Zig Zag Education

Business

A Level | AQA | 7132

A Level AQA Business Course Companion

3.7: Analysing the Strategic Position

2nd Edition – August 2023

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Contents

Teacher's Introduction

This resource has been written to support the learning of 3.7: Analysing the Strategic Position of a Business, which forms part of the AQA Advanced Level GCE in Business. It gives an in-depth view of the qualification, presenting what specification points students need to know, plus extras along the way for extended learning.

At the beginning of this resource you will find a list of contents showing every specification point that is covered. There are also questions interspersed at various points to test students' knowledge and give them some practice in applying their knowledge to business contexts. Answers are provided at the end of each chapter.

The notes included in this resource could be given to students before a lesson as preparation for a topic, afterwards in order to help solidify their knowledge, or can be used by teachers as a supplement to in-class exercises and activities. While extremely valuable to a student's revision, this resource should be treated as a companion to the many other textbooks available. As with any subject, it is good to read as widely as possible!

It is hoped that this resource, as well as offering support for teaching the essential elements of the AQA examination, will help students build on their research and dissemination skills. The business world is a constantly changing one full of fascinating stories. This resource attempts to utilise some of these stories as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of business analysts!

Happy teaching!

August 2023

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- p.2 – section heading changed to '3.7.1 Mission, Corporate Objectives, Functional Objectives and Strategy'
- pp.8–9 – Section added: 'Internal and External Influences on Functional Objectives and Decisions'
- p.12 – New question 4 added, renumbered 5 and 6 and changed in answer section
- p.24 – section removed: 'Kaplan and Norton's Balanced Scorecard'
- p.26 – section 'Competition and the Labour Market' updated
- p.27 – section added: 'International Trade'
- p.36 – sections removed: 'Business Reasons for Greater Globalisation and its Importance to Businesses', 'The Importance of Emerging Economies for Business'
- p.36 – Questions 7–10 removed, including answers
- p.38 – Immigration figures update
- p.55 – section removed: 'The Value of Sensitivity Analysis'

A web page containing all the links listed in this resource is conveniently provided on ZigZag Education's website at ***zzed.uk/12321***

You may find this helpful for accessing the websites rather than typing in each URL.

3.7. Analysing the Strategic Posit

3.7.1. Mission, Corporate Objectives, Functional O

Mission Statements

Many organisations, especially large ones, develop missions for themselves. The of the company, i.e. why it exists. Missions are gener qualitative, not quantit through numbers.

This is how a company communicates its mission to its stakeholders (such as cus suppliers and potential investors).

Some Example Mission Statements:

Nike
'To Bring inspiration and innovation to every athlete in the world

Microsoft
'To enable people and businesses throughout the world to realise

Virgin Atlantic
'To embrace the human spirit and let it fly.'[3]

McDonald's
'Our aim is to provide a fun and safe environment where our cust with quality ingredients at affordable prices.'[4]

Influences on the Mission of a Business

Why the Company Exists: organisation has a purpose. Looking again at th McDonald's, the reason for the company's existence is to make good food that c without 'breaking the bank'. This then informs the company's mission statemen enjoy good food made with quality ingredients at affordable prices.'

Values: does the firm care for environmental issues more than human ones? Do charitable route in high regard? Perhaps it values profit over development. Values are often informed by a variety of stakeholders, such as the company's cu and shareholders.

Accepted Behaviours: these encompass what is deemed acceptable from emplo sharing all resources between departments). The accepted norms of an organisa mission statement.

Strategic Targets: the ability for a firm to create strategy from its mission statem this chapter). If a mission is unable to inform a valid strategy (e.g. the end-goal i considered a reasonable mission.

1 Source: http://help-en-us.nike.com/app/answers/detail/a_id/113/~/nike-mission-statemen
2 Source: https://www.microsoft.com/enable/microsoft/mission.aspx
3 Source: http://www.virgin-atlantic.com/gb/en/footer/about-us.html
4 Source: http://www.mcdonalds.co.uk/ukhome/whatmakesmcdonalds/questions/running-th trying-to-find-the-mcdonalds-mission-statement-for-my-business-studies-students.html

Internal and External Influences on Corporate Objectives a… Pressures for Short-termism

Short-termism

Short-termism is a form of decision-making that sees companies working mostly … figures. Examples of this include:

Current cash flow: a business might opt for taking … in order to afford it… this does not necessarily address the original … why it cannot afford to pay … further financial difficulties in fut…

Change in pr…: … ship may decide to produce a new type of item or p… This may le… …-term popularity, though can be a risk if decided with limit…

Training: a decrease in the amount of training given to employees can help a bus… term, but can worsen its efficiency in the long run.

Acquisition: by taking over a business that is doing well, a firm can increase its p… can occur, however, if the acquisition is made with a view to improving the comp… IT company buys a particular mobile phone manufacturer because its products a… not always be true.

