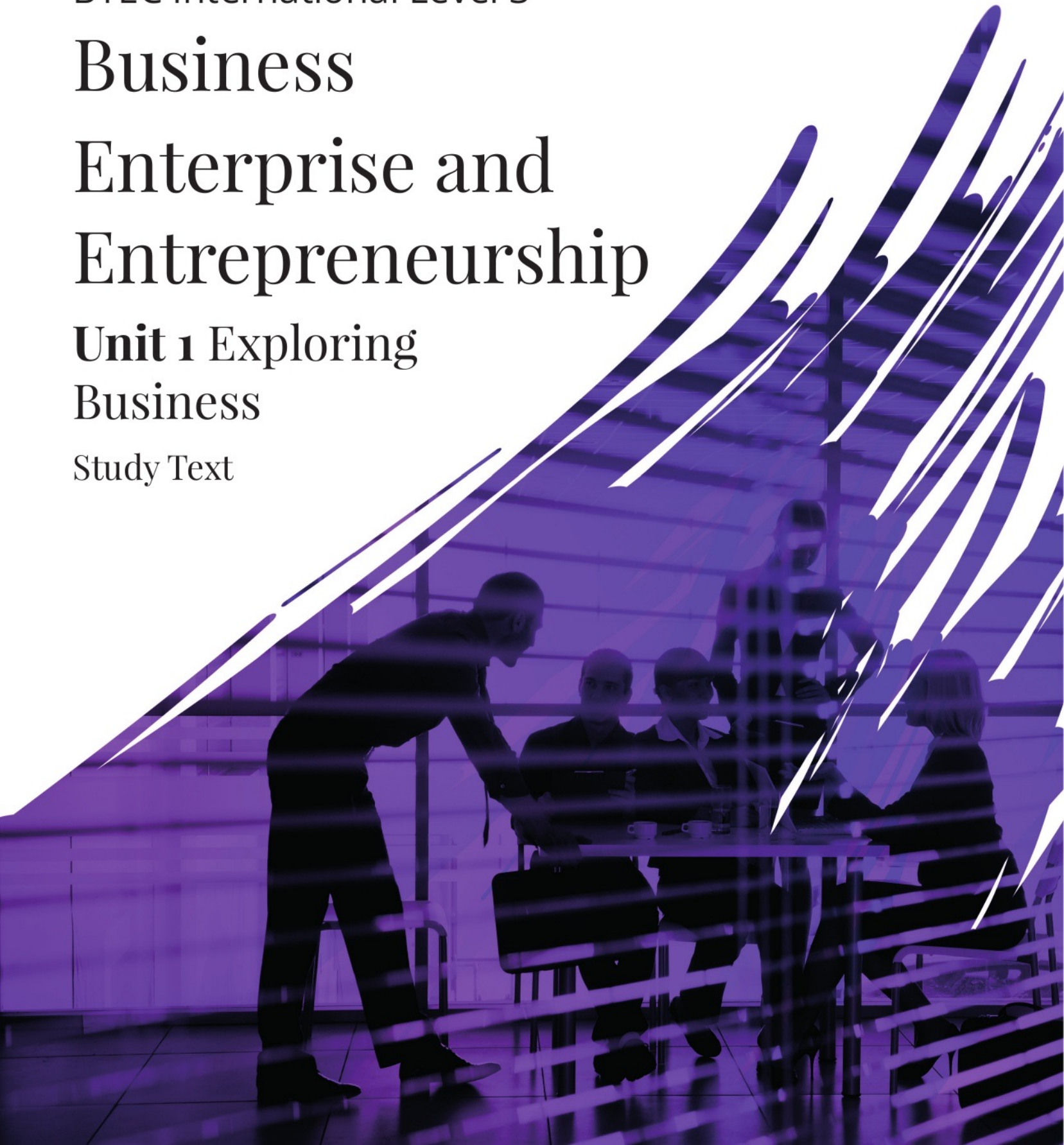


BTEC International Level 3

Business Enterprise and Entrepreneurship

Unit 1 Exploring Business

Study Text



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Getting to know your unit

Whatever your aspirations are for the future, you will need to understand about business. In this introductory unit, you will study purposes of different businesses, their structure, the effect of the external environment, and how a business must be dynamic and innovative to survive.

A business is any activity that provides goods or services, whether to make a profit or not. The main aim in business, that owners and employees strive for, is satisfied customers. Nowadays, customers are more informed and have more options in terms of what they buy and who they buy from, so a successful business is one that balances satisfying their customers and selling products or providing services.

This unit will help you gain an overview of key ingredients for business success, how businesses are organised, how they communicate, the characteristics of the environment in which they operate, and how this shapes them and their activities. You will also look at the importance of innovation and enterprise to the success and survival of businesses, with the associated risks and benefits.

This unit will help prepare you for progressing into employment, vocational training and apprenticeships or higher education, and underpins all the other units in this qualification.

Assessment

You will be assessed by a series of assignments set by your teacher.

How you will be assessed

This unit will be assessed by two assignments set by your teacher. You will undertake a comparative study of two business organisations to consider their aims and objectives, structures, and relationship with their stakeholders. You should select and research business organisations that differ in terms of ownership and liability, purpose, sector, scope and/or size. You will also research how a large business is influenced by its internal and external environment and how it responds to changes in these environments.

Throughout this unit, you will find assessment practices to help you work towards your assignment. Completing them will mean that you have undertaken useful research and preparation, which will be relevant when it comes to your final assignment.

To achieve the tasks in your assignment, check that you have met all the Pass grading criteria. These criteria require clear explanations in your own words, for example describing how contrasting businesses operate. Check against the criteria as you work your way through your assignment. To gain a Merit or Distinction, you should make sure that you present the information in your assignment in the style required by the relevant assessment criterion. For example, Merit criteria require you to analyse how the structure of a business helps it achieve its aims and objectives, and to assess the effects of business environments on a given business. Distinction criteria require you to evaluate the evidence you've gathered on reasons for the success of a business, and use situational evaluation techniques to evaluate how the business environment impacts on a business.

The assignments set by your teacher will consist of tasks designed to meet the criteria in the table. They may include a written assignment and also include activities such as:

- creating diagrams or models of different organisational structures and how they operate
- reviewing, comparing and analysing several business case studies
- producing a report using your own research which examines different types and sizes of businesses
- presenting your investigations and findings of innovative and enterprising successful businesses.

Assessment criteria

This table shows you what you must do in order to achieve a Pass, Merit or Distinction grade.

Pass	Merit	Distinction
Learning aim A Explore the features of different business organisations and analyse what makes them successful		
A.P1 Explain the features of two contrasting business organisations. Assessment practice 1.1	A.M1 Assess the relationship and communication with stakeholders of two contrasting business organisations using independent research. Assessment practice 1.1	
A.P2 Explain how two contrasting business organisations are influenced by stakeholders. Assessment practice 1.1		
Learning aim B Investigate how business organisations are organised		
B.P3 Explore the organisation structures, aims and objectives of two contrasting business organisations. Assessment practice 1.1	B.M2 Analyse how the structures of two contrasting business organisations allow each to achieve its aims and objectives. Assessment practice 1.1	
Learning aim C Examine the environment in which business organisations operate		
C.P4 Discuss the internal, external and competitive environment of a given business. Assessment practices 1.2 and 1.3	C.M3 Assess the effects of the business environment on a given business. Assessment practices 1.2 and 1.3	C.D2 Evaluate the extent to which the business environment affects a given business, using a variety of situational analysis techniques. Assessment practice 1.3
C.P5 Select a variety of techniques to undertake a situational analysis on a given business. Assessment practice 1.2		



Getting started

Consumers rely on organisations every day. Make a list of businesses, starting with any you have used this week. How many sell products? Which provide services? Compare your list with a peer. How many have you identified? Expand this list as you work through your course and use it during research.



Learning aims

In this unit you will:

- A}** Explore the features of different business organisations and analyse what makes them successful
- B}** Investigate how business organisations are organised
- C}** Examine the environment in which business organisations operate

A} Explore the features of different business organisations and analyse what makes them successful

Most businesses rely on making a profit. The bigger the profit, the more successful the business. Although, remember that not every business measures its success by the amount of profit it makes. You will explore why that is a little later. However, the way a business is organised to deliver its aims and meet the needs of its customers is critical to its success. In this unit you start to explore types of businesses and what influences success and failure.

Features of organisations

Another word for 'feature' is 'characteristic' or 'attribute'; therefore business features comprise the characteristics that make up every organisation. For example, if you refer to the list you created earlier, you may have identified some businesses as one-man-bands, known as a sole trader, such as a plumber or mobile hairdresser offering a service to customers who live locally. Other businesses might be very big and sell their products or services around the world, such as Samsung, Apple Inc, Thai Airways, Amazon.com, Royal Dutch Shell.

Your list should include businesses of different sizes, purposes and possibly the types of customers who use their services or buy their products. You, your peers, friends and family will favour some of the same and different businesses and no doubt share different experiences. You will now explore the range of features as separate characteristics.

Ownership and liability

Businesses are owned in one of three ways: private, public and not-for-profit.

Private

Private businesses are those owned by citizens and therefore they are liable for all aspects of the business. Owners of private businesses are likely to take many risks as they are in business to make a profit. Privately owned businesses can be of any size and owned by many partners. Some of the largest include:

- Tesco
- Nike
- ING
- Saudi Aramco
- Vitol
- Wal-Mart
- Toyota
- Sinopec
- Azad Jammu and Kashmir (AJK)
- Gilgit Baltistan.

Public

Public businesses which are identified as belonging to the public sector are owned by the government. These types of businesses may have been set up by the government or subsequently bought by the government from the private sector for investment or to save them from financial ruin. For example, in the UK, the government stepped in to take control of some of the large financial institutions, such as the Royal Bank of Scotland.

As the government is then liable for the success or failure of the business, they are less likely to take risks than businesses in the private sector because they aim to benefit the public.

Not-for-profit

Businesses which do not aim to make a profit are often charitable organisations, such as the international Médecins Sans Frontières which provides doctors and nurses across the globe to in-need areas. Businesses like this often share many of the same features as private and public businesses, such as running on normal business lines, and have many paid workers but only seek to make enough money to cover running costs.

Voluntary organisations are also not-for-profit businesses. They are set up, organised and staffed by people working on a purely voluntary basis. Examples include the World Wildlife Fund for Nature (WWF), the UAE Water Foundation (Suqia) and the Voluntary Service Overseas (VSO).

Table 1.1 suggests a few examples of businesses under each of the three categories which you could investigate further or use to help identify your own businesses to research. There are variables, however, within each category. For example, limited companies do not need to have large numbers of employees and some, such as specialist consultancy services, may be sole traders.

Privately owned businesses can decide to become limited companies at any time. A decision to do so might be made to ensure that business profits and liabilities are properly shared based on the percentage of ownership by each of its directors. Business finances are kept separate from personal finances, therefore, if the business fails, owners' personal assets, such as homes, cars, etc, cannot be used to pay off any debt.

Owners of limited companies have to pay corporation tax and can draw dividends from their businesses. Depending on personal tax liabilities, it may be beneficial to change the business structure to a limited company.

Some owners find they can increase their business opportunities by becoming a limited company as it may give the impression that they are larger or more established than they are. Some large organisations will only contract with limited companies.

Research

Identify businesses for every category in Table 1.1. Seek information about businesses in your local area and those you listed earlier.

Skill

- Research

Table 1.1 Suggested examples of business ownership

PRIVATE, for example:		PUBLIC, for example:		NOT-FOR-PROFIT, for example:	
Sole trader	• Decorator • Gardener • Photographer • Yoga instructor • Childminder • Taxi driver • Street food chef	Government department	• Ministry of Defence Qatar • Abu Dhabi Finance Department • Thailand Institute of Nuclear Technology • Ministry of Defence (UK)	Charitable trust	• Stichting INGKA Foundation (Netherlands) • World Wildlife Fund • Bill and Melinda Gates Foundation (US) • Mohammed bin Rashid Al Maktoum Foundation (Jordan)
Partnership	• Accountants • Solicitors • Dental practice			Voluntary	• The Dubai Volunteering Organisation • MAIN – Taking Autism Seriously • Voluntary Service Overseas • MacMillan Cancer Support • Médecins sans Frontières
Private limited company	• McLaren Technology Group • Asia Coke Private Ltd • Mars • Airbnb • Dell computers				
Public limited company	• Air France/KLM • IBM • Manchester United plc • Microsoft • Rolls-Royce Holdings plc • Royal Dutch Shell • Volkswagen				
Cooperative	• International Co-operative Alliance (ICA) • Cooperative Auditing Company (Thailand) • The Co-operative Bank (UK) • Credit Union League (Thailand) • Rabobank Group (Netherlands)				

Partnerships, such as the John Lewis Partnership (JLP) in the UK, may have many employees. Keep an open mind when exploring types of business and their features – not all estate agencies are private limited companies, just as not all accountants, dentists or solicitors are partnerships.

In many countries, cooperatives contribute significant annual revenue to their home economies. In the UK, for example, cooperatives contribute £37 billion to the **economy** and are owned by nearly 15 million people. The International Co-operative Alliance (ICA) represents cooperatives in over 100 countries, which collectively employ over one hundred million people. You might find it useful to conduct research on the importance of cooperatives in your own country.

Liability

To protect the business against the risk of being sued or held legally responsible, anyone owning or running a business should insure against such **liability**.

There are multiple insurance companies offering such cover and, as with any insurance (for example, car or house insurance), they offer it at different rates and with different terms and conditions. In the UK, insurance for liability includes Public Liability Insurance and Directors' and Officers' Insurance (D & O). You may have similar insurance in your country.

Depending on the ownership, size and type of business, the cover will also vary. You will explore this further throughout this unit.

Unlimited liability

Some businesses (as suggested in Table 1.1) are owned by sole traders or partnerships.

If the owners share the business responsibilities equally, they are responsible not just for the profits but also the losses, such as debts and claims against the business. This means that all owners are responsible for any shortfall of money if the business has insufficient funds. This could mean all savings and possessions including car, house, etc. are at risk.

Limited liability

Where liability is limited, this means there is a limit (or cap) placed upon the amount that can be claimed. This type of liability might seem to be the obvious choice, but setting up in business is relatively easy and the risks attached can be overlooked, especially without the benefit of knowledge gained through studying.

Just as some insurance companies specialise in house, car or travel insurance, others specialise in business insurance and insurance for different types of businesses.

Key terms

Partnership – comprising two or more people who set up in business together and share all profits and losses.

Economy – the state of a country, such as its wealth, production and consumption of goods and services.

Liability – an obligation of a company, or amounts owed to lenders and suppliers.



Pause point

After comparing with a peer, add an extra column or comments to your research from the Getting started activity.

Hint Highlight gaps and conflicting results.

Extend What worked well? What would you change and why?

Research

Select one business from each type of ownership from your list. Identify at least three insurance companies offering business insurance and compare the extent of protection against liability each of them offers.

Discussion

Compare your growing lists of businesses to identify which provide products, which provide services and which provide both. Discuss what proportion of each (products and services) they are likely to offer.

Link

In **Unit 6: Principles of Management** you will explore in detail what is meant by quality and in **Unit 14: Investigating Customer Service** you will explore how to find out whether or not you are providing a quality service. How you calculate business profit will be explained in **Unit 3: Personal and Business Finance**.

Purposes

Most businesses supply products or services, or occasionally both. For example some businesses, such as dentists, provide a service and also sell a small range of products such as toothpaste, floss, toothbrushes, etc. Many businesses, such as opticians and bicycle specialists provide services and sell products.

You could argue that all businesses are providing a service when selling or making their products.

Difference between for profit and not-for-profit organisations

As mentioned earlier, not all businesses measure success by profit. Dr Turnbull, MD of Be Caring (see Case Study below) said: 'Profit is not wrong – but it is our belief that a reasonable and sustainable profit is best generated by delivering a quality service, not by cutting costs, corners and ultimately, quality.' This does not suggest that profit seeking businesses are more likely to cut corners and compromise quality, although you could possibly identify some examples where you believe that is true.

