification – which entails a full appreciation of all of the steps of a process.
- 2 Information gathering – which seeks to identify objectives, risks and controls within that process.
- 3 Interviewing and mapping – collating the views of all individuals involved in the process, and then designing the actual process maps.
- 4 Analysis – the careful analysis of the process map in order to ensure that the process operates efficiently and effectively.

Two of the most important documents which underpin the process mapping are the process profile worksheet and the workflow survey. The process profile worksheet looks at the trigger events, the inputs and the outputs, the risks, key controls and other measures of success. The



workflow surveys are carried out by employees working on the process and include a detailed list of all of the tasks carried out. Business process mapping should enable the business to understand what it is trying to achieve and highlight ideas which could streamline those operations.

Jacka, J. Mike and Keller, Paulette J., *Business Process Mapping: Improving Customer Satisfaction*. Chichester: John Wiley, 2002.

Process paradox

The process paradox suggests that a business can decline, or even fail, at the very point when changes in its processes have dramatically improved their efficiency and saved the business time and money, whilst improving quality. The concept, which was suggested by Peter Keen, suggests that this paradoxical situation can occur because the immense benefits are not translated into business value.

Keen, Peter, *The Process Edge: Creating Value Where it Counts*. Watertown, MA: Harvard Business School Publishing, 1997.

Streatfield, Philip J., *The Paradox of Control in Organizations: Complexity and Emergence in Organizations*. London: Routledge, 2001.

Process planning

Process planning involves the development of a set of instructions which describe a sequence of tasks to be performed in order to achieve a particular goal. Typically they will specify the raw materials and components required to produce a product and what tasks are required to transform these into a finished product. Process planning, therefore, specifies, in the most precise terms, how a business manufactures a particular product in line with its technical specifications. Process planning is essential in order to make the link between product design and product manufacturing.

Procurement

Procurement is the purchasing of products and services which fit a clearly defined purpose. In addition to this, procurement involves the selection of quality products and services, which are not necessarily the lowest priced. Sound procurement management requires not only quality but the right products and services, which deliver value for money and, above all, are delivered when promised. Procurement is one of the fundamental functions of a business and, increasingly, it is not simply the buying process but is a move towards forging partnerships

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with suppliers in order to secure cost-effective and reliable products and services to agreed standards. As such, procurement also incorporates the liaison and negotiation with suppliers, the analysis of bids, the agreeing of contracts, the maintenance of records and the handling of problems. Procurement also incorporates having to remain within budget and the responsibility of spending money wisely on behalf of the business.

Baily, Peter, Farmer, David, Jessop, David and Jones, David, *Purchasing Principles and Management*. London: Financial Times, Prentice-Hall, 1998.

Product life cycle

The product life cycle is a widely accepted model which describes the stages a product or service, or indeed a category, passes through from its introduction to its final removal from the market. The model suggests that the introduction stage, or the launch, of the product, during which the product sells in small numbers and marketing activities are expensive, is superseded, if successful, by 3 other stages (see Figures 23–5). The growth stage is characterized by higher sales, greater profitability, but crucially, more competition. At the maturity stage, providing a product has managed to survive, stable sales and a higher level of profitability are enjoyed. The final stage, known as the decline stage, shows that the product is finally declining in terms of demand and associated profits. Optionally, it is possible to insert a further stage between maturity and decline, denoting a period of the product's life cycle when competition has reached a stage which makes it difficult to sustain the original product. Indeed, it may be the case that the product is already growing stale. This saturation period marks a slight downturn, which can be adjusted by a re-launch or a repackaging of the product, otherwise it will begin its inevitable slip into the decline stage. At the decline stage, the business needs to carefully consider its policy towards the product or service, as it is not merely a question of letting the item fade away over a period of time (perhaps when stocks are finally exhausted). An abandonment policy must be put in place which takes into account the ramifications in terms of its impact on staffing levels, the deployment of human and other resources, as well as its impact on the market, suppliers and distributors.