Long-termism

This type of decision-making focuses on the 'bigger picture', i.e. what may happe… rather than in just a few months. Companies that concentrate more on the long… research and development than companies that work with only the short term in… long-term decisions is likely to have an end result in sight … so make acquisitio… that do not appear to have any benefit in the beg… Large companies, such … with long-term goals, while a corner sho… …erves only its local community m… view to paying the upcoming m…

The corpor… …ec… …set will be influenced by the market and trading positio… economic c… prevailing at the time. A small family-owned business may hav… limited company, as the nature of owner and market influence may be very diffe… set are unique to the position of each firm, although to the outside eye they app…

Business Ownership and the External and Internal Environm

As markets evolve, businesses will find that some corporate objectives are more
A business operating in a very difficult economic climate may be focused on shor
A business operating in a relatively steady economic climate with market growth
the long term. Businesses may be experiencing similar economic and market infl
completely different business decisions. This can be influenced by their market p
owner power, etc.

Influences on corporate decision-making include:

- The **risk** associated with a decision will have a significant influence on wheth not. A high-risk decision may not be implemented immediately, if at all, as m further analysis of the pros and cons before reaching a final decision. A lov implemented far quicker than a high-risk one, as there could be less at stake of the potential outcome.
- The **attitude to risk** can influence whether a decision is implemented or not risk is unlikely to implement a high-risk decision, as it is unwilling to do so. built on taking high-risk decisions will not be so hesitant.
- **Past successes** will influence the decisions made. A decision-maker who ha style of decision-making will continue to adopt this approach. However, on using a particular style will look to use a different method. For example, if a successful without the involvement of others, they are likely to continue to successes with this method will seek to involve others in the process, in ord working, but also to reduce the degree of blame they endure, if unsuccessfu
- The **nature of the industry** will influence the decisions taken. A highly comp onus on thorough market research in reaching a decision, as reaching a wron choosing rivals instead. Hotels are well known for carrying out market resea a particular product or facility. They will amend in light of the feedback rec
- **Stakeholder power** can influence significantly the decisions made. If a pow particular decision the business may have to abandon it, if the impact is to be example, Netflix, the DVD rental and online film / TV streaming business, ab separate companies due to customer pressure. If the decision had gone ahe use two different companies to access the products. Furthermore, their de entered on each website. Rather than posting a review on one of the comp on both, they would be required to produce it on each separate website. T would have had to be produced on each website. Consumers were unhapp increase the amount of time they spent accessing the service, if both DVD a were to be used.
- The **ethical values** of the business will influence the decisions made, as one will probably be rejected, even if highly profitable. For example, The Co-ope trade with businesses which are known for not implementing basic labour r
- The **resources available** will influence the decisions made. For example, the available could determine whether a proposed decision is feasible or not or

The Distinction between Strategy and Tactics

Strategy is a plan for meeting the business objectives. **Strategic decisions** involv
implementing actions that will affect an organisation's future abilities to achieve
set at times of uncertainty and therefore influence the medium to long-term futu
provide direction for the overall business and involve a large resource commitme
decision may involve deciding whether the business should expand into emergin
communicated with clarity can allow departments and managers to structure the

Tactical decisions affect the day-to-day implementation or actions required to ac
example, should the price of the product be reduced or not? These are based on
uncertainty and fewer resources

Much like the decisions a manager of a football team has to make, businesses ha
strategic on

Strategic: These are long-term decisions that a business makes in order to build
ultimate goals.

Tactical: These are shorter-term decisions that a business makes in order to supp

Each type of decision can affect a business's *human*, *physical* and *financial* resourc
cutting costs by 10 per cent, for instance, can increase the amount of finance a bus
decrease the motivation of employees since they now have fewer physical resourc
their duties.

Decision	Strategic or Tactical?	Potential
Product sales promotion	Tactical	*Financial.* Sudden increase in sales
Keep prices low	Strategic	*Financial.* Consumers associate bra increase/decrease sales depending
Employ more people during the Christmas period	Tactical	*Financial/Human.* Production level though motivation is not necessaril
Investment in training programmes	Strategic	*Human.* Motivation of employees,
Purchase of new, improved equipment	Strategic	*Physical/Human.* If the equipment production process, staff may begin successful, the business may have t redundant.
Purchase a slot of television advertising	Tactical	*Financial.* The exposure may gener directly following the advert.
Purchase of new location	Strategic	*Physical/Financial/Human.* The bus financial resources in order to gain also becomes an asset which can be new location, the business may be will need to recruit more staff.

Table: Strategic and Tactical Decisions and their Potential Impacts

3.7.1 Questions (Set 1)

Please write your answers on a separate piece of paper or in an exercise book.

1. Identify whether the following are normally considered tactical or strategi
   a. Purchase of full-page spread in a popular magazine.
   b. Regular appraisal of a company's customer service.
   c. Temporary partnership with another firm for cross-promotional purp

Links between Mission, Corporate Objectives and Strategy

The **corporate aims** are the long-term plans of a business. These are usually stated in qualitative terms and can often be found in the **mission statement**.