Some examples of large profitable businesses include utility companies such as Royal Dutch Shell, Texaco and Engie (previously known as GDF Suez), Middle Eastern law firm Al Tamimi and Co and major retailers such as Wal-Mart, Gucci and Marks and Spencer. Profits can and do fluctuate year on year.

A good indicator of the performance of the major public limited companies in a country is the value of their shares on the country's stock exchange. The major international stock exchanges include the London Stock Exchange (UK), the DAX (Germany), the New York Stock Exchange (USA) and the Tokyo Stock Exchange (Japan). The overall movement in share prices on a stock exchange is measured by an index number. For example, on the Tokyo Stock Exchange the general movement in share prices is measured by the Nikkei index whilst in the UK it is the FTSE 100 and on the New York Stock Exchange, the Dow Jones Index.

According to UK's Yell Business report: '79% of small business owners have said they make a profit in their first year'.

Case study

Care in crisis

The combination of people living longer, changes in the way they live, and reduced public funding, has had an impact on social care provision and there are claims that elderly people are being put at risk as a result.

A group of caring individuals formed a cooperative, Be Caring (formerly CASA), to help redress this problem. Be Caring has a clear purpose: to provide care for older people, the disabled (including children) and those with learning difficulties. It started as a small local organisation, but over the last 10 years it has expanded to operate nationwide and now employs more than 850 staff.

Be Caring is an employee-owned social enterprise. Shares are held by an Employee Ownership Trust, an Employee Benefit Trust, and individual employees.

Be Caring's Managing Director explains their success: 'Engaged employee-owners provide the highest quality care and we also have low staff turnover, making the business more successful. Profits are then reinvested in staff and growth



Case study continued

... and shared amongst the workforce.' The business does not have any external shareholders, which means it can focus on delivering its aims for social care. One employee testimonial states: 'Because we are the owners it's easier to see that we can have a brilliant future if we manage it correctly and really get involved.'

Check your knowledge

- 1 Which sector and type of ownership is this business?
- 2 What do you think are the aims and objectives of this business?
- 3 What is Be Caring's innovative approach to this business?
- 4 What are the most important assets of this business?
- 5 List the priorities for the Managing Director (MD). Can you put them in order of importance?



Pause point

Why is profit not the most important goal for this business?

Hint

Without referring to the case study, list all the reasons that profit is not the main aim.

Extend

What non-financial rewards do employees receive from their involvement with this business?

Sectors

Businesses operate in different sectors according to the nature of their business and the product or service they provide. These sectors are known as primary, secondary, tertiary and quaternary and are the four stages of the journey from sourcing a material to being ready for the customer.



Primary



Secondary



Tertiary



Quaternary

Tip

In the UK, finance information about limited companies can be explored through Companies House, the Stock Exchange and the *Financial Times* while private sector small business quarterly economic data is collated by the British Chamber of Commerce. Search for similar organisations in your country.

► Business sectors from primary to quaternary

These terms also relate to the positioning of the business in relation to the customers' requirements. Every sector and every type of business services customers.

Primary

Let's take an example of a customer such as a builder who requires the roof trusses for a house – the builder relies on the primary sector to source the raw materials and on the secondary sector to prepare those materials from their raw state so that they can form the frame for a roof.

Secondary

The secondary sector processes the raw materials produced by the primary sector so that they can be sold on. For example, farmed vegetables, mined diamonds or coal, felled wood and caught fish, all need to be prepared or manufactured in some way by the secondary sector so that they are fit for sale.

Tertiary

This sector provides the supporting services which store and distribute the goods which have been manufactured. It also provides insurances against, for example, damage or possibly late delivery. Businesses often rely on advertising to promote their products – another service provided by the tertiary sector.

The tertiary sector also sells skills support such as training for staff, for example for people who clean and pack vegetables to sell in shops and supermarkets. Types of tertiary businesses include services such as travel and tourism, entertainment, education and training, and transport.

Quaternary

This sector provides support services and can appear to overlap the tertiary sector. Examples include the communications infrastructure for day to day operations, such as telephoning and emailing.

The quaternary sector could be seen as the beginning and the future of every business as this sector includes the research and development stage. Therefore this fourth (quaternary) sector relies on information from the other sectors to test existing products and methods, and to develop new ways of sourcing and producing new products or approaches.

Scope of business activities

Local

The scope of a business means the range covered by that business. Earlier you looked at the features of businesses and suggested that some business types are more likely to offer their services locally, for example mobile hairdressers, plumbers and gardeners. A local business is usually one which is owned locally and serves just the local area, such as an independent village shop or perhaps a café which is owned by local residents. There are, of course, exceptions and you could probably identify some. Some local businesses, such as your local council office, are part of a much bigger organisation although they provide a service to the local area.

National

You probably use businesses which operate nationally fairly frequently and possibly have not considered this before. Some could appear to be a local business (especially if you are served by the same staff) but the business might be a **franchise**.

Discussion

As a group, name as many businesses as you can in each sector. Use the list you created at the beginning.

Skills

- Teamwork and communication

Key term

Franchise – A franchise is a business opportunity that allows someone to start a business by using someone else's expertise, ideas, and processes. This right involves paying a start-up fee and, probably, an ongoing fee or royalty.

You may know some franchised businesses in your area, for example Dunkin' Donuts, Marriott International, Hertz, 711, Remax, and possibly one of the most well known, McDonald's.

The government defines a franchise as 'the owner of an established business format (the franchiser) grants to another person (the franchisee) the right to distribute products or perform services using that system' and a fee is paid to the franchiser according to the terms of their agreement.

International

International businesses do business transactions that take place across national borders. Since the birth of the internet, international business has been provided with worldwide opportunities to sell products and services. Since the first email was sent in the early 1970s and the internet became widely available from 1990, the world appears to have become smaller and certainly more accessible.

Size

So far, this unit has referred to businesses of different sizes as small or large. To accurately quantify the size of a business, strict definitions exist and these are outlined in Table 1.2.

Table 1.2 Defining a business by size

Size type	Number of employees/staff
Micro	Up to 9
Small	10–49
Medium	50–249
The above are all known as SMEs (Small and Medium Enterprises)	
Large	More than 250

Many countries publish reports on the contribution businesses have made to their economy. For example, in the UK, according to the data supplied by BIS in its Business Population Estimates (2014) there were 4.9 million businesses in 2013, which increased to 5.2 million in 2014. More than 99 per cent were SMEs and employed almost 14.5 million people, contributing to almost half of the UK economy. The number of micro businesses also rose slightly to 5 million. Complete some of your own research to find how these figures compare with your own country.

Reasons for success

Earlier, the concept that not every business measures success by the amount of profit made was introduced. There are different reasons for success depending on the type of business (profit or non-profit) and its aims and objectives, which you will explore shortly.

Profit seeking business

Businesses seeking to make a profit are motivated by various reasons. For example, to pay the bills for everyday living, have money for extras and realise some aspirations such as owning your own home, buying a nice car, having holidays, etc.

As businesses get larger they generate more responsibility. For example, a growing business might employ additional staff, pay for premises and develop products or services to expand on its market share so the business can continue to grow. Managing the profits becomes more complex and specialised.

Link

The contribution these businesses make to the economy is calculated in turnover, which you will learn about in **Unit 3: Personal and Business Finance**.

Link

You will learn more about profit in **Unit 3: Personal and Business Finance**.

Discussion

Why run a non-profit (or not-for-profit) business? Before you read on, think why you might and share your ideas with a peer, colleague, friend or member of your family. Refer back to your list based on Table 1.1 – it should be growing as you work through this unit.

Skills

- Analysis and interpretation

Key terms

Revenue – the income received by a business for selling its products and services.

Market forces – factors created by the economy for the demand and availability of products and services which influence costs.

Tip

Create a plan for successfully completing this unit. Identify your aims and objectives and timeframes.

Just because a business grows it does not automatically follow that it becomes more profitable. This is because its costs might increase and the interest rates paid on loans or investments could fluctuate. Sometimes businesses call on the services of other sectors, for example for specialist financial advice from a consultancy service (perhaps on running the business more efficiently to make more profit and reduce costs).

Non-profit seeking business

The primary goal of these businesses is not to make substantial profits but enough to continue the business. Therefore they also need to keep a very close eye on their finances to ensure that what they spend does not exceed the income they receive, known as **revenue**.

Revenue is not necessarily gained from selling a product or service but could come from successful bids for funding or grants, donations from members of the public or perhaps lottery funding or raffles, subject to necessary legal registration. Examples include:

- donations for Save the Children fund
- lottery funding for causes such as sports and the arts
- cultural heritage groups, such as those celebrating the 70th anniversary of the end of the Second World War.

Discussion

Discuss with another learner, or as a small group, what sector these types of service come under. Explore which businesses made a profit last year and which are declining and compare with your peers. You can probably name several businesses which have gone bankrupt over recent years during the recession and explore some reasons.

Research

Businesses including community groups can apply for lottery funding grants for a variety of causes. Research the application process and think about what type of business would be likely to apply.

Aims and objectives

Every business needs aims and objectives – just as every lesson you attend has aims defining the purpose and outcome of the lesson and objectives which identify how to achieve the aim. You will look at some examples later. Although these aims and objectives might be less formal in a micro business, every business must have a purpose and outcome. You will have your own aims and objectives and a plan of some sort identifying how you are going to get there.

Clarity of vision

Just as your plan will change and a teacher's plan can change, so will the aims and objectives of a business. These changes are influenced by **market forces**, for example customers' needs. Market forces help a business to focus on its direction and how it can continue to operate. In other words, they are designed to provide clarity of vision – without this it is unlikely that the business will succeed. One example of international success is TK Maxx.

Think about an experience you have had with a business where you have been confused about its purpose or got the impression that the business had no direction. For example, think about whether it would make business sense to set up a market stall selling sportswear and other unrelated products, for example toiletries.

Innovative products or processes

Innovative products, or creative ways to go about a process, can lead to business success. Examples include Mad Marc's idea to enthuse children in science, child innovators of the Crikey Bikey harness, Rob Law's Trunki, Zymal Umer's Zee Bags and internationally renowned Rachel Zietz, founder of Gladiator Lacrosse.

Having a great idea for an innovative product or idea is a good start. But your perception of a great product or idea may not be someone else's. What makes good business sense is to be creative – employers are always looking for employees who can think for themselves and propose more efficient ways to manage a process or identify innovative products or services.



► How do you think the innovative idea of the Crikey Bikey helped it become a success?

Stakeholders and their influence

Every business has stakeholders. You may have heard the term used before but you will now learn what it actually means and look at who the various stakeholders in a business are.

Stakeholders

There are two types of stakeholders, internal and external. In other words, those within the business, such as its employees, and those outside the business, including customers and anyone else with an interest in the business. They all have a stake in the business.

Internal

The internal stakeholders include:

- managers (decision makers and bosses)
- employees (reporting to managers)
- owners (overall responsibility for the business).

Therefore every sector has internal stakeholders although, for example, a sole trader will not have managers and employees.

External

Businesses also have external stakeholders. Without them they wouldn't have a business. These stakeholders are described below.

Suppliers

Suppliers supply raw materials (considered earlier in this unit). Examples include bricks supplied to builders, electricity to light our homes and streets, fabric to manufacture our clothes, etc.

Lenders

These are stakeholders who lend money or possibly services to the business, such as start-up business loans. These loans are available through banks and other sources such as government loans. Other loans might include a mortgage for the business premises for those owners who don't want to rent premises.

Competitors

Anyone who is in competition with a business is also referred to as a stakeholder. In order to operate a successful business, you will need to know who your competitors are and what they are offering. This enables a business owner to be better informed about the choices they can make and whether a change of direction is required, or if an opportunity is arising due to a gap in the market. One such example is the supermarket chain Lidl. They identified a need for competitively priced food that does not compromise on taste, as claimed by their adverts.

Trade receivables

Trade receivables is an accounting term used to describe debtors – those people who owe money to the business. Every business has debtors, although this does not mean all businesses run without making a profit. A debtor is any person or organisation which owes money to the business. The financial crisis in Greece may well have made you familiar with the term debtor in relation to a country which owes money. If you have been given a period of time to pay for a product or service you have received, you are a debtor of that business.

Link

Debtors and creditors will be covered in more detail in **Unit 3: Personal and Business Finance**, along with financial terms such as deficit.

Trade payables

Trade payables is an accounting term used to describe creditors – those people who the business owes money to. Just as every business has its debtors, it will also have creditors. Creditors are those to whom money is owed, and this may be an individual or another business. If you take the example of raw materials supplied to a business, the supplier becomes a creditor of the business until they have paid for the materials.

Customers

Businesses have both internal and external customers. Everyone can relate to being an external customer whether enquiring about or purchasing a product or service such as an item of clothing, a train ticket or a haircut. You are also a customer when you receive a service for which no money changes hands, such as hospital treatment or careers advice. The last point is especially interesting because, while an external customer might not be required to pay for a service, payment for that service will still come from somewhere, such as government funding. Basically, an external customer is someone who brings revenue into the business.

Internal customers include anyone directly related to the business. They include employees of a business whether they are physically present in that business or are representatives of the organisation. For example, historically, the majority of sales personnel travelled around promoting and selling their company's wares for the majority of their time. This type of customer has changed significantly over the last few years due to developments in technology that reduce the need for travel, for example email and the internet.

Internal customers also include employees working in different departments and those working at different sites. They also include suppliers who are crucial to the operation of the business. A successful business relies on everyone working together harmoniously, therefore it is important you recognise that we are all customers of each other. In other words, we become a team, relying on each other's knowledge, strengths and expertise. Having this philosophy leads to greater job satisfaction as everyone has a stake in the business.

Key term

Stakeholder feedback

– surveying stakeholders for ideas, compliments, suggestions and complaints.

Case study



'Bring me back'

Walkers Crisps Ltd (known as Lays outside the UK), owned by PepsiCo, is one of the UK's biggest brands and strives to retain its popularity in a highly competitive market.

Having an innovative idea does not mean that existing ideas or products are obsolete. For example, the UK consumption of crisps (chips), snacks and nuts has risen significantly and generates revenue of almost £129 million. Therefore it appears that there is still room for expansion into the snack industry.

Walkers' innovation lies not just in how it expands its product range, such as its 'Do us a flavour' campaign in the mid-2000s, but, more recently, by asking the public to vote for their favourite flavours previously removed from its range. Walkers' process of deciding how to expand its range is also innovative and it does this very well by seeking **stakeholder feedback**. For example, in an earlier campaign, Walkers received more than a million votes from stakeholders for flavour ideas. The campaign got people talking about Walkers, both online and in daily

conversations, subsequently raising their profile. The company promised a large monetary reward and a percentage of all future sales, with the winning announcement exposed to media coverage.

To ensure success, Walkers produced a focussed campaign. It is likely that some of their aims were:

- to remain a popular snack brand with the public
- to find out the nation's favourite flavours
- to increase sales through daily public interest
- to resurrect a previously tried and tested recipe.

The possible benefits to stakeholders of this campaign included:

- extended flavours to the product range
- a significant financial reward for the stakeholder selected as winner and their moment of fame in the media
- a sense of belonging and involvement with Walkers.

Walkers Crisps has also been investing in research and development and, during the mid-2000s, it reduced the salt content of its products following trends towards healthier living. Further extensions to their range include the Market Deli range, in 2014, to stay ahead in a highly competitive market. Despite being owned by an American company, PepsiCo, crisps are considered a traditionally British snack food; sales have increased due to the recession as people stay at home more rather than socialising in public places.

Check your knowledge

- 1 What are the business features of Walkers Crisps?
- 2 Who are Walkers Crisps' stakeholders?
- 3 How would you describe the relationship Walkers Crisps has with its stakeholders?
- 4 What innovative approaches are Walkers Crisps using?
- 5 What factors influenced Walkers Crisps to try such innovative ideas?

II

Pause point

Which aspects of this case study did you find most interesting and why? What new information have you learned?

Hint Identify a different type of business and explore how they involve stakeholders to develop their product range.

Extend Consider other reasons for the success of these businesses based on factual information.

Tip

You will need to justify your findings just as you will in your assignment. Personal opinion or hearsay is not enough!