Rink and Swan (1979) presented product life cycle patterns, which affords an opportunity to consider whether a business is able to influence or manage the shape of the curve (see Figure 26). Specifically, the implicit ideas of the various shapes offer the following opportunities:

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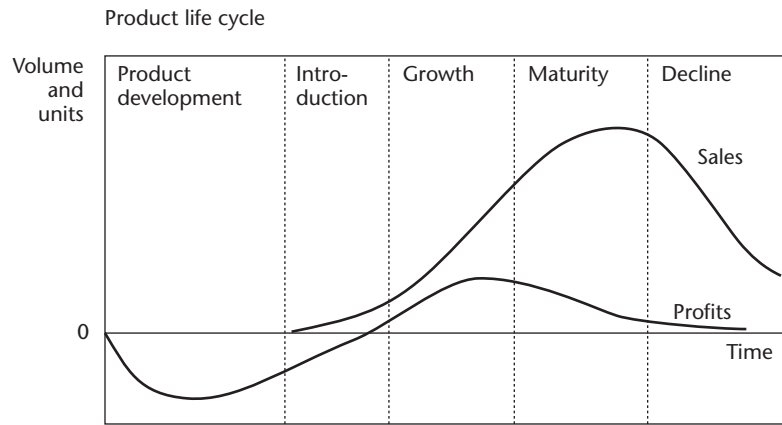


Figure 23 The standard product life cycle graph showing the phases of the life cycle and the association between profits and sales over the cycle

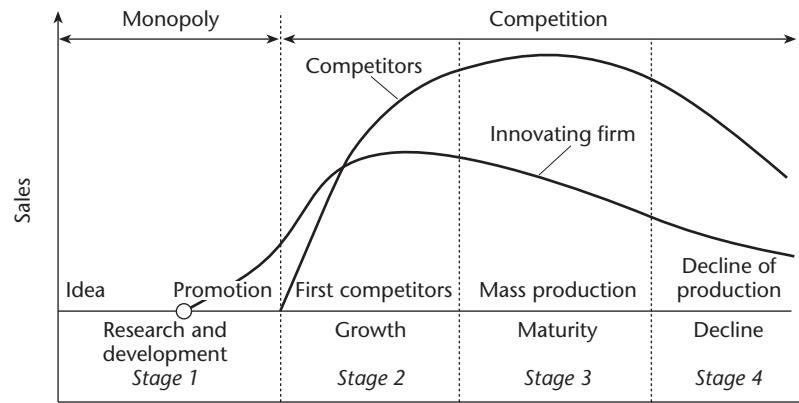


Figure 24 This is a more complex view of the product life cycle, which illustrates the dangers often faced by product innovators in developing new product ideas only to lose the potential of sales as a result of the actions of competitors.



- 1 The most critical problem for a multi-product business is to determine how its limited resources will be allocated to various products in the most optimum way. In this respect, the product life cycle concept is an ideal basis for optimizing the allocation of the resources.