The Coca-Cola Company vision is:[5]

- **Profit:** Maximising return to shareholders, while being mindful of our overal
- **People:** Being a great place to work, where people are inspired to be the be
- **Portfolio:** Bringing to the world a portfolio of beverage brands that anticipa and needs
- **Partners:** Nurturing a winning network of partners and building mutual loya
- **Planet:** Being a responsible global citizen that makes a difference
- **Productivity:** Being a highly effective, lean and fast-moving organisation

The corporate aim provides guidance to the board of directors in determining th If the corporate objectives are set without any consideration for the corporate a will be achieved. It may actually cause both internal and ex ternal conflict, as it b does not necessarily implement strategies to achieve the corporate aim. Consum they have selected the business based on these aims, whilst employees may not in with the long term plans of the business.

The **corporate objectives** are the goals set by the business to achieve the corpor to long term. These can include:

- **Survival** – a business that is experiencing a difficult trading climate, possibly a recession, will set itself a target to breakeven. It will be happy for this to b it just wants to survive. In the medium to long term it will expect to return its market presence improves, otherwise it becomes difficult to develop the to do so. It also becomes challenging to attract loan or new shareholders t it has not been profitable.
- **Profit** – a business will set itself a profit target based on a range of factors in competitiveness in the market, its market position, the economic climate an the product life cycle. It will not necessarily set a profit maximisation target, happy to achieve a satisfactory level of profits, which fits in with their core va improvements by a certain percentage, which will rely on costs being reduc
- **Growth** – a business may grow by increasing its product range, factories, st business that is able to grow in size can benefit from economies of scale, wh increases profit margins. A business may choose to grow by merger or take with a business in the same industry or one at an earlier or later stage of the example, Apple grew by taking over a supplier called Anobit Technologies. they believe this a way to remain competitive in the long term, which secur along with enhancing the investment of shareholders.
- **Diversification** – a business may have a target to expand by entering new m providing a new type of product. This strategy reduces the risk of failure, as its activities concentrated in one area. For example, the Virgin Group has b industries. If demand falls in one of these it has sales from the others to en
- **Market position** – a business may set itself a target to improve its position of its competitiveness improving, as it is increasing a higher percentage of s means one or more of its rivals are achieving less. In February 2012 it was re had slipped below 30% for the first time in five years to 29.7%[6]. It might ha to ove
- **Improving reputation** – having a positive image is important for a business especially as consumers are more aware of their activities. Many firms emb responsibility strategies, possibly for some as a way to enhance the corpora

[5] Source: **http://www.coca-cola.co.uk/about-us/coca-cola-mission-vision-statement.html)**
[6] Source: **http://www.guardian.co.uk/business/2012/feb/28/tesco-market-share-aldi-lidl**

The corporate objectives will influence the functional objectives set. For exampl increase profits by 3%, the production objective might be to reduce waste by 1% margins improve, assuming all other factors remain the same. The functional ob working towards achieving the corporate objectives.

As influences change businesses will find that some corporate objectives are mo business operating in a very difficult economic climate ... be focused on short- business operating in a relatively steady economic climate with market growth m the long term. Businesses may be experiencing similar economic and market infl completely different corporate objectives. This can be influenced by its market p owner power, etc. The corporate objectives set will be influenced by the market business, a... the economic climate prevailing at the time. A small family different go... large public limited company, as the nature of owner and ma different. The corporate objectives set are unique to the position of each firm, a appear similar to others.

3.7.1 Questions (Part 2)

Please write your answers on a separate piece of paper or in an exercise book.

2. Explain **one** benefit a business gains from having a mission statement.

3. Explain why a business may choose to have a mission statement, although formation.

The Impact of Strategic Decision Making ... Functional Dec

A **corporate strategy** is the medium to long-term plan ... by a business to achiev tends to be set at board level and influences the functional strategies applied. A diversify into new markets; the corporate ... places an onus on all the functional dep make it happen. For ..., marketing will be required to identify new market market opportunities and types of products which could provide long-term succ will be requ... develop a product that matches and exceeds market expecta provided by the marketing department, which can allow the successful developm Production will be required to adapt its operations to produce new products to t standards. A corporate strategy sets out the plans of the business, but the diffe devise strategies to realise this.

Back in 2011/2012, HMV's financial report the corporate objective of restoring t stated, along with the following corporate strategies:

- expand its technology business
- increase games sales
- capitalise on the digital download market, on computer tablets and other el
- capitalise on the improved relationship with music and film suppliers

Internal and External Influences on Functional Objectives a

Marketing

Internal influences on marketing objectives and decisions

- **Planned Growth:** if the corporate objective of a firm is to maximise growth, specific brand awareness) may fall by the wayside in favour of more profita
- **Recouping of Investment:** once a business makes an investment, it may nee paying this back, which would take funding away from other departments, s
- **Corporate Objectives:** the overall mission of a company may not coincide w objectives, even if the marketing objectives might increase profits in the lon
- **New Product Development:** a company's marketing department might be u products at prices ... the company decides to change its focus, however, t have to change too.
- **Finance Objectives:** if a proposed marketing objective does not fit in with th increased profit margins), it will likely not be accepted.