Skill

- Critical thinking

Theory into practice

Reflect on your experiences, either at work (paid or voluntary) or perhaps in your place of study or at home. Identify a single process you want to change, perhaps to make it simpler, quicker or more interesting. Examples could be getting up in the morning, or commuting. Write down the existing process and the changes you propose, thinking about the reasons why, just as Walkers Crisps justified their reasons for change. Explain your ideas to a peer and ask for feedback. Review your idea in light of their comments. Make further changes and try again. Compare the previous way and the new process to identify which works best and why.

Government agencies and departments

Other external stakeholders include government agencies and departments, which may be local, national or international – for example the Ministry of Economic Affairs and Climate Policy in the Netherlands. Other examples of agencies and departments are outlined in Table 1.3. What government agencies exist in your region or country at local, national or international level? Can you create a similar table?

Table 1.3 Examples of government agencies and departments

National	International
Department for Education	Foreign and Commonwealth Office
Department for Work and Pensions	URENCO
Department for Transport	
Ministry of Justice	

Local government includes your local and regional councils. These may be responsible for specific public services, such as education, roads, planning, fire and safety, etc.

National government departments usually work with a number of agencies. For example, a government’s Education Department may work with national agencies, including those responsible for school inspections and vocational training initiatives. These agencies may have a stake in your education and provide the funding for schooling and future vocational training opportunities.

Most countries will also have specialist government departments which seek to promote international links with other countries. In the UK, for example, the Foreign and Commonwealth Office is responsible for: promoting the UK overseas; working with other countries to seek ways to promote international cooperation, reporting on global developments and advising on security measures relating to international travel by UK citizens.

Government has a stake in businesses and also informs and legislates how businesses must operate. Government rules and regulations are constantly changing and businesses can find it difficult to keep up to date.

Communities

Just as government operates locally, nationally and internationally, so do our communities. You may know of examples where a community has influenced a new or existing business. For example, members of a community may become involved in the operation of a business such as a training centre or a post office, working in partnership with communities.

Pressure groups

Communities can take on small and large projects and put considerable pressure on whether a business proposition will succeed or fail. For example, a farmer who proposed to sell some of his land to a developer for a crematorium but met with opposition.



► Community demonstrators expressing their views

Another example is where communities nationally have placed pressure upon the government to reconsider their plans for the high speed railway (HS2), and DRUM (Desis Rising Up and Moving) comprising multi-national South Asian activists. Longstanding pressure groups exist on a larger and longer-standing scale, such as:

- animal rights activists
- Amnesty International
- Greenpeace
- Christian Aid.

Interest groups

These groups include members with an interest in a business or specific businesses who strive for a common cause. They look to influence the business or factors such as policy or **regulators**. These include:

- trade unions
- chambers of commerce
- professional associations such as those representing:
 - accountants
 - doctors
 - lawyers
 - architects.

Link

You will learn more about business legislation throughout your course and particularly in **Unit 23: The English Legal System**.

Key term

Regulator – external body acting as supervisor to ensure businesses comply with relevant legislation.

Key terms

Shareholder value – the benefits received by shareholders relative to the number of shares they hold in a business.

Customer retention – customers who remain loyal to specific brands and businesses.

Discussion

Discuss with another learner, or in a small group, the percentage of your business you would need to retain to ensure overall control. Discuss how a shareholder might bring value to the business.

Skills

- Decision making and responsibility

The influence of stakeholders on business success

Stakeholders can influence business success.

Shareholders

The London Stock Exchange, Nasdaq, etc. are where public limited companies (plcs) offer shares in the company. This raises funding for the business by selling off parts of it as shares. Shareholders are looking for value for money; in business terms this is called **shareholder value**.

As you probably know, the value of these shares can go down as well as up and therefore shareholders are keen to ensure their investment is worthwhile. This can create a tension between those who run the business and those who simply have an interest in it. Shareholders vote on proposals for the way the business is run, which depends on majority votes.

Customers

Customers are also stakeholders and should be considered as long-term assets. Customers who feel valued and receive a good service are more likely to remain loyal. Strong customer service, such as that provided by M&S, Waitrose and JLP, enables **customer retention**.

Surprisingly, some businesses are constantly chasing new business and overlook the power of using their existing customer base by retaining their customers. Some businesses make assumptions that if a customer has just purchased a product or service they may not purchase again for a while, if at all. You can probably give examples of businesses who promote special offers to 'brand new customers only'.

Employee involvement

As employees are stakeholders of the business they contribute to the success of the business, whether it is as a direct or indirect result of their actions.

Some businesses have begun to understand the importance of engaging with employees when important decisions are made. Google, for example, involve their employees in business decisions which are traditionally taken by managers – such as the hiring of staff, promotions and pay increases.

In the early 20th century, a shop assistant in a major department store in New York suggested to a customer that they visit their main competitor when they could not supply the item sought. Despite opposition from the management, the sales in this store increased as a direct result and, subsequently, other stores followed the example.

Discussion

In a small group, discuss how often you have relied on 'word of mouth' as justification for using a business. Explore the impact of the message existing customers receive when they can't get the best offers. Find examples of businesses which encourage retention of existing customers and those which don't, and what stops these customers from taking their custom elsewhere.

Reflect

Some businesses also offer incentives for making suggestions, sometimes through a short survey. Can you think about a time when you have seen this in practice?

Corporate social responsibility

Often shortened to CSR, corporate social responsibility means the contribution that a business has committed to make to society and the environment. To deliver such a commitment, employees are encouraged to volunteer in a community project and work with community groups. The business might allocate the equivalent of one day a year to such an activity. Several major businesses, such as Nestlé, are known for this strategy.

As consumers, we are probably made more aware of our responsibilities to society and environment than ever before. There are businesses which alert public interest, such as the nuclear industry, and others which may be of particular interest to you, such as endangered species. It is probably unlikely that you can avoid daily media interest about local or global examples of poverty or waste or damage to the environment. British-owned, international business URENCO (Uranium Enrichment Company) has a CSR strategy which includes its policy for engaging with stakeholders.

Interest groups influence and support CSR strategies. One such example is the Banyan Tree Resorts which endeavours to protect the environment by investing in research projects and educating visitors to their resorts. They have invested in a team of specialists led by a Group Director of Conservation to deliver their aim.

Tip

What examples of volunteering or Corporate Social Responsibility strategies can you find online?

Case study

Little Italy

Little Italy started in the UK as a business in a small Vespa van with an old 1960s 'pull lever' espresso machine at a village railway station in 2004. It provided hot drinks and freshly baked breakfast snacks to commuters.

The Norwegian-born owner stood outside the station daily in snow, sleet, wind and rain.

After a year of being exposed to the elements, Little Italy Espresso Bar moved inside the newly refurbished station and, from humble beginnings, they now have four branches on the Birmingham to London railway line and a permanent coffee shop in the heart of the village where it all began.

Their culture is simple: fun, fast and friendly with a belief that you can't be successful by just making good coffee – it's all about the people. The Norwegian-born couple like to lead from the front and also involve customers in publishing their free magazine, created in-house by staff. Local businesses and customers feature throughout.



Check your knowledge

- 1 What are the features of this business that make it so successful?
- 2 In which sector does this business belong?
- 3 What do you think are the aims and objectives of Little Italy?
- 4 How important are their stakeholders to the success of the business?
- 5 List all of Little Italy's stakeholders.

Research

Look up URENCO's CSR strategy on their website. Then find some other examples from other international businesses. What are the differences and similarities? Why do you think this is?

II Pause point Which aspects of this case study were difficult? Which were the easiest?

Hint Identify another similar case study, for example another local business. Ask yourself the same questions.

Extend Compare your responses to those you gave to the questions about Little Italy. Are there any similarities? Differences?

Reflect

What information would you rely on to undertake this task and what should you have been given automatically?

What should the business have in place to avoid unnecessary panic, mistakes or delays?

Tip

Businesses should have clear procedures which guide employees on how to do their job. These procedures can help the way in which colleagues communicate with customers because, where confusion arises, stress levels are also likely to increase. Poor communication may also affect the business leading to under or over ordering, possibly losing potential revenue and damaging their reputation.

Methods of communicating with stakeholders

Without effective business communications, a business is unlikely to succeed. So far in this unit, you have learned about a variety of businesses from different sectors and of different sizes. Since the latter part of the 20th century, people have relied on the introduction and development of digital communications and, as you will explore shortly, these require a different approach towards how to communicate with the diverse audiences with which businesses need to engage.

Some striking examples in recent years are the forms of written communication with stakeholders. In the past, businesses relied on letters, sometimes handwritten, which could take days to arrive. Since the arrival of the World Wide Web in 1992 and wireless communication at the turn of the 21st century, organisations are more likely to rely on emails and online support to communicate with stakeholders.

While English is widely spoken around the globe and is the main language used in business, it is important to consider that for most, English is their second language so written English needs to be clear, non-colloquial (not using slang) and appropriate for a business context.

Theory into practice

Your supervisor asks you to order more stock as it is running low unexpectedly soon. Several customers have gone elsewhere and your supervisor is concerned about the impact on sales targets. Before you place the order, do you know who to order from and what you need to order? Consider the following:

- 1 What do you need to know to ensure you order the right amount of stock?
- 2 What communication method will you choose to ensure the order gets through?
- 3 How will you know if the order:
 - has arrived
 - can be serviced
 - will be delivered on time
 - is the price expected?
- 4 What else do you need to know about?

You may have been asked to give a presentation to your teachers and classmates in school or college. If you have a part-time job, consider how often you have been required to give a presentation to colleagues or managers. In this situation, it is possible you would be told what format is required.

However, if you have been asked by a family member to explain something to them or describe an idea, the way you present it to them is likely to be very different. In a business context, you may be required to produce a written report, presentation of slides or use a flip chart and pens to explain a concept. It is highly unlikely that any of these methods will be needed with family or close friends where you are communicating on a more **informal** basis. Yet people tend to associate a presentation with an electronic output.

Written presentations

In business, presentations take place almost continually. Reports can be **formal**, for example those which deal with business matters relating to finance or policy, such as government reports. A finance department (which may comprise just one or two people in a SME) will routinely produce a set of written monthly accounts as a formal report.

While electronic software is probably used to produce the financial accounts and the report, an explanation of what the figures actually mean will be more appropriate than providing lots of graphs or colourful slides. This means that the accounts need to be explained in a different format so that others can understand them clearly. This could be informal, for example by using a flip chart, or talking others through the information. Informal reports can also describe progress on a project or idea. In this case, the language will reflect a less formal and less business-like approach.

With all written presentations it is important that the information provided is accurate and presented in an appropriate format.

Table 1.4 gives some examples of ways to communicate in business.

Table 1.4 Examples of ways to communicate in business

	METHOD								
		Video-conference call	Fax	Letter	Telephone call	Text message	Email	Slide presentation	Written report
REASON	Chase order		✓		✓		✓		
	Apologise to customer	✓		✓	✓				
	Negotiate price		✓		✓		✓		
	Make a complaint		✓	✓	✓		✓		
	Chase payment		✓		✓		✓		
	Arrange meeting				✓		✓		
	Book accommodation		✓		✓		✓		
	Check a delivery		✓		✓	✓	✓		
	Meeting notes								✓
	Sales performance							✓	✓
	Customer quotation			✓			✓		

Video conferencing may be used to present some reports, especially where employees are unable to attend one site or always work cross-site. Faxes are used infrequently these days but do still exist, especially overseas or in remote locations where internet connection is less reliable.

Key terms

Informal – less business-like, friendlier and could also mean ad hoc. Informal can refer to information given verbally.

Formal – business-like, factual, technical and professional, providing a record. It can refer to writing, such as formal written feedback.

Verbal presentations

Presentations are often accompanied by a speaker, where professional presenting software is used. This is because each slide should only provide a headline account, with the detail explained by the presenter. Presentations are especially useful when communicating to larger audiences or when giving a series of presentations. They may be accompanied by speaker notes.

It is important to consider the purpose of communicating and whether the language used needs to be adapted to different audiences. For example, technical language is understood by a specialist, such as a mechanical engineer or IT technician, but it needs to be adapted if you are proposing changes to a network system to non-expert users of that system.

Skill

- Communication

The role of technology and social media

Social media can be a great way of promoting a small business and getting it known across a wider community (like Little Italy promoting its services to customers through its website and newsletter). Regardless of business size, social media is being used more widely each year and those dominating business communications include LinkedIn, Instagram, Facebook and Twitter. Government offices also rely on social media. Although there are reservations about using social media, it can reap rewards if it is used responsibly.

Social networks which develop through the use of social media become virtual communities, spanning diverse geographical locations and ignoring political boundaries. Less obvious examples of virtual communities include those initiated by inventor James Dyson and Brompton Bikes.

These virtual communities can thrive on common interests and develop fresh ideas, extend knowledge and be useful for business owners who are considering ways to expand or even start up a business. Virtual communities can make or break a business and word can travel fast. Sites such as TripAdvisor use virtual communities for gathering reviews from customers on their experiences.

Some businesses, such as Microsoft, use discussion boards to generate ongoing interaction whether to promote a product or service, or to report or solve problems. Sites such as Educator Network evolved to bring tutors together across the globe to share their teaching and training ideas and challenges. They have helped to provide innovative ways to teach 'hard to learn' topics and better understand cultural diversity.

Case study

Manufacturing in the West Midlands, UK

West Midlands businesses have boosted profits with a little help from the virtual world.

Manufacturing businesses in the West Midlands now have the chance to try out and test new product prototypes and ideas through virtual simulation technology.

Use of the innovative technology on offer at the University of Birmingham and the Manufacturing Technology Centre in Coventry will help businesses save time and money with costly repeat experiments which normally go hand in hand with testing new ideas.

'In order for businesses to survive and thrive new ways of working that save time and money but still gain the results is key. This project offers businesses an exciting opportunity to try out and explore the innovative technology by putting their new products and ideas to the test in a cost effective, reliable and safe environment. I am pleased that we are able

Case study continued

to provide support to a project that will be really beneficial to the future development of businesses in the West Midlands,' said Communities Minister Baroness Hanham CBE.

The project called CASiM2 is supported by £2.6 million from the European Regional Development Fund, which is managed by the Department for Communities and Local Government and matched through funding and staff skills by the University of Birmingham, the Manufacturing Technology Centre, Airbus and Rolls-Royce. 'We will engage SMEs in the West Midlands through demonstrating the commercial benefits of using innovative technologies to deliver step changes in their business offering.'



Check your knowledge

- 1 What types of communication is this project using?
- 2 In what ways is this project benefiting from communication?
- 3 Who are the stakeholders and how have they influenced the project?
- 4 Which sector does this business belong in and who are its owners?
- 5 What would you describe as related to its success so far?



Pause point

Has your approach to exploring a case study changed since you started this unit? If so, why and how?

Hint

What examples can you find where social media has driven the success of a business either from micro to SME or larger, or in initiating a new business idea?

Extend

Choose a company and prepare a case study focusing on the company's use of social media. Assess how successful its social media profile is.

Research

If you have a job, what would happen if you were asked to propose a new way for the business to promote products or services? Talk to your employer or supervisor. Would they mentor you on this task or even through your qualification?

- 1 What else could you do to improve your communication skills?
- 2 Are there forms of communication where you would benefit from extra training (such as video conferencing)?

Tip

If you don't have a job, approach local businesses and ask if they would be willing to let you use them as a case study.

B } Investigate how business organisations are organised

Structure and organisation

Organisational structure

Organisations need a structure to enable the business to operate effectively. As a business grows, the structure will evolve but needs to be considered carefully so that:

- all jobs that need doing are identified and allocated
- lines of communication are established
- levels of responsibility are identified and allocated
- levels of authority are attributed.

Although you probably think a sole trader will not have an organisational structure, the jobs still have to get done. Examples include keeping the accounts, ordering supplies, promoting the business, etc. Therefore some jobs are likely to be outsourced, meaning that someone else with the right expertise will be paid to do that aspect of the work. In a way, this 'expert' could be viewed as part of the organisational structure, as the sole trader will depend on them for the smooth operation of the business.

There are different types of organisational structure and these are explored below.