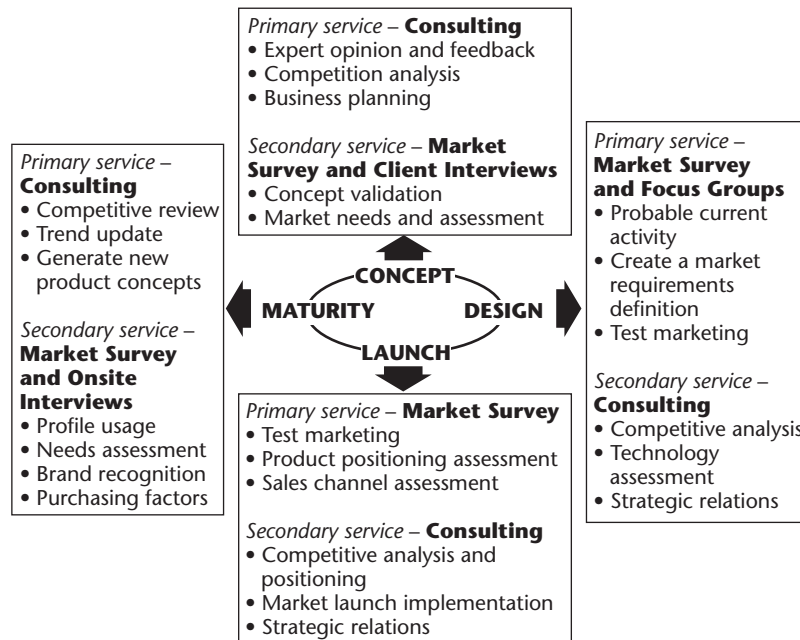


Figure 25 Product life cycle

- 2 The multi-dimensional approach is useful in conceptualizing the product life cycle of future products.
- 3 The use of product life cycles is ideal when brought into the equation as far as business planning is concerned.

Onkvisit, Sak and Shaw, John J., *Product Life Cycles and Product Management*. Westport, CT: Greenwood Press, 1989.

Rink, D. and Swan, J., 'Product Life Cycle Research: A Literature Review'. *Journal of Business Research*, vol. 40 (1979), pp. 219–43.



Production scheduling

Production scheduling involves the organization of production in order to meet either actual or forecasted customer demand. Usually a schedule chart is used to show the progress of particular jobs and where they are on the schedule for completion at the assigned times.

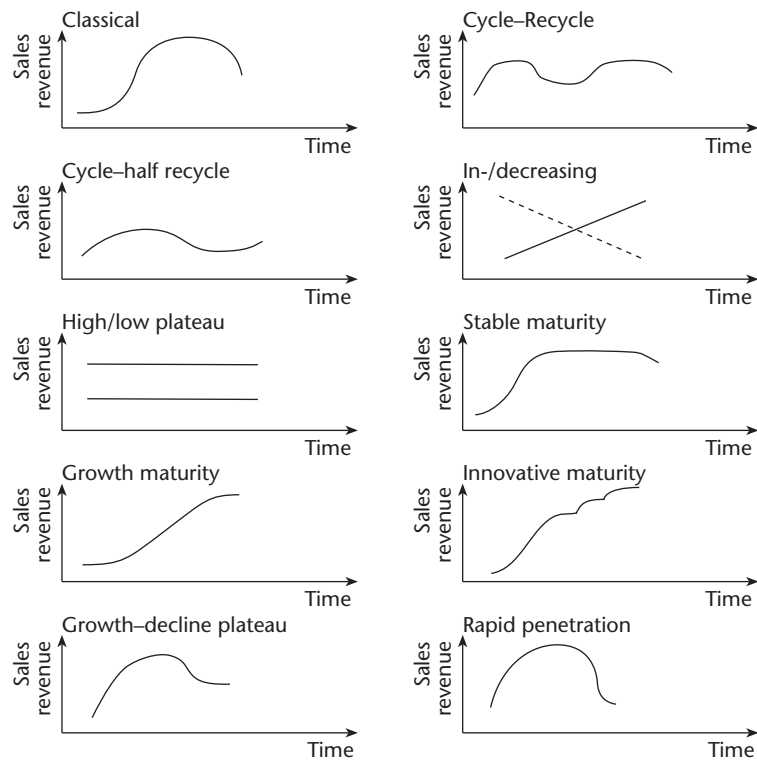


Figure 26 Product life cycle patterns

Source: Rink and Swan (1979).

Productivity

Productivity is a measure of an organization's outputs divided by its inputs. In other words an estimation of the value of products and services produced and offered by the business compared with the costs of employees, capital, materials and other associated costs.

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Professional services administration (PSA)

Professional services administration, also known as service process optimization, aims to make the best use of resources, including people, intellectual capital and time. It also considers both outward functions and inward processes. PSA is used to analyse the knowledge gained from each project to improve planning, increase profitability and decrease inefficiencies.