External influences on marketing objectives and decisions

- **Pressure Groups:** environmental groups, such as Greenpeace, can put press unsustainable practices, which will affect what marketing objectives are pos
- **Changing Trends:** consumer trends change all the time and so a business's mar react. If marketing objectives no longer fit the trends of the market, the depart to stay relevant.
- **Environmental Changes:** public concern regarding climate change continue consumers have changed their shopping habits as a result, opting for more just the cheapest or the best brand name. This consumer change has led ma practices – consumers expect sustainability and so businesses provide it. As likely to invest in green practices and provide statements on their websites or
- **Topical Events:** some marketing objectives stem from what consumers like particular television show is popular, for instance, a business might capitalis promotions that use the show's success to bring more awareness to the bra
- **Competitor Strength:** if rival companies are winning customers, a firm may game in order to compete.
- **Economic Factors:** the disposable income of consumers makes up a large pa market itself and its products. If the average customer has less money than need to change its marketing objectives accordingly.

Operations

Internal influences on operations objectives

- **Nature of the Product/Service:** what do consumers expect from the firm's p point that it is of the highest quality or of the lowest price? This will have a objective is considered the most relevant.
- **Communications:** only if communications are efficient will a company really b corporation is that of *over-the-wall* communication (one department does product to the next department without any handover period), then any atte a slow, arduous process. The culture of communication, therefore, can make firm's operation objectives
- **Operations Director:** the operations department of any firm is led by its ope also be the owner of the company or an appointed member of staff. Directo of the company are met, but they often have their own agendas, too. If the operations director is to focus on cost-saving initiatives, for instance (so tha objectives will be achieved alongside a focus on waste reduction and how to company produces.

External influences on operations objectives

- **Demand:** businesses need to be able to predict the demand for their produc set to dip or spike. Once a business understands this, it can alter its operatio accordingly. If a particular sector of the market has just sprung up, for instan focus on how they can best satisfy as many consumers as possible in a short
- **Resource Availability:** this relates to human, financial and material resource material supplies than it used to, it may choose to investigate how to add th (make the most of what they have!). Lack of human resources, on the other business to improve its quality and make up the amount of time it now t
- **Competitors:** are the businesses producing goods more efficiently than it c may turn to quality as its objective or ways to bring down costs so that the b on pric
- **Unforeseen factors:** many businesses source their raw materials from forei dangerous, however, especially during times of war or economic crisis. A su cent of a firm's raw materials, for instance, could suddenly be forced to stop the company's main supply. The operations department would then have to main objective from, say, quality or environmental to flexibility and speed o

Financial Decisions and Objectives

There are many internal and external factors that can influence a business's financ of which also affect other business areas, such as operations.

	Factor	Description
Internal	Aims of the business	The financial decisions of a business rest squarely on i looking for growth, the firm might focus on increasing it is looking to compete in an aggressive market, it mig costs or increase monthly cash flow.
	Nature of the product/service	What do consumers expect from the company? Is there product/service and is the company at the higher- or
	Senior management	… anyone from the finance director to the ow business might have certain aims and objectives, senio that they wish to stick to, such as keeping costs as low a shareholders with high dividend payouts.
	Communications	The finance department works as part of a team along If communications are poor, departments can become areas are doing. This can lead to unnecessary expense to keep one another informed.
External	Competitive environment	Do most similar products on the market have a high o advertising, branding and promotion? If the market is businesses sell their brands, a competing firm may ne and advertising.
	Economic environment	Inflation, recessions and booms all play a part in how and the investments a company can afford to make.
	Technological environment	Technological advances often have the potential t business's competitors invest in a technology while the risk of being left behind. Conversely, technological inve consumer tastes change before a company has fully ut firm could be left with a lot of expensive equipment th to buy.
	Legal/political environment	Some legislation, such as the Climate Change Act of 19 general business practices. In the case of the Climate spend a lot in order to meet legal requirements, chan cost minimisation or financial safety.

The Value of SWOT Analysis

Businesses of every size take on SWOT analyses: this is the evaluation of a compa
opportunities and *threats*.

Strengths	**Wea**
Opportunities	**Th**

Strengths and Weaknesses

These are the *internal* factors affecting the business within its control, such as:

Strengths

- inn
- qua
- efficiency
- research and development
- investment in fixed assets
- training
- profitability
- communications

Weaknesses

- limited opp
- high staff t
- too many p
- poor comm
- bad reputa
- negative ca
- limited exp
- poor locati

Opportunities and Threats

These are the *external* factors affecting the business that it cannot change. Firm
in their external environments, such as:

Opportunities

- new markets opening abroad
- low wages and high unemploym
- fall in exchange rate (good for exporters)
- social trends moving to 'green' products
- ma s in financial trouble
- government policy encourages spending

Threats

- ageing pop
- taxes increa
- maturation
- competitio
- pressure gr
- technology

Let's use some examples:

Large Book Retail Chain

The following SWOT analysis shows the factors surrounding a large book retailer
gain as much market share as possible.