Hierarchical

As the name suggests, this structure shows a hierarchy of responsibility and authority showing who is responsible for what and who has authority to make decisions regarding business operations. This type of structure is fairly easy to understand and, as Figure 1.1 shows, there is one person with overall responsibility and authority for the business and everyone else has a clear position in the organisation.

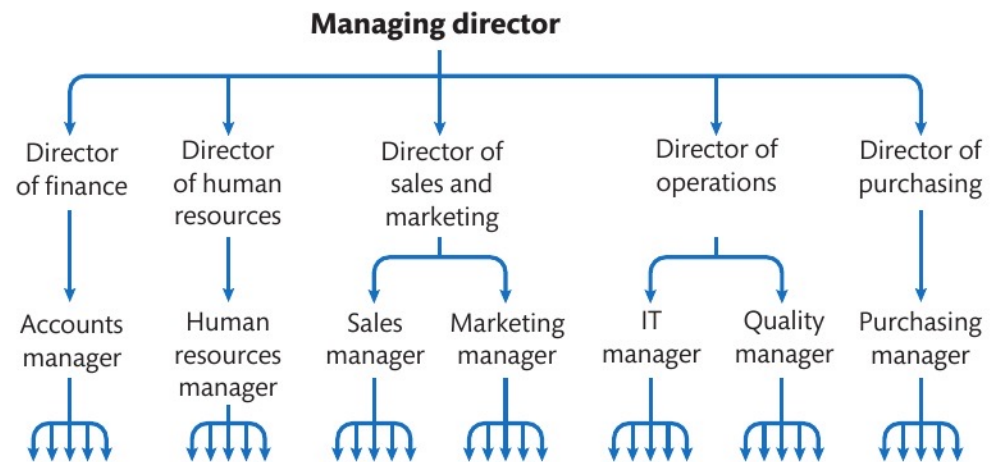


Figure 1.1 Example of a hierarchical structure

As shown in Figure 1.1, it is clear who is responsible for their subordinates and that some employees have the same level of responsibility or authority as each other. Each manager leads a team of employees and in large organisations these teams might also have team leaders. This type of structure might apply to SMEs, although not exclusively. Some local authorities operate similar organisational structures.

Another example of a hierarchical structure is shown in Figure 1.2. This is a dental practice. In this example, one dentist owns the practice and associate self-employed dentists are contracted by the owner.

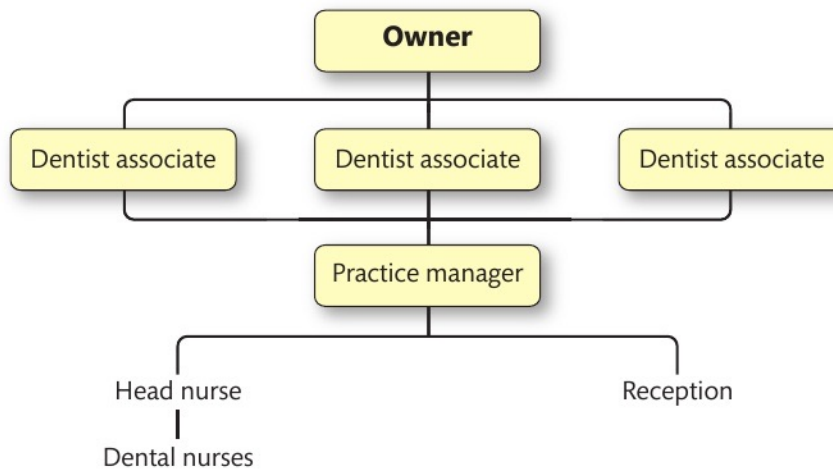


Figure 1.2 An alternative example of a hierarchical structure

Other examples of hierarchical structures include a tourist attraction with restaurant which are likely to be managed separately, with staff reporting directly to the boss of their section. The owner has overall authority and responsibility and this can impact on the time it takes for decisions to be made.

Flat

A flat structure is a simple example of what might be a micro business. Larger businesses may also have this type of structure. Each structure has advantages and disadvantages, which you will explore later.

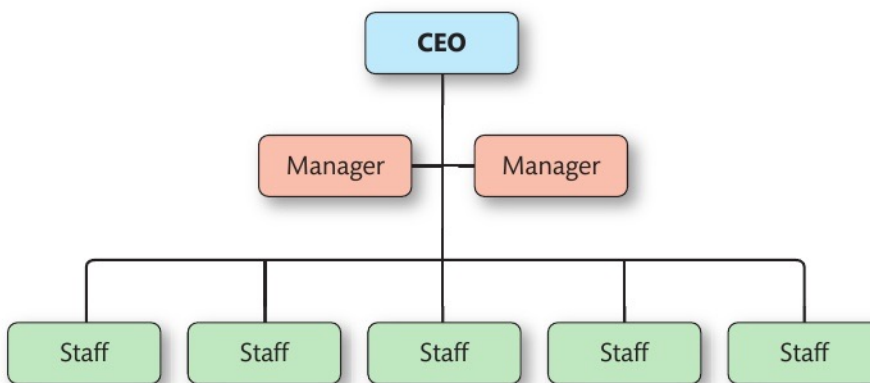


Figure 1.3 Example of a flat structure

As Figure 1.3 shows, the lines of responsibility are very clear and the routes to those in authority are also clearly defined. However, as a business grows the number of subordinates (people who the managers are responsible for) can become unwieldy. Examples include:

- the amount of time it takes managers to deal with a large number of teams
- the impact on their workload.

Discussion

Do you know of anyone who works for a business with a similar structure in a different sector?

Key term

Bureaucracy – detailed procedures which have to be followed (sometimes known as ‘red tape’).

Flat structures may operate with less **bureaucracy** and therefore decision making can be quicker. However, with one overall leader, they are likely to be more protective of their business and can be reluctant to change. There are also likely to be fewer opportunities for promotion or progression than in other structures. The structure and organisation of the business may need to be changed as it grows.

Research

If you have a business mentor, ask them about their experience of being in charge of others.

Skills

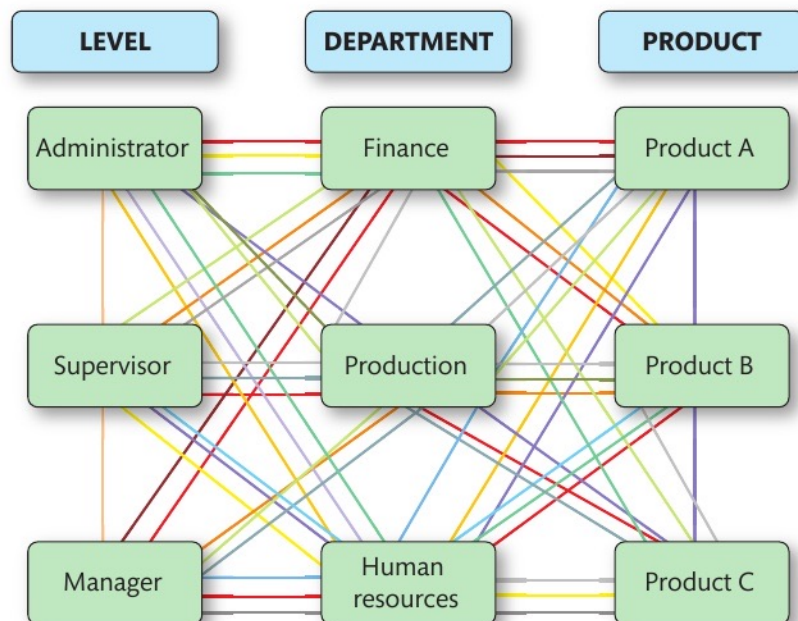
- Continuous learning and self-direction

Matrix

The matrix type of structure is complex. It brings together teams of people depending on their abilities to work on specific projects. BT put together teams of employees to work on projects, as do Microsoft. Another example is a national football team such as South Africa, which is made up of players drawn from individual football clubs around the world (for example Bidvest Wits, Cape Town City, OH Leuven, Brentford) for the football World Cup.

Holacratic

A holacratic organisation structure offers a holistic approach to running a business where responsibility and authority are distributed amongst the workforce. One disadvantage of other structures is the level of bureaucracy that can appear to get in the way of getting on with the job. Holacracy claims to remove this problem by devolving responsibility and relying on very clear roles, aims and objectives, which, in turn, rely on very clear communication and trust. Figure 1.5 shows how this structure can be associated with departments.



Each coloured line represents a team made up of members from one or more of the levels, departments and products

Figure 1.4 An example of a matrix structure



Figure 1.5 Concept of a holacratic structure

The advantage of this type of structure is the equal distribution of responsibility and authority. In other words, no single individual takes on the role of boss and everyone can operate autonomously. As you may imagine, this requires considerable trust due to the lack of bureaucracy. Employees need to understand their role without the constraints of job descriptions. This type of structure can help a business to adapt rapidly to change and could be viewed as generating greater job satisfaction and feeling part of the business. An example of a business using this type of structure could be Microsoft, whereby teams are put together to work on specialist projects.

Functional/operational areas

Businesses have several functions in order to operate efficiently.

Functions

A brief definition of each function is:

- human resources (HR) – responsible for managing people in the organisation, to include their welfare, job roles, progression opportunities
- research and development (R&D) – responsible for coming up with ideas for new products or concepts
- sales – responsible for selling products or services
- marketing – promotes the goods or services of the business
- purchasing – responsible for supplies, products, stationery
- production and quality – oversees manufacturing and checks that products meet specifications
- finance – provides accounting services, raises invoices, pays bills and wages
- customer service – resolves customer queries and complaints, seeks feedback to improve products or services, or develops ideas
- IT – ensures the smooth running of telecommunications and computer infrastructure
- administration – provides ongoing support for the business to function, such as following processes, dealing with correspondence, organising meetings and travel.

While this list may apply to large organisations such as BT, Microsoft and BMW, smaller businesses will also feature many of these functions although on a smaller and possibly less formal scale. For example, a hairdressing salon will still purchase stock, deal with finance and administration, and need HR for personnel matters, but it is less likely to undertake research and development functions in the way large businesses do.

Smaller businesses may contribute to R&D by giving feedback to suppliers or listen to customer feedback to pick up ways to improve their service or what they offer. The case study of Little Italy is a typical example where employees gather comments from customers, learning about what customers and commuters would like to buy.

Research

Explore how these organisations structure their businesses and list the similarities and differences between their organisational structures:

- Eddie Stobart
- Mercedes Benz
- Fitness First
- Whitbread.

Compare your findings with another learner.

Link

You will explore customer service in more detail in

Unit 14: Investigating Customer Service.

Research

If you have a part-time job, find out about the business's organisational structure. Compare the structure with those you have explored already and consider why that structure was chosen for this business. If you don't have a part-time job or volunteer, perhaps ask family and friends about the businesses where they work.

While larger organisations such as Waitrose, Ryanair, Staysure and Wiltshire Farm Foods may have entire departments to manage customer service matters, smaller businesses rely on every member of staff to know how to resolve customer service issues, and employees are more likely to be in close contact with customers on a frequent basis.

Operations

If the functional areas of a business are not suitably structured, then efficient operations will be affected. For example, when some businesses set up customer service departments or help desks in another country, customers might complain about communication difficulties if they are unable to understand the support assistant.

Due to the recession, many businesses have had to streamline their functions. Some have reduced their workforce, leading to job cuts in marketing teams, administrative staff or sales assistants. You may be able to identify where staff shortages appear to be impacting on service.

Reducing the workforce does not automatically lead to a reduction in service quality. By taking advantage of technological advancements, businesses such as banks and manufacturing industries might feel the investment in expensive equipment has led to a reduction in staff but no reduction in the service offered to customers.



► Self-service check-in machine at airport

Aims and objectives

Earlier in this unit, you reviewed your aims and objectives and were asked to put together a plan for achieving this qualification. The purpose for doing this is to focus on the main goal and break down what appears to be a large task into smaller bite-sized chunks. You may have created a Gantt chart or you may have preferred to use another method.

Aims of businesses in different sectors

The same applies to businesses needing to plan out their aims and objectives to strive for success. These are built around three key areas:

- mission (a promise of commitment to the business cause)
- vision (the direction the business aims to travel in the future, short or longer term)
- values (the philosophy and ethos of a business which underpin the vision).

Mission

You may have heard or seen the mission statement of the place where you are studying. Mission statements are often found at the front of any marketing materials and websites.

While a mission statement is intended to represent the overall aim of the business, it should be informed by the vision and values of the business. Here are three examples from different business types:

Salon: Body Beautiful

Our team aims to provide excellent customer care in a friendly and professional environment. We pledge to deliver this care via a first class service.

We are sure of success when clients are delighted with the products and treatments we have supplied. We will continue to seek to improve the services we offer by continual staff training and by embracing all new technology.

Our aim for our clients is to achieve the salon's motto of 'Embrace your body beautiful!'

Carefree Coaches

Safety, security and comfort form the foundation of everything we aim to give our customers.

Our future success will build on these by focusing on both business and leisure markets and by ensuring the customer always comes first.

Ingleham Community Project

- 1 To represent all the residents and businesses of Ingleham, Benton and Clapdale.
- 2 To hear and respond to the needs of all residents and businesses.
- 3 To work in partnership with all stakeholders and interest groups within the area and their representatives.

Each of these statements varies in length and complexity. Ultimately, these should be supported by the business objectives representing how the business intends to deliver these promises. Analyse these three statements. These questions will help you.

- What are the main messages?
- Do they represent the company image to you as a customer?
- Are they understandable for a variety of audiences?
- What expectations do they give you?
- Do they communicate their vision and values to the customer?
- What changes would you recommend?
- How well do you think each mission statement reflects the overall business aim?

Business aims are not solely the intentions of owners as these will depend on the stakeholders of the business and which sector it belongs to.

Vision

A vision statement is easily confused with a mission statement. Its aim is to clearly communicate the future plans for the business, particularly to its employees. They can become involved in the plans for the business and their jobs and organisation structure will need to support this vision.

Values

Organisational values will vary across businesses depending on their overall aim. Some businesses promote their eagerness for growth, whereas others promote their commitment to sustainable development to minimise their impact on the environment.

The public and private sectors

Traditionally, the main difference between public-sector organisations and private-sector organisations was that organisations operating in the public sector were focused upon providing a service to the public rather than generating a profit. Many of these organisations made a loss, which was subsidised by the government and funded by the taxpayer. Private-sector businesses exist to make a profit for their owners. Over time this distinction has become less clear. Most public-sector organisations are now required to operate with a budget set by the government, and although service delivery and

Research

Look at examples from major global companies such as Coca Cola, Asos and Uber. How prominent do they make their values on their website? Can you identify the key values for each business? How do you think each company chose their values?

meeting government targets remain their core objectives, they must be achieved within strict financial limits. There are some key differences between private- and public-sector organisations.

Private

The aims of businesses are likely to vary depending on whether or not the overall aim is:

- Making profits – most multi-national businesses aim to make a profit.
- Profit maximisation, where efficiency and cost of supplies, service or production are streamlined to ensure a greater margin between those costs and the revenue received, therefore maximising profits; examples include some budget airlines that charge extra for in-flight meals, drinks and baggage.
- Break-even – the critical measure identifying at what point a business will make a profit or become non-viable. The break-even point is the basis of business plans and especially a new business, where a calculation identifies how many products or services are needed to generate sufficient income to cover all outgoing costs, such as buying supplies, premises, wages, paying taxes, etc.
- Survival – such as the struggles reported over recent times being faced by Mulberry and Karen Millen. Other businesses, such as Clinton Cards, have struggled to stay afloat, closing stores. Jessops has closed almost 100 stores and reduced staff numbers. Clinton Cards may have overlooked the growth in sending ecards; and Karen Millen was acquired by boohoo.com in 2019.
- Growth – for example, 2018 marked the first year that subscriptions to streaming services surpassed subscriptions to traditional television providers.
- Market leadership – a company or product that sells more than its competitors. Apple and Samsung are examples of companies who are competing to gain market leadership in the phone sector.

Link

You will be introduced to business legislation in *Learning aim C* later in this unit and taxes in **Unit 3: Personal and Business Finance**.

The private sector also needs to take into account the expectations of stakeholders and that includes government. Business and personal taxes must be paid and businesses must comply with legislation and regulations.