Profit centre

A profit centre is an area of a business to which revenue can be traced. Part of the process in establishing the profitability of a particular part of a business is to compare the revenue derived from that section or department against the costs of running that operation.

Profit sharing

This is a term which is applied to a number of schemes offered by employers which aim to give the employees a stake in the business; many were prompted in the UK by the Finance Acts (1978, 1980 and 1984).

Around 20 per cent of UK business has some form of employee share ownership and the move is seen as being a form of employee participation and industrial democracy. In reality, however, the level of share ownership is low and the employees have little or no real control over the business (mainly as the shares tend to have non-voting rights). The three most common forms of profit sharing are:

- Employee share ownership plans (ESOP), which were brought to the UK from the US and provide a means by which employees can gain equity in the business. A trust is formed and the dividends on the preference shares pay off the loans used to purchase the shares on behalf of the employees. The shares are held in trust, but employees have the right to sell them.
- Profit sharing schemes (PSS) usually take the form of approved profit sharing (APS) schemes, which involve the distribution of shares to employees free of charge. Shares are purchased through a trust, which is financed from the profits of the business. Alternatively, employees can become involved in SAYE (save-as-you-earn), which is when employees sign a savings contract with the option to purchase shares at the end of a contract period at a predetermined price. Both of these methods are popular as they have tax benefits attached to them.
- Profit-related pay (PRP) schemes are present in around 20 per cent of private-sector business and are, essentially, an element in the total employee pay package. Profit-related pay is variable according to the profits made by the business, making a direct link between the activities of the employees, their productivity and the extra pay that they ultimately receive in the form of PRP.

Profit sharing is seen as being an effective means by which a business can encourage individual performance and motivation. Employees have

a direct interest in the success of the business and therefore greater commitment and profit-consciousness.

The obvious downside as far as employees are concerned is that they are tying both their jobs and their savings to the success or failure of the business. As far as the business is concerned there is also a worry that increasing staff involvement (particularly in share ownership) may mean that they will make increasing demands on the business to have a greater role in the decision making. Management may be unwilling to concede in the area of strategic decision making which can affect the profitability and employee pay, as they may be considering longer-term issues.

Project accounting (PA)

Project accounting is neither **project management** nor financial accounting. Project accounting takes traditional accounting data and measures variations between estimated and actual costs. It does this on a real-time project-by-project basis, allowing adjustments to be made to correct **variance**. Project accounting has grown out of the need by businesses to analyse their performance at a micro-level in order to become more efficient and competitive.

Project management

Project management involves the planning, organizing, controlling and directing of usually one-off activities. Typically, a team will be assigned to manage a specific project and will use a project evaluation and review technique (PERT) or **critical path analysis** in order to structure the management of the activities related to the project.

Project planning

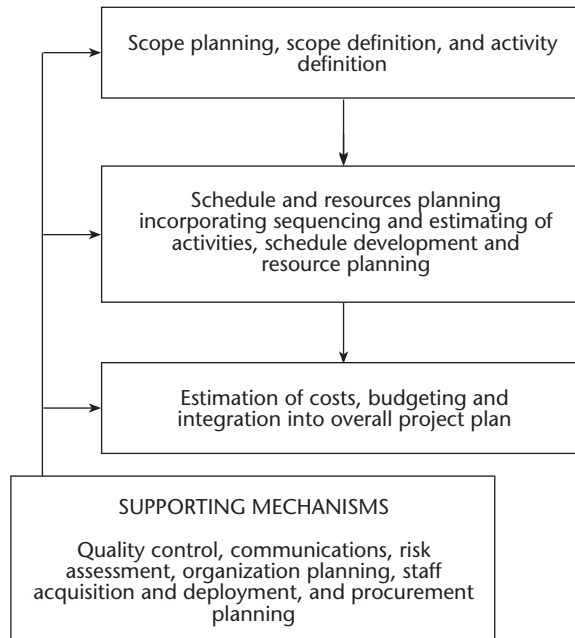
Project planning is the process which is concerned with organizing the implementation of a project in order to meet its objectives in terms of costs, functionality, quality, reliability and scheduling. A project plan serves five main functions:

- It defines the scope of the project and states the end products that will be delivered, taking into account any assumptions or constraints.
- It details the project activities and how they will be performed.
- It details the inter-dependence between the activities and a schedule of when these activities will be accomplished.