Strengths	**Wea**
• Has a reputation for high quality • Many fixed assets (i.e. book stores nationwide) • Employs staff with knowledge of literature	• Literature tre books are of their life cycl
Opportunities	**Th**
• Expansion abroad • Less successful chains that are in financial trouble could be purchased	• Competition trade • Anti-chain st push against

Independent Café

The following SWOT analysis shows the factors surrounding a small, independent business is survival.

Strengths	Wea
• The café is an established part of the local atmosphere • Few employees mean communication [illegible]	• Profitability i • Cash flow is a
Opportunities	**Th**
• A store down the street is closing down and could be purchased • Social responsibility and local support are becoming more important to the residents	• Rival cafés ar same market • Population is having childr

Small-scale Framing Manufacturer

The following SWOT analysis shows the factors surrounding a small-scale framing produces hundreds of wooden picture frames every day. The main aim of the bu as possible.

Strengths	Wea
• Efficient workforce can produce hundreds of frames [illegible] • The business location and equipment are valuable assets	• High turnove • Produces lots without any
Opportunities	**Th**
• Unemployment is currently low and so no problem finding staff • Potential new markets in manufacturing different products	• Online trade in a more co • Technology and so firm s

With all of these examples, the SWOT analysis can be used to make effective strategic and/or tactical business decisions. Once they have been clearly identified, a business can play to its **strengths**, aim to minimise risk or damage from its **weaknesses**, take advantage of **opportunities**, and guard against **threats**.

> **Now try this...**
> Research the curren are familiar with an it. Remember to loo situation, the comp relevant news repo

The large book chain, for instance, is looking to grow market share and so may ta opportunities abroad. Likewise, it could react to the threat of pressure groups by its well-known branding. The strategy of the independent café, on the other han investigate [illegible] means of achieving its goals. Finally, the framing manu profitable as possible and so perhaps will look to specialise in order to produce o better than any of its rivals, which (if successful) will help make it more profitabl

3.7.1 Questions (Part 3)

Please write your answers on a separate piece of paper or in an exercise book.

4. Comfy Bottoms Ltd is a manufacturer of cushions and pillows. The compan brand awareness and so has made cost its lead operational objective. Iden have influence on this objective. Explain your answer.

5. Identify two strengths and two weaknesses of your local supermarket.

6. Below shows a SWOT analysis for Royal Mail. Fill in the empty sections to c

Strengths	W
• .... • Able to offer the same service to customers across the country.	• Low presen other digita • ....
Opportunities	
• Online shopping market continues to grow, bringing more postal business •	• .... • Drones and forms of po

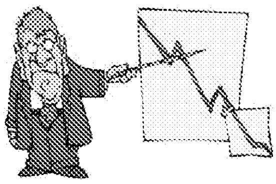
3.7.2. Analysing the Existing Internal Position of a Strengths and Weaknesses: Financial Ratio

Assessing the Financial Performance of a Business Using Ba Statements and Financial Ratios

Businesses use financial data (such as gross, operating and net profit) in order to already studied ratios in the form of *gross, operating and net profit margins*. The business is performing by comparing one financial statistic against another. In th business is contrasting its gross/operating/net profit with the amount of revenue *Current ratio*, meanwhile, compares current assets with current liabilities.

Two more [illegible] *gearing ratio* and *return on capital employed*, compare figures business em[illegible]

Statement of comprehensive income (profit and loss accou



The statement of comprehensive income (also called th account) statement will give us a summary of **profit** the after deductions. In its simplest form, the statement sh expenses. Money in minus money out; what is left is th an idea of their financial performance.

Let's use an example:

The following shows a statement of comprehensive income for Multiple Clothing and thousands).

Financial period	2022–2023	2021–2022
Total revenue	9,537,000	9,062,000
Cost of revenue	6,029,000	5,786,000
Gross profit	3,508,000	3,276,000
Total operating expenses	8,686,000	8,296,000
Operating profit or loss	851,000	766,000
Income from continuing operations		
Total other income/expenses net	-	-
Earnings before interest and taxes	851,000	766,000
Interest expense	(136,000)	(166,000)
Income before tax	-	-
Income tax expense	180,000	199,000
Minority interest	3,000	1,000
Net income from continuing ops	526,000	508,000
Non-recurring events		
Discontinued operations	-	-
Net income	526,000	508,000

Key information of the income statement:

Revenue	Completed sales where goods have been deliver
Cost of sales (or COGS)	Cost of goods sold (COGS) = Purchases + openin
Gross profit (SR-COGS)	GP = revenue – cogs
Net profit	NP = GP – expenses
Operating profit	This is profit from regular trading not unusual tr be interested in this figure because it shows yea performing. Buying shares is risky so sharehold record of operating profit.
Net income	This is the final figure after all deductions. Start the bottom line", generally look for trends in thi going down the company is in trouble. Total revenue – total expenses.

How do we analyse a statement of comprehensive income?