Public

In the public sector, especially for not-for-profit companies, business aims are accountable to the government which may be a major stakeholder providing government funding from public taxes and other means. Therefore the organisation's mission, vision and values are influenced by government expectations as well as other stakeholders.

Service provision

In the public sector, service provision to government agencies is often contracted from profit making private sector businesses such as refuse collectors, building contractors, cleaners, etc. Each of these suppliers will undergo significant checks and be expected to comply with agency contracts, usually known as service level agreements.

Regardless of who is paying for the treatment, the patient should receive the same level of care and service. However, the type of treatment may vary because not all treatments are funded (or may only be partially funded) by the NHS, such as teeth whitening, white fillings and veneers.

Cost control

Cost control is fundamental to the survival of any business. A public sector business is accountable to the public for how it spends money and controls costs. For example, households are informed about how their contributions from council taxes to local government will be spent and how well they performed to provide the service expected.

All businesses need to keep control of their outgoing costs and generate income, otherwise the business might close. Several businesses closed during the recession, some of which seemed to be part of the British heritage, such as Woolworths and MFI, along with Blockbusters, Comet and JJB Sports. This is not to suggest that these businesses lost control of their costs, but when demand drops (for whatever reason) profits fall to the point where they cannot continue to pay their way and businesses close.

Woolworths suffered from a lack of vision. It was hard to pinpoint what it offered that was unique. Low-cost products, especially those no longer sought by consumers, do not pay expensive rents in prime locations and customers' needs were being met by out-of-centre supermarkets which expanded their ranges.



► Woolworths was one of several large and well-known businesses to close down during the UK's last recession

Value for money

The public and private sectors are no different in wanting to provide value for money. Therefore when seeking a supplier, such as sourcing a contractor to repair roads, bids will be requested from several contractors and the following will be judged:

- cost (cheapest is not necessarily best or worst; fixed price or estimated; what is not included?)
- quality (workmanship, resources, customer satisfaction)
- timeframe (overall timeframe, impact on other services).

Each aspect is important and it is often difficult to compare like for like. You may be able to identify other factors which would influence you when making a choice.

Customers expect value for money, especially during times of **austerity** such as a recession. These customers include stakeholders such as the contractor purchasing bricks who will want to get the best deal on the bricks and other building supplies without compromising quality.

Service quality

Everyone wants quality service. For example, deliveries which turn up on time and shelf stackers who stand aside to let you reach a product, just as a bus driver appreciates a thank you from a departing passenger and the public values the bus driver who avoids splashing waiting passengers or passers-by.

Key term

Austerity – the difficult economic conditions resulting from the government putting measures in place to reduce public spending.

One example of a business committed to quality is London-based Brompton Bikes. They manufacture bespoke bicycles to order and every part is traceable to the employee responsible for its manufacture. Their aim is for every customer to be confident of service quality because every employee takes responsibility.

Service quality is judged by the customer in relation to their expectations. This can be difficult as our expectations are very subjective and so they differ. Take, for example, a simple transaction in a shop. What factors shape your assessment of the experience? Can you find what you are looking for? How long do you wait to be served? Is the assistant courteous or over-friendly? Are you charged the correct amount? Are you given the right change, etc.? All these factors are influential regardless of cost.

Strangely, customers can get very agitated over very minor transactions while a major purchase or service might be overlooked, for example buying a holiday or a new home. It is now the norm to check review websites, such as TripAdvisor or Amazon reviews, before visiting a business or making a purchase. However, there is a danger that people are more likely to leave a review after a negative experience, rather than a positive one.

Meeting government standards

Think back to the dental practice structure shown in Figure 1.2. That type of business aims to make a profit from private patients while also servicing patients through government-funded health programs. However, not all dental practices provide government-funded dental treatment and you might be aware of examples in your local area.

All businesses have to comply with rules laid out by the government. For example, all businesses must comply with legislation such as health and safety, which you will explore a little later in this unit and throughout this book. However, depending on the nature of the business, there are specific standards to meet such as:

- care standards for those working in the care sector
- food standards for any business providing food and drink to the public
- organic certification for those growing organic produce
- disease notification regulations for farmers.

Not-for-profit

While providers of education share the same overall goal, their objectives will vary depending on the type of education they supply and, especially, who they are educating.

Education

The National Science Learning Centre is an education provider and therefore a not-for-profit organisation offering tutor education in the UK and Northern Ireland.

As a **multi-collaborative** charity registered organisation, it operates as a joint venture between the Department for Education and the Wellcome Trust. It has multiple funding sources so has many stakeholders to satisfy.

Housing

Housing associations, such as the AFWC in Amsterdam, aims 'to provide affordable housing for people with low incomes and/or people with special needs'.

ForHousing is a housing association based in the northwest of England providing rental homes for people and families. Their website, Forhousing.co.uk clearly explains the association's mission to improve lives and their values: passion, openness, respect and trust.

Research

Explore your government's website for the responsibilities laid out by government departments and agencies. Think about how a local business or a school or college can meet these responsibilities.

Key term

Multi-collaborative – collaborating with multiple partners.

Alleviating poverty

Charitable organisations aimed at alleviating poverty, such as Oxfam, UNICEF and NSPCC, have clear mission statements, although their aims and objectives will also change according to a perceived area for need. One recent example of need is the Nepalese earthquake early in 2015, while others are longstanding, such as UNICEF's aim to improve sanitation in places such as Angola.

Healthcare

The healthcare sector exists to provide care; its main stakeholders are its patients. Whilst healthcare provision varies across the world, its intentions are the same. Mostly not-for-profit, it relies on sufficient funding, from whatever sources, to remain operational. The largest and probably most famous healthcare service in the world is the National Health Service (NHS) in the UK. Though it reportedly treated almost 5.5 million emergency patients within four hours in the last quarter of 2018, it has tremendous strain on its finances trying to deliver high-quality care as swiftly as it can.

Research

Locate the mission statement of your place of study or work. Explore how their aims and objectives relate to the mission statement.

Case study

'Good Bubble'

In the summer of 2015, Amy Wordsworth presented her company, Ella Banks Ltd, to the UK's Channel 4 programme *Dragons' Den*. Her company produces 'natural superfruit' children's toiletries labelled 'Good Bubble' and she was seeking extra investment. Amy's business aim and values are evident in that, while striving to make a profit and grow the business, the intention is that the business stays true to its values.

Good Bubble aims to stay true to its values by being kind to skin and using 98 per cent natural ingredients in their products. Superfruit ingredients provide extra nourishment for hair and skin without the use of chemicals or irritants.

The business values also promote a commitment to reducing their carbon footprint by using and promoting recyclable packaging. Good Bubble also recognise hard economic times and aim to keep prices down, selling their products online with stockists based around the UK and Ireland.



Check your knowledge

- 1 Which sector is the Good Bubble business in?
- 2 What are Amy's business values?
- 3 What type of organisational structure is Good Bubble likely to be?
- 4 Why do you think Amy was seeking additional investment?
- 5 Who are her likely stakeholders?
- 6 If you were Amy, is there anything you would do differently?

Skill

- Self-direction

SMART objectives

Putting together a plan, whether it is for a business or your personal use, requires frequent reviewing and updating. This process can be extremely rewarding when you can 'tick off' your achievements without getting downhearted if some of the targets set have not been achieved. It is possible that they were overly ambitious and more complex or time consuming than originally expected.

Managers of businesses will have similar experiences and will need to justify to others, such as their stakeholders, why some business objectives were not achieved. The key to a successful plan is to carefully consider each objective and ensure that it is SMART and that, ultimately, taken together, all the aims meet the overall aim.

A 'SMART' objective should be:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**elevant
- **T**imebound.

Reflect

You'll recall that, earlier in the unit, you were encouraged to create a plan to help you to achieve the aims and objectives of this unit, and to think about your timeframe.

Now that you have explored more about business aims and objectives, review your plan and adjust it where relevant. You might need to break down some of the objectives into smaller chunks with varying dates for completion. Ask yourself these questions about your objectives:

- Are my objectives specific and clear? Will I know what I mean next time I review my plan?
- How will I measure my progress and achievements?
- Are my objectives achievable, for example do I have the resources?
- Are my expectations realistic?

Am I confident I can achieve in the allocated time? What are the time constraints? Have I been unrealistic? Have I considered other factors and built in some flexibility (buffer time)?

Assessment practice 1.1**A.P1, A.P2, A.M1, B.P3, B.M2, AB.D1**

You and a friend decide to set up a small business to help support your community. You want the business to be a non-profit, but your friend would like it to be profit-making.

To compare ideas and ensure that you are fully prepared for conversations with likely investors, you write a report exploring two contrasting businesses, one for-profit and one not-for-profit. You also want this report to help you decide how best to organise the business.

In your report you should:

- identify the features, organisation structure, aims and objectives of each business
- identify the stakeholders of each business.

Think about how the organisation's structure enables your chosen businesses to achieve their aims and objectives and how this contributes to the business' success.

Assessment practice 1.1 continued

Discuss how the businesses manage the relationship and communication with their stakeholders, and how they influence the business.

The report should include a detailed analysis of the reasons behind the success of each business, using the evidence you have gathered.

Plan

- How do I pick my chosen businesses? How do I find enough information out about each?
- What aspects of this task will I struggle with? How can I combat this?
- Is it clear what I need to do? Do I need any clarification?

Do

- Am I sticking to the timeframe and order of my plan
– unless it doesn't work?
- Am I keeping details of my sources, together with dates I accessed each one?
- Am I using a variety of sources and not relying just on the internet, and making notes around which sources look trustworthy and which are dubious?
- As I work through the activity, am I ticking or highlighting the learning aims covered?

Review

- I can read through my work thoroughly, checking for mistakes and poor presentation.
- I can reflect on my work and my contribution. How did it go? Could I have done better?
- I can swap with my peers and critique each other's work. I can give considered feedback, which is constructive, developmental and most of all, honest.

Examine the environment in which business organisations operate

The term 'environment' has multiple features. During this unit, you will have recognised how the economic environment has influenced businesses, for example the UK **retail** outlets and businesses that have closed down due to the recession, while some shops have thrived.

External environment

The external environment impacts on businesses and is comprised of many factors. These factors are often used by businesses to analyse how and why they will be successful or unsuccessful – this analysis is known as '**PESTLE**' which stands for:

- **P**olitical
- **E**conomic
- **S**ocial
- **T**echnological
- **L**egal
- **E**nvironmental.

Key terms

Retail – the sale of goods, usually on a small scale, directly to the public for consumption rather than resale.

PESTLE – political, economic, social, technological, legal, environmental.

Link

Unit 19: Pitching for a New Business Learning aim B also considers PESTLE analysis.

Research

Research examples of businesses that complain of too little government intervention. Can you explain why this might be?

Skills

- Personal and social responsibility

Key term

Fiscal – relates to government revenue, for example from taxes.

Research

Can you find any examples of the effect of fiscal policy on small businesses? In groups, see if you can find any examples of the effect of fiscal policy on large businesses.

Political

Government support

Government support, such as monetary grants or promotion, can inject considerable enthusiasm into new business ideas such as wind farms and solar panels. You may know of schemes your government has supported financially in your country. If you don't know of any, look on your government's website to see if you can see any information about government-backed projects. Of course, there is a motive for government support according to government policy and promises.

Membership of trading communities

Businesses can benefit from being members of trading communities. These are often sector related, such as retail, health, publishing, tourism, catering, etc. and provide networking opportunities, advice, news and opportunities to buy or sell equipment, services, training, etc.

The European Union (EU) is another form of trade association. The EU promotes itself as 'the best way to realise our global future'. Being a member of any trade association gives credibility in the eyes of the customer, just as you would expect a gas fitter or service engineer to be Gas Safe registered. It can be seen to open doors to opportunities that are closely guarded or seen as exclusive.

Economic

Economic factors greatly influence the success or demise of businesses. A financial recession may lead to the closure of businesses. These businesses may have failed to take into account economic needs, competition and technological advancements. You have also learned about the success of new or diversified businesses, informed by government initiatives such as solar panels and air source heating.

Fiscal

Fiscal policy affects every type of business. It is government controlled and dictates levels of taxation based on the cost of borrowing. This is how a government generates its income and decides its budget. Every business owner and its decision makers cannot ignore changes to fiscal policy.

Monetary and other government policies

Monetary policy affects everybody as it relates to the value of a currency and interest rates. In the UK, this policy is determined by the government and decisions about how to meet expectations are controlled by the Bank of England and the Monetary Policy Committee (MPC). All businesses are affected by decisions made by the MPC. Your country may have something similar.

Supply side policy

These policies aim to improve productivity and produce economic growth. Ways to achieve this include reducing taxes and reducing corporation tax (the tax paid by private and public limited companies).

Economic growth

A country's government strives to grow the economy so that the country does not fall into a recession. Imagine that you are a government and look at your own financial circumstances. Calculate how much money you have coming in and how much you expect to spend. What is left? Everyone needs money to survive, so you have to ensure that you do not spend more than you can afford or else you have to find ways of generating more income.

A country is no different and its government has to find ways to grow the economy at international, national, regional and local levels according to opportunity and need, for example, this might be with building projects and increasing job and training opportunities.

Exchange rates

Another factor influencing the success or failure of businesses and an economy is exchange rates. These can fluctuate greatly and how global currencies compare is analysed daily. Exchange rates are influenced by many factors such as unemployment, **inflation** and other complex factors such as the activity on the stock exchange and speculation. In other words, how much a currency is worth when trading with other countries. You may well have experienced fluctuations if you have ever bought foreign currency to go on holiday.

Imagine how fluctuating exchange rates impact on the travel industry. Airlines, rail and logistics companies are just a few of the businesses which must try to forecast their income while anticipating the costs of running the business, for example vehicle maintenance, fuel costs and the predicted number of passengers, etc.

Exchange rates are partly responsible for fluctuating oil prices. For example, in the summer of 2015 the price of petrol in the UK was 30p per litre less than it had been two years previously, and it had reduced further by February 2016. However, by the autumn of 2019 the price of petrol had increased by more than 33 per cent. Consider what factors may have influenced these fluctuations in the price of petrol.

Social

Attitudes to saving

Banks and the government rely on people to save money. The money saved is used to boost the economy as it is borrowed by businesses and householders for mortgages, etc. However, in times of recession people tend to have less money and have less to save. Low interest rates also deter people from saving money because there is no incentive to do so. In the UK, the government has introduced policies to encourage people to save, such as **ISAs**.

Spending and debt

Changes to spending habits influence the types of business that can start up and expand. For example, in the UK the recession has led to an increase in pawn brokers, charity shops selling second-hand goods and money lenders. By contrast, building contractors, clothing, furniture and photography stores, etc. are struggling to survive.

Social responsibility requirements

A sense of social responsibility also influences spending habits. For example, with the increase of charity shops people can make their money go further while also helping a good cause. Consumers are being encouraged to consider ethical matters and the consequences of their actions much more. According to the Office of National Statistics (ONS), sales of tobacco and alcohol have dropped while the biggest growth area is recreation and culture, although this includes mostly electronic goods.

Change

Changes, for example to the **demographic trends**, can have a significant influence on business. For example, in many capital cities throughout the world there is wide ethnic diversity which has led to new businesses catering for specialist foods, local government services and training opportunities.

Key terms

Inflation – a general increase in prices and fall in the purchasing value of money.

ISA – individual savings account (a good way to save money without having to pay tax on it).

Demographic trends – the characteristics of a country's population.

Research

How many different nations are represented by fast food outlets and restaurants in your local area?

Discussion

Discuss your research findings with your peers. How do your findings compare and how do you think these businesses reflect the local population? Now look at your nearest city. Are your findings different? Or do they reflect the same as your local area?



► Robotic surgery taking place

Skill

- Communication

Another factor which influences businesses is the movement of people from one country to another. This can be the result of war or civil unrest, or of people seeking a better standard of living for their families outside their home country. The resulting immigrant communities can enrich the culture of a host country and can bring in much needed skills required by businesses there. They can also influence the type of goods and services supplied by business, in many instances by starting up their own businesses.