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- It identifies the resources required in order to develop the project to meet its end results.
- It describes all the procedures and processes which will be managed during the project in terms of scheduling, cost, **procurement**, risk and quality.

Figure 27 illustrates the inter-relationship between the activities. The core processes are those required to implement the project, whilst the facilitating processes ensure that the project meets the goals and will be managed in a successful manner.



P

Figure 27 Project planning

Lester, Albert, *Project Planning and Control*. Oxford: Butterworth-Heinemann, 2003.

Project portfolio management (PPM)

A project portfolio is simply a collection of projects. The projects will be at various stages in their progress and some will, at different times, need more attention than others. The art of project portfolio management is to balance the needs of all of the projects throughout their life cycle and

ensure that each of them remains consistent with the **project management** process, provides progress reports, and that systems are consistently applied to them across the organization. This will enable the business to better allocate resources, with a clearer understanding of forthcoming requirements.

Lester, Albert, *Project Planning and Control*. Oxford: Butterworth-Heinemann, 2003.

Pty (South Africa, Australia)

A Pty is shorthand for proprietary and is used for a company definition in Australia, South Africa and several other countries. A Pty is the equivalent of the British **private limited company**.

Public key encryption

A public key encryption is a cryptographic system which uses two keys. The public key is widely known and a private or secret key is only known to the recipient of a message. Public key systems are becoming popular for transmitting information via the internet as they are secure and comparatively simple to use. They do, however, require the sender of the message to know the recipient's public key in order to encrypt a message for them.

Public limited company (Plc)

A public limited company is a British form of business which has at least £50,000 of authorized share capital. These businesses, with the Plc suffix, are quoted on the stock exchange and their shares can be publicly traded. The majority of public limited companies were former **private limited companies** who have chosen this route in order to attract greater investment.

Public relations

The basic function of public relations is to establish and maintain a mutual understanding between a business and its publics. Typically, public relations activities will include the preparation of press kits, holding seminars, making charitable donations and sponsorships, fostering community relations, and lobbying.

Broadly, public relations have the following objectives:

- Establish and maintain the prestige and reputation of the business.

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- Support the promotion of products and services.
- Deal with arising issues and opportunities.
- Establish and maintain goodwill with customers, employees, government, suppliers and distributors.
- Deal promptly with unfavourable publicity.

In effect, public relations seeks to transfer a negative or null opinion of the business into knowledge or a positive attitude. Public relations can be seen as distinctly different from advertising, as can be seen in Table 21.

Table 21 Public relations and advertising compared

Public relations	Advertising
Informative	Informative and persuasive
Subdued messages	Immediate impact
No repetition	Repetition
Credibility	Less credible
Newsworthy	Not necessary
Low cost	High cost

Davis, A., *Mastering Public Relations*. Basingstoke: Palgrave Macmillan, 2004.

Mazur, Laura and White, Jon, *Strategic Communications Management: Making Public Relations Work*. Reading, MA: Addison-Wesley, 1994.

Purchasing systems

Increasingly, purchasing systems have been converted into automated hardware and software purchasing systems. An increasing amount of purchasing transactions are being carried out through electronic exchange. Traditional purchasing systems required the purchasing department to acquire authorization to place an order and all of the aspects of the transaction were backed up with paperwork, which has now largely been replaced by virtual systems.

P

Pure play

'Pure play' is a term used to describe a business which is engaged in a single type of business activity, such as retailing. Pure play organizations do not involve themselves in unrelated business that is not directly associated with their core activities. In internet terms a pure play business

would be an organization that just sells over the internet and has no high street presence, such as Amazon. Whereas there are many organizations which have both internet and high street presence, these are not pure play organizations.