1. You are looking to compare data either between companies or against a diffe year. Like shoes, you need two sets of data; one on its own will not make m

2. You need to be looking for trends in expenses, profits or revenue; are they g down over time?

3. Once you have established if the figures are going up or down over time you th guess as to what is causing that effect. Look back through the case study for an
   - **Sales revenue**: is this a rise in price or sale of larger quantities (as S
   - **Expenses**: the company may have been through a period of major refu
   - **Profit**: has this significantly fallen or risen? What factors might this be a period of retrenchment due to the recession and this has had an impact activity meant that they have been price cutting to boost flagging sales?

4. Now look at the revenue and COGS figures. The cost of revenue (cost of sal too high compared with the sales revenue. If it is they may run the risk of m if their customers squeeze these margins by demanding lower prices, they c

Statement of Financial Position (balance sheet)

In very basic terms, a balance sheet is a snapshot in time of what the company o
It shows what belongs to the company and what the company needs to pay back
company an idea of their financial position.

Let's use another example:

XYZ food retailing [illegible] plc (all figures in GB		
Financial period	**2022–2023**	**2021–2022**
Assets		
Current as		
Cash and cash equivalents	2,819,000	3,509,000
Short-term investments	1,314,000	1,233,000
Net receivables	3,969,000	4,869,000
Inventory	2,729,000	2,669,000
Other current assets	597,000	780,000
Total current assets	**11,765,000**	**13,479,000**
Long-term investments	756,000	62,000
Property plant and equipment	-	-
Goodwill	3,337,000	3,234,000
Intangible assets	-	-
Accumulated amortisation	-	-
Other assets	-	-
Deferred long-term asset charge	38,000	49,000
Total assets	**46,023,000**	**45,564,000**
Liabilities		
Current liabilities		
Accounts payable	5,126,000	4,910,000
Short/current long-term debt	13,515,000	15,862,000
Other current liabilities	7,058,000	7,513,000
Total current liabilities	**16,015,000**	**17,595,000**
Long-term debt	11,822,000	12,195,000
Other liabilities	-	-
Deferred long-term liability charges	559,000	453,000
Minority interest	-	-
Negative goodwill	-	-
Total liabilities	[illegible]	**32,715,000**

The balance sheet is split into three sections:

1. **Assets: Items of value owned by XYZ food retailing multiple plc**

   Current assets (likely to be turned into cash within a year):

   - Inventories (the value of stock held)
   - Net receivables (debtors: cash owing from credit sales)
   - Cash and cash equivalents (cash in hand or in the bank)

   Fixed assets (likely to be kept by the business for more than one year, long te

   - Vehicles, vans and lorries used to make deliveries
   - Shops and offices
   - Machinery and equipment like a forklift in the warehouse or even a
   - Goodwill, strong brand name, customer loyalty, reputation
   - Long-term investments, stocks and shares

2. **Liabilities: Items owed to others by XYZ food retailing multiple plc**

   Current liabilities (have to be paid within a year):

   - Accounts payable (money owed by XYZ to others for goods or servic
   - Short/current long-term debt (the portion of long-term debt that XYZ

   Long-term liabilities (likely to be paid by the business after one year, longer t

   - Long-term debt (loans lasting more than one year)
   - Deferred long-term liability charges (money XYZ owes but has not ye

3. **Stockholders' equity**

   - Stockholders' equity is the net worth of a company. It represents the multiple retailer's assets after all creditors and debts have been paid liabilities. It is not shown on the previous example for reasons of sim simplicity and you would usually not be required to comment on it i

Profitability (return on capital employed)

If the main aim of a business is to make a profit then looking at how profitable it performance as a business. Return on capital employed shows how profitable a money. If you were a marathon runner, for instance, the indicator of your perfo is useful, but a comparison with last year's performance is even better, i.e. did yo this due to the thunderstorm that happened halfway round?

	What you are given on the formulae sheet	How to calculate it	
ROCE (return on capital employed)	$\frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$	Divide operating profit by the sum of [non-current assets + total equity]. Multiply the result by 100 to get a percentage.	ROCE is and nee to derive instance back for compare example investin

Liquidity (current ratio)

This first ratio uses current assets and current liabilities to show what cash a busi its short-term debts.

Let's use Where Eagles Dare Ltd as an example:

$$Current\ Ratio\ for\ 2014-15 = \frac{Current\ Assets}{Current\ Liabilitie}$$

$$Current\ Ratio\ for\ 2014-15 = \frac{70}{35}$$

$$\boldsymbol{Current\ Ratio\ for\ 2014-15 = 2}$$

The current ratio is … which tells us that Where Eagles Dare Ltd have £2.00 in a liabilities. They have plenty of finance available to pay their short-term debts.

As a general rule, companies aim for between 1.5:1 and 2:1 as an optimal ratio. detrimental to a business since they will not be able to pay off their short-term d high ratio may mean that the company has too much cash wrapped up in assets order to make a profit in the long run.