Consumers' tastes/preferences

Changes to consumers' tastes or preferences also influence the nature of businesses. For example, the food industry is now strongly influenced by foreign foods and recipes, while fast food remains very popular. There have been increases in restaurants such as burger chains and 'simple' food restaurants.

Technological change

Technological advancements and changes influence businesses and create opportunities for new businesses. During the mid 1980s, businesses started to introduce fax machines, and electronic typewriters and word processors became more commonplace. Early adopters used computers although few employees were skilled in their use. By the mid 1990s, this led to a change in the training courses and qualifications being offered to meet demand and public interest; by the early 21st century internet usage was almost a necessity for businesses to function.

Automation

Automation has been in existence for a long time, with robots building cars, but, if traced back, it could be claimed that automation appeared as early as the 8th century. The first programmable robot was developed in 1954 and robots were first introduced into the motor industry in 1962.

Of course robots are not the only form of automation. Today we take it for granted that we spend much of our everyday lives interacting with some form of automation. This includes buying tickets, setting alarm clocks, timers for heating, water, cooking, programming washing machines, etc. Even certain surgical procedures or treatments are carried out to some extent by automation.

Improved communications

Technologically, improved communications have changed the way businesses operate and especially how they are structured, for example more people can now work from home or remotely. This had led to WiFi connections being provided on trains, in stations, on ships, in aeroplanes, in restaurants, coffee shops, shopping centres and open spaces. All this encourages us to take work on holiday or maximise travel time into business time.

New businesses are increasing rapidly and some innovative ideas may even operate from a 'back bedroom' – these are sometimes based on a new craze, such as the aluminium scooter in the mid 1990s. However, unless business owners know how to sustain their business idea, and can cope with changes in demand, they can be short lived. One recent 'back bedroom' innovation is that of Marc, 'inventor' of Sublime Science children's parties.

Legal

Certain legislation must be complied with in business otherwise heavy fines are imposed and even imprisonment. Some of the laws in the UK affecting businesses are outlined in Table 1.5.

Table 1.5 A sample of UK laws which affect business

Laws and regulations	Business type affected	What it means
Partnership Act 1890 (undergoing changes late 2015)	Partnerships	All partnerships are governed by this Act regardless of whether the partnership has been registered as a legal partnership or limited company. A partnership can only be dissolved if one partner wishes to retire or unfortunately dies. A partner cannot be sacked or made redundant. Regardless of the time as a partner or contribution to the business, partners must have equal share of all profits and losses, unless other legal contracts are in place stating otherwise.
Companies Act 2006 (undergoing updates late 2015)	Limited, unlimited, private and public companies	This Act sets a code of conduct for businesses to operate to protect the business and its operations (both internally and externally), its employees and shareholders. This Act informs company policies and their operations including financial, rules for forming and dissolving a business.
Charities Act 2011	Registered charities, non-profit	The aim of this Act is to protect the charity and its fundraising activities in line with business expectations. All fundraising activities exceeding £10,000 per year must register as a charity. Charities have to set up trustees to ensure the charity operates within the law. They are not being responsible for debts but can face greater public liability.
Competition Act 1998 (undergoing amendments late 2015)	Any business	This Act came into force to prevent domination by any one business by addressing: • anti-competitive agreements which prevent, restrict or distort competition in the UK • abuse of dominant market positions which prohibits limiting production, markets or technical development to the detriment of the consumer.
Financial services regulation	Financial organisations	These are rules which act to protect consumers and provide monitoring of financial activities by third parties, for example auditors. The Stock Exchange is regulated by these guidelines, just as banks and other financial services are supervised.
Industry regulators	Sector specific	These regulators act as supervisors to ensure conformity and compliance across business sectors. For example, Gas Safe regulate gas appliances, fitting, servicing and manufacture. The Care Quality Commission is a health regulator. The Health and Safety Executive (HSE) regulates all aspects of business (and personal) operations. All businesses have their regulators, including registered charities (Charity Commission of England and Wales). Your qualifications are regulated by Ofqual to ensure they are relevant, appropriate and of sufficient quality.
Government departments	All businesses and the public	The government has many departments aimed at ensuring everyone operates in a responsible and trustworthy manner and for the benefit of public good.

Businesses are responsible for keeping up to date with developments and changes to legislation and regulations. Ignorance cannot be used as an excuse for non-compliance.

All rules and regulations, including laws, can be difficult to understand and are easily misinterpreted. Always seek professional advice if in doubt. This is why large organisations often employ their own legal department, just as the place of your study may have a specialist in their governing body.

Research

Carry out research to find out about the corresponding laws in your country.

Research

Check for anticipated changes to existing legislation and the introduction of new rules and regulations.

Key terms

Environmental factors – those factors outside of the business over which you mostly have no control.

Ethical trends – trends determined by moral principles.

Skills

- Ethics and personal and social responsibility

Environmental factors and ethical trends

More than ever, businesses and individuals are concerned about **environmental factors** and **ethical trends**. We all share a sense of social responsibility for our survival and that of the planet. Factors are outlined below.

- Carbon emissions.
 - This means an impact on business costs such as increased taxes imposed on fuel.
- Waste.
 - Household rubbish must now be segregated between different bins which the council collect and dispose of in controlled ways. Landfill sites are also heavily regulated, as is how water and sewage are disposed of.
 - In order to reduce the waste from bags given out by supermarkets and larger stores, the UK government imposed a charge on plastic bags from October 2015.
- Recycling.
 - Businesses must comply with the government's green policies which ultimately impact on all our lives. The government's 'let's recycle' policy is under review in their quest for zero waste.
 - Examples of businesses built on recycling include The Recycling Factory, which sells ink cartridges, and Traid, which remakes donated clothes for resale.
- Pollution.
 - Demand to reduce pollution is forcing businesses to introduce environmentally friendly products. For example, many of the major international car manufacturers are introducing electric cars and undertaking research to reduce the environmental impact of petrol and diesel vehicles.

Businesses can benefit from being seen to support environmental issues, for example those affecting the planet, the food we eat and people's welfare, such as Fairtrade food production, recyclable products, free range eggs, etc.

Organisations can also be forced out of business if they don't consider environmental factors and ethical trends. One of the biggest lawsuits ever in the USA was won in 1996 when Pacific Gas and Electric were forced to pay damages due to chromium water contamination which impacted on hundreds of people's lives.

Some businesses choose to adapt their business operations, for example Pret a Manger have made changes to their plastic packaging to make it more environmentally friendly.

Sustainability

Organisations are more aware of sustainability than ever before. At an organisational level this might affect how they will sustain their workforce numbers or their customer levels. On a larger, more global scale, organisations are now very conscious about their actions and how they affect the environment. This might mean, for example, a furniture manufacturer reconsidering the materials they use, or replanting trees to replace those they use in their production processes. Probably one of the most topical and current examples is the banning of the use of non-biodegradable plastics. Other examples include attempts to prevent overfishing of endangered species and poaching of critically endangered wildlife.

Internal environment

Corporate culture

Business (corporate) culture is a hot topic. You might have heard people talk about a blame culture – how an organisation is structured can have a great impact on whether or not there is a blame culture and, more importantly, whether employees and managers share the same view of this. Corporate cultures vary hugely from business to business. For example, large banks in the city are known for their long hours and cut-throat attitudes whereas technology start-ups, such as those found in Silicon Valley and Old Street, are known for their relaxed, casual atmosphere. What impact do you think different cultures have on businesses?

Corporate Social Responsibility (CSR)

You will have learned a little about CSR earlier in this unit. Three such examples given were URENCO, Banyan Tree Resorts and MMO.

CSR can greatly influence the operations of a business. For example, in the nuclear industry many people jump to conclusions about the dangers of enriching uranium: they readily conjure up stories which frighten others or embellish stories from historic events such as Chernobyl in 1986. These examples are usually driven by fear of the unknown and incorrect assumptions, but they can impact greatly on the success of a business. A more recent example in the nuclear industry was the Tsunami disaster at Fukushima in March 2011. This led to reductions in demand and lack of confidence in investing in planned nuclear power stations.

Business ethics

Businesses are also shaped by ethical considerations. In 1978, the birth of Louise Brown, the world's first ever test tube baby, led to some disapproval and claims that such interventions were unethical.



► Can you think of the type of business that would have an office as shown in the photo?

The health service is probably the most obvious example of the importance of ethics. Committees and governments are challenged constantly about the ethics, for example, of body transplants. Very recently the announcement of human hand transplants and the proposal for 3D printing of body parts are undergoing an ethical debate.

Key term

Whistle-blowing – informing on someone who is doing something wrong or illegal.

Such matters impact on the way businesses are organised and operate, and on their funding and company values. For example, new businesses have emerged to meet the demand and supply of automated prostheses, pacemakers and computer software to stimulate brain function.

Businesses need policies and procedures in place to ensure their employees behave ethically. One example of where government stepped in to stop unethical practice was the decision to cap exorbitant interest rates charged by unscrupulous payday lenders.

CSR is an ethical consideration and you may also have been introduced to policies during your induction at your place of study or work. Other examples of ethical policies are **whistle-blowing** and those associated with equality such as homophobic bullying.

Competitive environment

Just as some people are more competitive than others, businesses vary in how they regard competition. Those businesses which view competition as destructive may have overlooked competition as an opportunity.

Competition can be at different levels:

- local
- national
- international.

Having competitors does not mean that a business will automatically succeed or fail – rather, it relies on careful business planning and a consideration of all factors. For example, if a coffee company decides to open a coffee bar at a small rural railway station which already had one, it could be viewed as a bad business decision. However, if their reputation preceded them by offering a superior product, better customer satisfaction or improved value for money, then their business might well wipe out their competitor. Decisions like this cannot be taken lightly. You can probably name several examples where competitors appear to work alongside each other in harmony such as opticians, dental practices, estate agents, chemists, department stores, supermarkets, fast food chains, electrical retailers, etc.

Factors influencing competitive advantage

In order to keep a competitive advantage, it is vital that a business keeps its eye on what its competitors are doing and tries to anticipate what they are planning to do. Factors which influence are outlined below.

- **Differentiation**: for example developing new products, branching out into new products or services, especially something unique from your competitors, such as the Dyson Ball cylinder vacuums.
- **Pricing policies**: how a business determines prices for **wholesale** and retail products or services to achieve its planned profits.
- **Market leadership**: defines a business which has the largest or larger share of the market in relation to its competitors, for example Coca Cola and British Airways.
- **Reputation**: something a business cannot buy and which has to be earned. Businesses such as Waitrose, Virgin Atlantic, M&S and Walt Disney thrive on their reputation which has been developed and maintained over many years. Customers also highly rate Amazon, Microsoft and Apple. A bad reputation can rapidly ruin a business no matter how large or small. H&M has been working hard to improve its reputation. Security company Blackwater even changed its name to X, and then to Academi, in an attempt to improve its reputation, without success, after a terrible incident in Iraq in 2007 that resulted in lost lives.

Key term

Wholesale – the sale of goods on a larger scale at a lower price, usually sold direct to the retailer to sell on at a profit.

- Market share: the percentage of a given market that a business holds. Holding a market share does not mean that the business is the market leader, however. For example, in 2014 Samsung was reported to hold 26 per cent of the global market share in Smart televisions whereas in 2009 it was market leader with its range of LCD TVs.
- Cost control: managing and controlling costs for a business to remain viable. For example, Forever 21 was a clothing store operating in 57 countries. A drop in sales resulting from poor quality control meant that they were unable to make a profit. In 2019, Forever 21 filed for bankruptcy.
- Technology relationships with customers: different means of technology are relied upon heavily for communicating with customers such as:
 - databases holding customer details, purchase history and preferences, etc.
 - telephone and online support.

Finding an answer to a problem with a product or its operation might be resolved speedily by searching online or ringing an out-of-hours support line but relationships can be made, maintained or broken by the technology. For example, misunderstandings due to language differences, listening to annoying music while queuing for a response and sometimes being charged high costs, do little to build positive relationships.

While businesses are trying to manage their costs, they may be driven to **outsource** services such as after sales, help desks, etc. and these can impact positively and negatively on their reputation.

- Suppliers: all businesses rely on their suppliers and their ability to supply when required and at the agreed price. The external environment impacts on suppliers and subsequently the business being supplied. The process is known as **logistics**, and includes:
 - supplies being available at the cost agreed (materials to supplier may have increased)
 - transport (timescales interrupted due to road works, bad weather, ferry strikes, etc.)
 - availability of personnel (interruptions due to holidays, sickness, strikes, shortages).
- Employees: external environmental factors impact on businesses, one example being loss of productivity due to sickness. While holidays are usually planned and businesses anticipate changes to schedules in advance, sickness is generally unpredictable.
- Other factors impact on the number of employees a business can afford and also the availability of potential employees when a business is seeking to recruit. Examples of businesses struggling to recruit include:
 - suitably skilled staff
 - graduates with appropriate qualifications.

What is the benefit to the business if they do manage to recruit suitably skilled staff?
What happens if staff are not suitably skilled?

Benefits and importance of establishing and maintaining a competitive advantage

Benefits include controlling costs, having an advantage over competitors, informing future plans such as structure, pricing, location of business, means of promoting and providing services or products.

Important features include anticipating business and job security, providing what the market demands or needs and anticipating areas for development.

Key terms

Outsource – buying services or products from outside suppliers, often overseas, to cut costs.

Logistics – the operation and management of getting supplies from one point to another.

Impact on pricing and output decisions in different market structures

Different market structures

A market consists of buyers and sellers. For example, the market for mobile phones consists of sellers such as Apple, Samsung and Google whose products are sold to buyers/consumers either directly or through retail sales outlets (online or physical shops). Individual sellers – the retailers – compete with each other to persuade consumers to purchase products from them rather than their competitors. The reward for suppliers when completing a successful sale is profit. This is the basis of a market economy – private businesses competing against each other in order to secure sales and make a profit.

The market economy is subject to a number of factors and influences that result in different market structures. Each of these structures has an impact on the pricing and output decisions of business organisations.

Table 1.6 Features of different market structures

	Perfect competition	Imperfect competition
Number of sellers	Many	Variable, possibly not identical
Barriers to entry	None	Potentially significant
Type of substitute products	None	Many
Nature of competition	Price only	Price, quality, etc.
Pricing power	None	Potentially significant

The market structure determines the amount of power and competition in the market. A business will need to understand its market structure in order to plan strategically and operationally. There are four types of market structure:

- perfect competition
- imperfect competition
- monopoly
- oligopoly.

We shall focus on the first two – perfect and imperfect competition.

In a highly competitive market, no single business can dominate the market because there is free entry. So, if profits in a particular industry are high, new firms will enter the industry, supply will increase and market price will fall. Since we know that in a competitive market an individual business cannot increase the price of its product (in order to increase profit) it follows that, in order to increase its profit, an individual business would need to lower its costs. In short, become more efficient.

Reducing costs is not always straightforward, since some of the costs may be difficult for a business to control. For example, a government may set a minimum wage, or raw materials may be controlled by specialist suppliers who are able to charge high prices. In addition, most businesses are very aware that a reduction in costs may impact upon the quality of their finished products. In this case purchasing cheaper, lower quality raw materials or components could result in an increase in the number of defective products reaching the consumer. Should this be the case, consumers may decide to purchase the same or similar products from other businesses.

Because of these factors, different market structures have been established, each with different features, but all with one common characteristic – they do not function as perfect markets and, as such, they are collectively referred to as imperfect competition.

Perfect competition

Businesses in this concept refers to those businesses which all supply exactly the same product at the same price, such as newspapers and possibly basic food products. If a business were to increase its prices to achieve an increase in profit, the buyers (consumers) would switch their purchasing decisions to other businesses who offer a similar product at a lower price. However, in reality, where suppliers can manufacture their own brands they become more competitive. Because the cost of products cannot be increased by individual businesses to increase their profits, the business has to find other ways to ensure they maintain or increase their market share, such as customer service or location.

There are no barriers to entry as the number of suppliers, producers and customers are unlimited. In summary, these criteria define perfect competition:

- 1 All firms sell an identical product.
- 2 All firms are **price takers**.
- 3 All firms have a relatively small **market share**.
- 4 Buyers know the nature of the product being sold and the prices charged by each firm.
- 5 The industry is characterised by **freedom of entry** and exit.