Gearing Ratio and Interpretation

Gearing shows how much of a business' finances are secured in long-term borro a company is in. A highly-geared ratio means they are running on a lot of debt, interest will be a drain on future profits and possible dividends. For example, if then borrows a further £6,000 once they have spent that money they still have t month to pay it back to the lender. Imagine this on the grand scale of a plc borr Highly geared is risky, a bad year of trading or a rise in interest rates and the deb because no matter what happens they still have to pay back the loans. If they lo borrow more to pay off the loans. Financing the … or 'robbing Peter to pay have heard.

	What you're given on the formulae sheet	How to calculate it
Gearing Ratio	$\frac{\text{Non-current Liabilities}}{\text{Capital Employed}} \times 100$	Divide non-current liabilities by the sum of [non-current liabilities + total equity]. Multiply the result by 100 to get a percentage.

Highly Geared vs Low Geared

A company that is highly geared (i.e. with a ratio over 50%) will have a lot of deb low geared (i.e. with a ratio of less than 50%) will have significantly less debt. Th geared companies come from their shareholders rather than from long-term deb

Being highly geared, therefore, is … Some of the reasons for compan

- the business plans to expand and needs to take out loans in order to achiev
- a firm wants to purchase machinery in order to generate more goods and, e
- the firm is buying out a rival company, forecasting that it will be profitable t
- a company is swimming in debt and needs some way of paying it off
- the company is unable to make its day-to-day payments

Efficiency Ratios

Inventory Turnover

Financial ratios look at how well a business manages its resources; you will be abl these are necessary to calculate by looking for the word 'resources' in the questi on the key ratios: acid test, ROCE and gearing.

	What you are given on the formulae sheet	How to calculate it	How to u
Inventory (stock) turnover	$\frac{\text{Cost of Sales}}{\text{Average Inventories (Stock) Held}}$ $\frac{\textit{Cost of Goods Sold}}{\textit{Average Inventories Held}}$	Divide cost of goods sold by average stocks (inventories) held.	This show that the b want this you turn o otherwise warehous or becom So, if the the busin and thus get avera closing st

Payables and Receivables

These ratios measure how well a firm manages its debts with its suppliers and its debtor days show the business is having trouble collecting their debts, and probl business is not organising its credit with its suppliers very well. Both can be exce in the business.

	What you are given on the formulae sheet	How to calculate it
Payables (Creditors) days (payables collection period)	$\frac{\text{Payables*}}{\text{Cost of Sales} \times 365}$ **Payables = creditors*	Divide payables by cos sales then multiply by 365.
Receivables (Debtors) days (receivables collection period)	$\frac{\text{Receivables*}}{\text{Revenue} \times 365}$ **Receivables = debtors*	Divide receivables by revenue then multiply 365.

The Value of Using Ratio Analysis

Ratios can be a useful tool for a business to look at the health and performance o
conclusions about how it is doing from a financial viewpoint.

Comparison

The main benefit is the ability to boil down numbers so that useful comparisons c
another student. How do you know the difference or the similarities between yo
looking. What about if you had shoes sizes to compare, height or even predic
Now you can make some effective comparisons. It's the same with a business an
into a format that can be compared.

Step 1
Find the data in the case study

Step 2
Calculate the ratios

Step 3
Compare the two ratios, e.g. year on year or company A with company B

Diagram to show steps in the ratio process

Decision-Making

Comparing ratios gives the business useful information from which to draw co
be used as a decision-making tool. The organisation may use the information to s
objectives, link financial strategies to new objectives or create new strategies. D
Strategies for Success so keep coming back and linking your ideas to objectives a

Financial Health

Imagine the start of a journey that will take one year. In order to know where we
we are now and if we are going to be healthy enough to make the whole journey.
this information. It lets them know if the business is efficient enough, if it has eno
new objectives for the next year. Is the business able to meet its short and long-te
trading in a year's time? Does new finance have to be arranged so that the comp

Limitations of Using Ratio Analysis

In your exam you need to see the advantages and disadvantages of just about ev good deal of your exam writing time should be weighing up ideas for the values a drawbacks and then coming to reasoned conclusions about which choice the bus make based on your analysis.