Imperfect competition

This type of market structure faces less competition than businesses in a perfect competition structure. While there may be many sellers, such as clothing shops, cafes, jewellers, etc. their product lines are not identical. Therefore businesses can determine their own prices, as seen in coffee chains including Starbucks, Costa and Pret a Manger.

The differences between perfect and imperfect competition are based on:

- number and size of the producers of the products being sold
- number of customers buying the product or service the business offers
- type of products or services
- the effectiveness of communicating or marketing the products and services.

In an imperfect market, **branding** is a critical factor in determining the purchasing choices of consumers. Examples of this in the global economy can be found in clothing and fashion business organisations as well as in the automotive industry. International clothing businesses which produce designer goods with a strong brand image – Nike, Adidas, Calvin Klein – can charge prices above the ‘market price’ because of the strength of their brand. Similarly, in the automotive industry, German car manufacturers such as Audi, Mercedes and BMW, and the Lexus division of the Japanese motor manufacturer Toyota, have a global reputation for luxury, high-quality products and can therefore charge higher prices for their cars, which are more expensive than those of their business rivals.

Features of different market structures

We will examine three main features which impact on business markets.

Number of firms

Businesses in a perfect competition structure can compete amongst other businesses offering the same product at a fixed price. Note how newspaper sellers can operate in a

Key terms

Price taker – this is when a company has to accept the prevailing price of a product in the wider market.

Market share – is a company’s share of an industry’s total sales.

Freedom of entry – a business has freedom of choice to enter or leave the market due to an unlimited number of buyers and sellers.

Branding – producing a unique name or image for a business or product.

small locality yet still survive, although profits will be small. Yet they are not without risk and even the smallest retailer needs to understand their own strengths and weaknesses, and those of their competitors, to gain market share (albeit small in their sector).

Freedom of entry

You have looked at how perfect competition allows freedom of entry (and exit) to the market. Freedom of entry differs when a business is operating in an imperfect competition structure. The criteria for operating such a business are more flexible than perfect competition structures, for example there is flexibility in pricing. However, the business is unlikely to have unlimited customers and the cost to run the business will probably be quite high.

Nature of product

The product being offered determines the market structure. It also determines the freedom of entry, number of competitors offering similar products and whether the environment can sustain the market share or withstand further businesses entering the market.

Let us consider two ways in which the number of firms, freedom of entry and the nature of the product can all impact on the operation of a market. These then impact upon the pricing and output decisions of individual businesses. The two aspects we will consider are:

- 1 the internet
- 2 a specific market sector.

The internet

The internet means that consumers have online access to a wide variety of products, which makes the global economy highly competitive. Let's consider what this means for our three factors.

- number of firms – these are increased
- freedom of entry – there are fewer barriers to entry, so small firms can enter certain industries without the need for large capital investment and they can access cheaper components from other countries; the growth of the Chinese economy illustrates this
- nature of the product – small firms entering an industry can create a niche market for their products, supported by the growth of international social media and viral advertising. This aspect includes the increase in the number of small firms who are now challenging the large multinationals by offering products which are specialist, unique and customer-focused.

Small online-only firms can now enter the global market more easily, because their overheads are reduced if they do not have a physical store. In short, the barriers to entry into many markets have effectively been removed or significantly reduced.

A specific market sector – food retailing

Tesco is a multi-national food retailer located in the UK and throughout Europe and South East Asia. In the UK and in many other countries where it operates, the market dominance of Tesco has been challenged by German grocery discounters such as Aldi and Lidl. As a result, the number of firms in the retail food market has increased, leading to an increase in competition. This has had a significant impact on Tesco and other leading food retailers. In the UK for example, Tesco suffered a drop in sales as consumers switched to the cheaper discounters. In response, many leading supermarkets took steps to reduce their costs by shutting some stores or reorganising their workforce.

This then meant that they could reduce the price of some of their product lines. In addition, Tesco introduced its own range of discounted groceries to respond to the impact of its business rivals.

Factors affecting supply and demand

In the previous section we looked at how different markets influenced the pricing and output decisions in different market structures. In this section we will consider the responses to pricing and output decisions of competitors in different market structures. As in all market structures, these responses will be influenced by both **supply** and **demand**.

Influences on demand

Five of the most common factors influencing demand for a product or service are explored here.

- **Affordability** – Whether or not customers can afford or are willing to pay for the offer.
- **Competition** – Demand can reduce significantly if the competition reduces its prices for like products, quality and service.
- **Availability of substitutes** – If a business can obtain alternative products or suppliers at a cheaper price it can keep its costs down and profits up.
- **Level of Gross Domestic Product (GDP)** – When GDP rises, customer spending also rises. When GDP falls, spending falls. This affects demand for products, and therefore pricing decisions.
- **Needs and aspirations of consumers** – Consumers influence demand by their needs and aspirations. Our needs include basic requirements such as food, warmth, water and safety. These are common to everyone.

Consumers also have other and varying needs which are those products and services they are used to and believe they cannot, or do not want to, live without. These might include:

- mobile phones
- technology and multimedia
- entertainment
- beauty treatments
- own transport.

These examples increase demand on businesses and also influence price, which may go up as well as down.

We also have aspirations which may include:

- latest trends in clothing
- technology improvements
- home improvements such as luxury kitchens and bathrooms
- home or garden projects
- larger housing or improved location
- newer, faster or bigger transport
- holidays (more frequent and luxurious).

Influences on supply

Whether supply can meet demand relies on being able to anticipate current and future demands based on GDP data and other statistical information such as UK consumer spending and Consumer Price Index, both available from the ONS. Crucial to meeting demand is the ability of the business to meet supply needs.

Key terms

Supply – is the amount of product or service available.

Demand – is the amount of product or service wanted by the market sector.

Link

You will learn more about the needs and aspirations of consumers and Maslow's hierarchy of needs in **Unit 14: Investigating Customer Service**.

For example, if an unexpected spell of hot weather increases consumer demand for BBQ charcoal, business is lost if the supplies are not available. Other influences on supply are outlined below.

Key term

Raw materials – any material from which a product is made.

Availability of raw materials and labour

Raw materials and labour influence supply, and raw materials also impact on the availability of products. Unseasonable weather conditions impact on food and livestock – in a particularly harsh winter when fewer live lambs are born than expected, the availability of lamb will be reduced and the price will therefore increase. Likewise, a very wet winter can ruin winter crops we rely on, especially around times of festivities when we traditionally eat particular foods. Ultimately, products made from these and other foodstuffs will also be affected. Examples of raw materials in short supply globally include: graphite, platinum, iron ore, coal, scrap iron and Colombian emeralds.

Of course, a surplus of a raw material can also influence supply, for example the price suppliers can charge to manufacturers. The effects of availability are also reflected in the stock market.

Even if supplies of raw materials are readily available, labour availability influences supply. Businesses all rely on labour to supply their products or services – so if a supplier does not have enough labour to transport the raw materials to the manufacturer, the manufacturing process will be significantly interrupted. If this happens, the raw materials may be sourced from another supplier or an alternative means might be found for the logistics of obtaining the raw materials. Either way, there are likely to be cost implications.

Logistics

The process of ensuring smooth logistics is complex. Supply is influenced by logistics and the labour needed for a smooth operation. Imagine if the logistics company Eddie Stobart was unable to make any of its European deliveries which they claim occur every 20 seconds; consider the impact on the businesses involved. During the UK fuel tanker drivers' strike in 2008, the delivery of petrol to garages was heavily disrupted and many drivers were left stranded, unable to refill their vehicles with fuel.

Ability to produce profitably

All businesses rely on making some profit. Suppliers are controlled by the cost of raw materials and forecast their business plans based on the costs they are likely to incur to manufacture the product and then sell it to customers. Their customers will also have anticipated the cost of supply when they are forecasting their business needs to ensure they make sufficient profit to continue operating.

Competition for raw materials

When raw materials become scarce, for example some metals and fuel, prices increase and this impacts on suppliers and their market share. Likewise, when raw materials become more readily available, there is competition between suppliers to maintain their profits and to keep their customers, who can choose where to take their business.

Government support

A government may provide support for businesses if they feel there is a significant need to boost the country's economy. For example, in 2012 the UK Prime Minister announced considerable financial support for the UK **supply chain** to generate growth into the economy. Some of the businesses benefiting included:

- British Airways
- Jaguar Land Rover
- Sainsbury's

Key term

Supply chain – the stages that goods pass through between the producer that makes them and the retailer that sells them.

- Marks and Spencer
- O2
- Rolls Royce, and many others.

While this support directly affects these businesses, government grants, for example for central heating and insulation, also support other businesses indirectly by increasing demand and generating a need for supply.

Responses by business to pricing and output decisions of competitors in different market structures

Businesses with a perfect competition structure are too small to influence changes to prices as they hold a small share of the market. The price of the products they sell are predetermined and the price they pay to suppliers is also unlikely to be negotiable. This means they have limited control over the pricing and **output decisions**.

However, imperfect competitive businesses may have more influence over both pricing and output decision making. They may be able to force suppliers to reduce costs when demand increases or the cost of raw materials decreases. Factors which contribute to their ability to influence output decisions include the:

- cost of production
- environment
- market power.

Businesses in this type of market can use a range of strategies to increase their profits based on either the price they charge for their products and services or the price they are willing to pay for output such as goods, services and labour.

Businesses may introduce **loss leaders**, for example:

- estate agents, especially those selling large numbers of new housing for developers, may offer one house as a loss leader, especially if house sales have been slow or non-existent
- retailers may offer bargains on product lines which are slow to move
- the travel industry, for example, airlines will sell cheap flights or train companies may promote bargain prices for first class seats rather than run empty carriages
- restaurants promote discount offers to attract customers at quiet times or to shift excess stock.

As you know, businesses need to keep their eye on the competition to make informed decisions.

Benefits and risks associated with innovation

To implement innovative and enterprising ideas requires considerable strategic thinking about the impact of the ideas. The benefits and risks to the business need to be carefully considered.

Benefits

Improvements to products

Businesses need to consider if:

- there will be sufficient improvements to existing products which will ultimately increase profits by reducing production costs or increasing prices
- there is a demand for these improvements or if they are really necessary. For example, it would not be sensible to only manufacture combination microwave ovens and to neglect the need for basic microwave ovens, or believe there is no longer a demand for mobile phones without a built-in camera.

Key terms

Output decision – where a profit-maximising company chooses to produce a quantity that will avoid costs exceeding revenue.

Loss leader – a product or service offered at a knock down price, possibly even at a loss to the business. This is done to attract additional sales and increase profits and market share.

Processes

Processes can be too cumbersome or bureaucratic to be efficient and you may be able to think of an example where you have found a process that has 'got in the way'.

Overly bureaucratic processes are often blamed in the public sector leading to a duplication of work or delayed results.

Ultimately, such processes cost money to implement and so finding other ways to achieve the same result could benefit the business and its customers.

Services and customer experience

Innovation and enterprise can greatly improve services and the customer experience. For example, developments which will provide less painful dental treatment could revolutionise patients' experience. Similarly, when Virgin Atlantic first introduced flat beds in 1998 to their business class cabins, passengers could arrive feeling much more rested after long flights.

Business growth

Business growth is an important consideration of innovation and enterprise. Businesses are looking to increase profits, market share and possibly strive to become a market leader. To grow, the business needs to find ways to move with the times to meet consumer demand. Lego provided an example of business growth as a result of innovation and enterprise when they introduced a range linked to the latest *Jurassic Park* film success.

Development of new and niche markets

New and niche markets mean developing an entirely new product or an addition to a line of products. For example, Apple have introduced the iPhone, iPod and associated family of products to an existing line of products.

A new niche means a specialist market, for example organic or vegetarian food products. An example of a specific niche market is LoveThoseShoes which was set up by entrepreneur Glenys Berd. She introduced a range of healthy footwear in 2003 which was targeted at consumers with conditions such as arthritis and back pain.

Offering unique selling points (USP)

USPs can benefit a business providing they are based on solid research which confirms demand. You may find it difficult to identify a unique product but there may be something about the product or service that is unique only to that one business.

A German man calling himself Professor Shoelace realised there were enormous numbers of children who struggled to tie their shoelaces. Numbers increase when they are due to start school and many parents of the same generation grew up not wearing shoes with laces. To address this need, he has written hugely successful books bringing fun and excitement into lacing methods and also developed an iPhone App.

While this example might be viewed as a niche market, the business has extended its range to include shoelaces to attract different age groups, purposes and even promote charitable causes.

Well known USPs include:

- Burger King and their promise to respond to customer changes in their fast food 'have it your way'
- Avis cars offering customer pick up services
- John Lewis UK department store's slogan 'never knowingly undersold'
- Amazon – 'Earth's biggest bookstore'
- BMW – 'the ultimate driving machine'.

Key term

Unique selling point (USP)

– an original or individual concept, service or product that is exclusive to your business.

Improved recognition and reputation

Businesses seek the benefits of recognition and reputation and these can be achieved if customers have a good experience which they then promote to others, such as friends and family. Businesses need to be recognised and are prepared to invest large sums of money in rebranding if they believe the service or product they offer is not recognised clearly by the way it is promoted.

Smarter working

Smarter working involves businesses allowing their employees to work in different locations. It uses technology to enable communication between employees. This can benefit businesses by:

- cutting costs
- speeding up production
- reducing customer waiting time
- increasing profits
- reducing unnecessary bureaucracy
- increasing staff motivation.

Risks

When making strategic decisions, you need to consider the risks as well as the benefits. Some of the factors to consider are listed below.

Skill

- Decision making

Failing to meet operational and commercial requirements

Businesses need to comply with commercial requirements, which vary depending on the type of business. For example, the construction industry (such as plumbing) will have to comply with specific legislation when working with gas. Therefore, a business could not extend its services by providing gas installations without employing relevantly skilled and qualified gas engineers. On a lesser but still important scale, the decision not to go ahead with an innovative idea might be due to an interruption in the process which impacts on the quality of a product or service. An example could be where a shelf stacker is rushing to restock products by stacking the front of the shelf instead of moving old stock forward and placing new stock at the back of the shelves.

Failing to achieve a return on investment

Failing to achieve a return on investment is a massive risk associated with innovation. Consider the research and development team working on a project for many years at significant cost which, at its outset, is cutting edge and innovative. However, by the time it is refined, tested and comes to market, the demand may have been met by a competitor or an alternative product or service.

- DeLorean's invention, the DMC-12 car, failed mainly due to cost, the time it took to produce and product quality.
- Ben and Jerry's ice cream factory in Vermont, USA has a 'Flavor Graveyard' with the 'graves' of all the ice cream flavours that proved to be unpopular with consumers.
- Samsung stopped production of its Galaxy 7 Smartphone due to multiple reports of the devices exploding and catching fire.

Cultural problems

Cultural problems can prevent an idea or product coming to market. These include:

- Resistance to change, for example customers who prefer to stick with what they use already or employees who refuse to change or adapt to new processes: Samsung's introduction of a mobile phone with a curved screen in 2013 has so far not been revolutionary nor has Microsoft's range of curved keyboards.

- Unsupportive systems and processes – the distinction between the two is that the process represents a concept and the system is what actually occurs when carrying out the process. Therefore a process can get in the way of the system by being ineffective, for example if there is too much repetition for a system to be efficient. Another example is that of a telephone help service where the operator appears to read from a script rather than respond to the specific nature of a customer's enquiry.
- Insufficient support from leadership and management which might include financial support, time or additional resources and expertise to develop an idea or product. The majority of ideas do not receive sufficient support from management.

Case study

The beauty in the skies



British Airways revolutionised air travel with the introduction of supersonic passenger air travel when Concorde first took to the skies in 1976. Travelling at twice the speed of sound, Concorde reduced the flight time from London to New York from around eight hours to about three and a half hours or less at a cruising speed of 1350 mph. To ensure safety on board, it required a team of 250 engineers and 5000 hours of testing before being certified for its first passenger flight.

Concorde took over 25 years to produce just 20 aircraft from initial project stage to first passenger flight, jointly between UK and France, supported by manufacturer Airbus. Only 14 Concorde were in operation at enormous economic losses and considerable government subsidies. Despite having received considerable interest from other airlines to purchase 74 planes in the 1960s, these were cancelled during the early 1970s making production unprofitable. Reasons given included environmental concerns and spiralling costs of manufacture. At the same time, budget airlines started to appear and competition for reducing passenger air travel was rife.

Over time, the cost of operating Concorde became uneconomical; with rising costs of fuel as oil prices increased creating a downturn in passengers being able to afford its ticket prices. Concorde was withdrawn in 2003. This may have been influenced by a fatal crash which occurred in 2000.

Check your knowledge

- 1 What was the aim of this venture?
- 2 Who were the stakeholders?
- 3 What impact did the environment have on the demise of Concorde?
- 4 What relationships can you suggest between demand, supply and price?
- 5 What was the role and contribution of innovation and enterprise?



Pause point

What do you think had the greatest impact on Concorde's failure?

Hint

Refer back to the assessment criteria and the requirements for merit and distinction grades.

Extend

Undertake a situational analysis using one of the methods you were introduced to earlier such as PESTLE or SWOT.

Situational analysis

Assessment of the business environment using various techniques

A situational analysis is an investigation into the state of the internal and external factors which affect a business, in order for managers/owners to determine plans for its future. This assessment requires an evaluation of potential customers and the competition in order to speculate on the financial future for the business and inform decision making. This analysis of a business underpins the marketing or a business plan which managers use to review the business aims and objectives. An assessment of the business environment is undertaken using various techniques which are outlined below.

PESTLE analysis

This is a framework for evaluating external factors and their impact on the business to inform business strategy. There are many ways to replicate a suitable template to use, such as that shown in Figure 1.6:

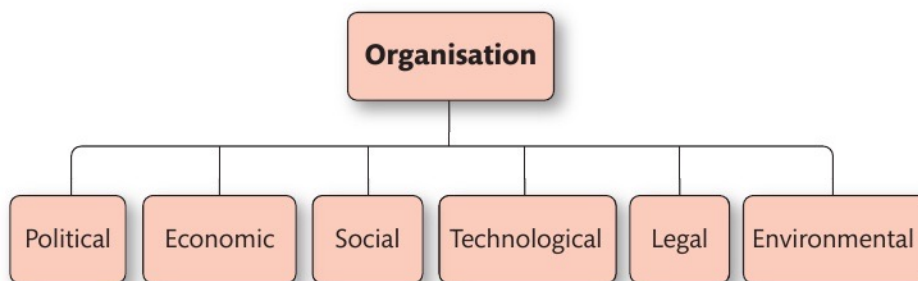


Figure 1.6 Example template for PESTLE analysis

Each of the PESTLE categories is explored with regard to its impact on the business:

- political factors
- the economy
- sociological and cultural aspects
- potential technology developments
- current and potential legislation
- environmental considerations.

This analysis can, and possibly should, be combined with a SWOT analysis.

SWOT analysis

A **SWOT** analysis helps to examine the internal and external elements in a business. It is a useful approach to undertake in conjunction with, prior to or subsequent to carrying out a PESTLE analysis. The two can then be compared and challenged. A simple template can be used to undertake a SWOT analysis.

Evaluation judgements are listed in response to the heading in each box, as shown in Figure 1.7.

Key term

SWOT – strengths, weaknesses, opportunities and threats.

Strengths What are the strengths of the business, such as employees, product, etc.?	Weaknesses What are the weaknesses of the business?
Opportunities What are the opportunities for the business based on the other responses?	Threats What are the threats?

Figure 1.7 Simple SWOT analysis template

5Cs analysis

This type of analysis is used to inform the marketing of a business having undertaken other forms of situational analysis, such as PESTLE and SWOT. Each category is analysed by responding to questions which seek to identify, for example, the components that make up each of the **5Cs** (see Figure 1.8). This type of analysis is used to inform business operations as it focuses on current internal operations using data and statistics.

Skills

- Analysis and critical thinking

Key term

5Cs – company, collaborators, customers, competitors, climate.

	CATEGORIES	AREAS EVALUATED	JUDGEMENTS
SWOT ANALYSIS	Company	Product image and branding Technology Culture Aims, vision	
	Collaborators	Suppliers Stakeholders Distributors	
	Customers	Demographic Where, what and why they buy Pricing Frequency and quantity purchased	
	Competitors	Current and potential Market share Strengths and weaknesses of competition	
	Climate	Political and environmental Financial: interest rates, exchange rates Technology	

Figure 1.8 Example template for 5Cs analysis

Porter's Five Forces

This is used to evaluate the position of a business in terms of its competition. Five categories are considered:

- 1 existing competitive rivalry between suppliers
- 2 threat of new market entrants
- 3 bargaining power of buyers
- 4 power of suppliers
- 5 threat of substitute products (including technology change).

Each category is evaluated in relation to the impact of suppliers on the business, which might be replicated as shown in Figure 1.9.

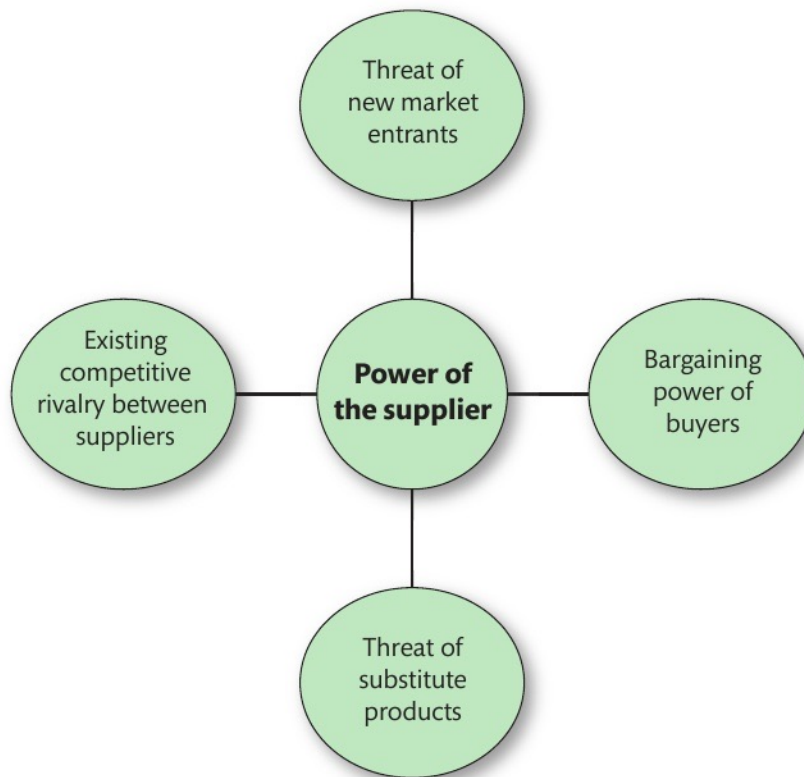


Figure 1.9 Example template for Porter's Five Forces

Templates for undertaking **Porter's Five Forces** analysis also vary, placing each of Porter's Five Forces at the heart of the evaluation. This evaluation can also be undertaken in conjunction with SWOT and PESTLE analyses, by using the results of each analysis to evaluate each factor of Porter's Five Forces.

Key term

Porter's Five Forces – supplier power; threat of new entrants; threat of substitutes; buyer power; rivalry.



Pause point

In what other ways could you structure a portfolio?

Hint Look up the definition of portfolio – it does not have to be a folder containing paper. How else could you communicate your findings?

Extend Using your results from your situational analyses or further analyses, evaluate how the business may react to future changes.

Assessment practice 1.2**C.P4, C.P5, C.M3**

You are progressing towards realising your business idea. For future success you need to convince people who have shown an interest that you have considered your business environment and market. Provide a report that shows that you understand the effects of internal and external environments and how a large business can respond to change.

Your report should begin with an overview of the environment in which your chosen business operates. Consider the internal, external and competitive environment. Complete a situational analysis for your chosen business, using several techniques. Ensure that you choose appropriate techniques. Using this research, provide an analysis of how and how much the business environment has affected your chosen business.

You should then explore the business market in which your chosen business operates. Evaluate how the market structures influence supply and demand, which subsequently affect the pricing and output decisions for one business. While examining the operations of this business, evaluate how the business has reacted to changes and how they may react to future changes, for example, if demand changes or legislation restrictions develop further. Take into account any ethical or environmental issues.

Plan

- How will I structure my report so it is interesting and informative?
- Where will I undertake my research?
- How will I check if the information is accurate? How will I ensure I can find the information again?
- How will I ensure that I have chosen the most appropriate situational analysis techniques?

Do

- Produce a draft of my report and self-critique it for accuracy and content, improving where relevant.
- Ask someone I trust for critical feedback.
- Reflect and learn from the feedback given to me and amend my report as necessary.

Review

- I can identify what I have learned from this activity.
- I can explain how I would tackle a similar exercise differently next time and why.
- I can explain why I chose the situational analysis techniques I did and how they were successful.
- I am confident that the research I have conducted justifies my conclusions.

Assessment practice 1.3**C.P4, C.M3, C.D2**

You have been in business for a year and are happy with your business' progress. You know, however, that businesses often have to stay innovative and exciting to stay successful, particularly if the market or environment changes. Your friend thinks the business is going well and does not need to change. You decide to produce a presentation that shows how useful innovation and enterprise can be to a chosen business in the face of a changing market or environment.

You need to show how innovation and enterprise can contribute to the success of a business. Evaluate how successful innovation and enterprise has been for your chosen business, in particular, and how they have used this to be successful in the face of a changing market and environment. Justify your evaluations.

Plan

- Where am I going to start? Which business am I going to choose?
- How will I gather and interpret my evidence?
- How will I make my presentation engaging and informative?
- Do I need any help with interpreting or analysing data?

Do

- I have planned my presentation carefully so that the amount of time on each point is appropriate.
- I avoid shortcuts and ensure that I check my research from sources other than the internet.
- I enjoy researching, reading and exploring other people's opinions.
- I do not avoid seeking data and statistics to justify my evaluations.
- I practise my presentation so that I am confident in presenting.

Review

- I can explain why I structured my presentation the way I did.
- I can explain what skills I used throughout this activity.
- I can use this experience in future presentations to improve my approach.

**Pause point**

How have your own ethical principles or preferences influenced your choice of business for this task?

Hint

Look back at all the businesses you have examined. Is there a common factor such as business type, size or structure or perhaps the product or service they offer? Why did you choose these businesses and not others?

Extend

Carry out one or more of these assessment activities with a very different type of business.

Further reading and resources

Gilmour, K., Matthews, D. and Holden, G. *Starting and Running an Online Business For Dummies*. John Wiley & Sons (2011).

Gorman, T. *Complete Idiot's Guide to Economics*. Alpha Books (2013).

Smith, J. *Start an Online Business in easy steps: Practical Help for Entrepreneurs*, 2nd edn. In Easy Steps Ltd (2019).

THINK ▶ FUTURE



Sandra Smith

Garden maintenance company owner

Sandra runs a garden maintenance company. She set the company up in 2014 providing all-round care for private gardens. Starting out on her own she soon realised that she needed to employ at least two other workers to meet demand and to give her a wider skills base.

Sandra now has two apprentice gardeners working for her who she is training up. This is important when ultimately Sandra is responsible for guaranteeing the work and that it is done to a high standard. She has also employed a machinist who takes charge of all the lawn mowing jobs, hedge cutting and any hard landscaping, such as patio building. Sandra's company has become so successful that she has been approached by a local garden design company to consider a merger. This will give her more options and also more career options for her employees.

Focusing your skills

Preparing yourself

As an SME, the expectations are that any new employee will have responsibility for a range of business activities which would otherwise be spread amongst several members of staff or even departments in a macro-sized organisation. Here are some tips regarding the skills any business is likely to seek in an employee.

- How effective are your interpersonal skills? Can you communicate clearly with different people from different backgrounds?
- Would you be able to interpret customer enquiries and convey accurate messages to others? You may have to speak to suppliers and find out costs of materials or source different types of material for customers.
- How numerate are you? Would you be confident at calculating materials, quantities and sizes for producing quotations? Could you calculate any sales tax due and any discounts to be applied?
- You would need to be able to follow processes and systems, book appointments for site visits and coordinate arrangements with other team members. If you feel you need to improve these skills, you might be able to get some work experience even if it is voluntary.
- Your employer will rely on you to make sure the business runs smoothly. What would you do if you made a mistake? Everyone makes mistakes and can learn from them. Being honest about our mistakes is not only respected but can also help prevent problems later on.
- How good is your timekeeping? Employers will not tolerate lateness as it costs them money and loses them business. If you need to improve your timekeeping, set an alarm or two alarms in case you sleep through one. Set your alarm earlier so you don't miss your transport to work.
- If you have to visit a customer, is your image right for the business? Are your clothing and appearance appropriate?
- What could you do to ensure that you were ready for the unexpected?
- It is likely you will need to file information such as customer quotations, invoices, customer orders, etc. You may be experienced at filing electronic files but not everything will be electronic. Few businesses are completely paperless. If you need to gain experience in manual filing, you could undertake part-time or voluntary work or create your own filing system for your studies and personal records.

Glossary of key terms

5Cs – company, collaborators, customers, competitors, climate.

Austerity – the difficult economic conditions resulting from the government putting measures in place to reduce public spending.

Branding – producing a unique name or image for a business or product.

Bureaucracy – detailed procedures which have to be followed (sometimes known as ‘red tape’).

Customer retention – customers who remain loyal to specific brands and businesses.

Demand – is the amount of product or service wanted by the market sector.

Demographic trends – the characteristics of a country’s population.

Economy – the state of a country, such as its wealth, production and consumption of goods and services.

Environmental factors – those factors outside of the business over which you mostly have no control.

Ethical trends – trends determined by moral principles.

Fiscal – relates to government revenue, for example from taxes.

Formal – business-like, factual, technical and professional, providing a record. It can refer to writing, such as formal written feedback.

Franchise – A franchise is a business opportunity that allows someone to start a business by using someone else’s expertise, ideas, and processes. This right involves paying a start-up fee and, probably, an ongoing fee or royalty.

Freedom of entry – a business has freedom of choice to enter or leave the market due to an unlimited number of buyers and sellers.

Inflation – a general increase in prices and fall in the purchasing value of money.

Informal – less business-like, friendlier and could also mean ad hoc. Informal can refer to information given verbally.

ISA – individual savings account (a good way to save money without having to pay tax on it).

Liability – an obligation of a company, or amounts owed to lenders and suppliers.

Logistics – the operation and management of getting supplies from one point to another.

Loss leader – a product or service offered at a knock down price, possibly even at a loss to the business. This is done to attract additional sales and increase profits and market share.

Market forces – factors created by the economy for the demand and availability of products and services which influence costs.

Market share – is a company’s share of an industry’s total sales.

Multi-collaborative – collaborating with multiple partners.

Output decision – where a profit-maximising company chooses to produce a quantity that will avoid costs exceeding revenue.

Outsource – buying services or products from outside suppliers, often overseas, to cut costs.

Partnership – comprising two or more people who set up in business together and share all profits and losses.

PESTLE – political, economic, social, technological, legal, environmental.

Porter’s Five Forces – supplier power; threat of new entrants; threat of substitutes; buyer power; rivalry.

Price taker – this is when a company has to accept the prevailing price of a product in the wider market.

Raw materials – any material from which a product is made.

Regulator – external body acting as supervisor to ensure businesses comply with relevant legislation.

Retail – the sale of goods, usually on a small scale, directly to the public for consumption rather than resale.

Revenue – the income received by a business for selling its products and services.

Shareholder value – the benefits received by shareholders relative to the number of shares they hold in a business.

Stakeholder feedback – surveying stakeholders for ideas, compliments, suggestions and complaints.

Supply chain – the stages that goods pass through between the producer that makes them and the retailer that sells them.

Supply – is the amount of product or service available.

SWOT – strengths, weaknesses, opportunities and threats.

Unique selling point (USP) – an original or individual concept, service or product that is exclusive to your business.

Whistle-blowing – informing on someone who is doing something wrong or illegal.

Wholesale – the sale of goods on a larger scale at a lower price, usually sold direct to the retailer to sell on at a profit.