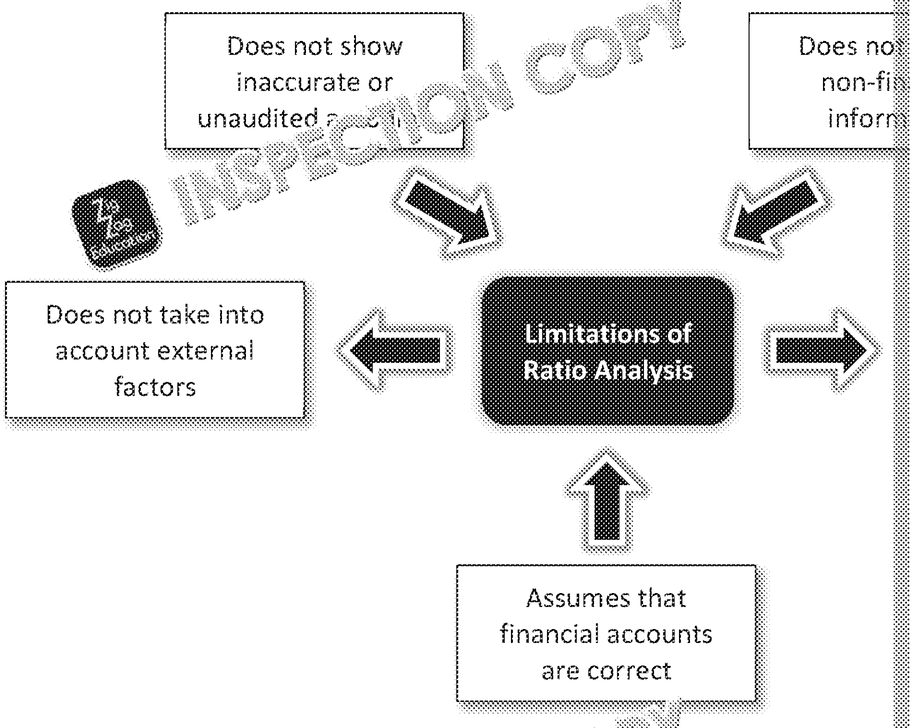


Diagram ... limitations of ratio analys

Time: Ratios ... unless performed over a long-enough period of ti will depend ... industry among other factors. Time can also change business cuddly toys ... then moves on to wearable technologies, a long-term ratio analy

External factors: Any ratio analysis will not be able to take into account external impact on the results. For example, a company showing 9% growth when inflatio a 3% growth.

Financial information: In relation to the time factor, financial statements only co they were constructed. Many other factors could have come into play over the render a company's profit and loss account an unfair representation of their succ

Non-financial information: Ratio analysis can't show competitor activity or whet through major changes, such as hiring a new MD. Ratio analysis also won't be ab if new products have been launched or if the company ... been subject to takeo a ratio analysis is quantitative, not qualitative ... only give you part of the st

3.7.2 Questions

Please write your answers on a separate piece of paper or in an exercise boo

1. Explain the meaning of:
   a. Cost of sales
   b. Current assets

2. Pies 'n' Chips Ltd has been in business sin[illegible]. The company, which em and sells pies (catering for al[illegible]ds) and what local people have co chips ever fried'. Th[illegible] leadership has found a new supplier of fl deal. Howe[illegible] supplier has requested to see some financial informati
   a. [illegible]tify which type of financial document the supplier might be requesti
   b. Explain why the supplier may wish to see this financial document.

3. a. Identify the meaning of 'gearing ratio'.
   b. Identify the meaning of 'ROCE'.

4. Tomfoolery International Ltd is a designer and manufacturer of practical jo some of the company's finances during 2022–23.

Tomfoolery International 2022–23	
Non-current liabilities	£123,000
Current liabilities	£50,000
Capital employed	£237,000

   a. Calculate the gearing ratio of Tomfoolery International Ltd to 2 dp.
   b. Explain the financial position of Tomfoolery International Ltd judging by it

3.7.3. Analysing the Existing Internal Position of a Strengths and Weaknesses: Overall Perform

Analysing Data Other than Financial Statements to Assess t Weaknesses of a Business

Operations, Human Resources and Mar[illegible] Data

The calculation and interpretation of operat[illegible]s, [illegible] resources and marketin making process of a business, bring[illegible] th[illegible] any other benefits:

- A business can analyse [illegible] previous figures to understand whethe by how m[illegible]
- Measu[illegible]s can inform milestones for both a business's leadership and t
- A firm c[illegible] use its past and present data in order to project potential outcom and output
- Data shows a business's limits

Operations Data

This data, such as productivity and quality, can be measured easily by a business number of goods being produced in one period and compare them with another productivity. Quality might be measured by the number of returns or complaint the management of a firm's waste is clear from the amount left over.

Human Resources Data

The analysis of human resources data will depend on whether a company views

Hard HR (staff as a cost)

A business might be likely to focus on:

- staff retention
- staff efficiency
- absen[illegible] an[illegible] lateness
- length [illegible]ecruitment process (in time)

Soft HR (staff as an asset)

A business might be likely to focus on:

- staff satisfaction
- staff training requirements
- reasons for absenteeism/lateness
- movements of staff within the organisation (e.g. promotions)

Marketing Data

The data that a business measures will be its own and th[illegible] he market to whic

- **social media**: this gives meaningful data sinc[illegible] [illegible]n share, follow and re
- **market share**: this shows the p[illegible] [illegible] relevant customers to which a b
- **repeat vs recurring** [illegible] in the online environment, for instance, firm view ho[illegible] an[illegible] [illegible]urning customers access their websites
- **produ[illegible] [illegible]olio**: firms measure which products represent what percentag
- **product [illegible] cycle**: measurement of percentage of sales revenue for a produ
- **price**: percentage of goods sold at particular prices
- **segmentation**: percentage of customers that fit a firm's geographical, demo behavioural subsection

The Importance of Core Competences

A company's core competences refers to the collective knowledge that the busin such as Dyson, Apple and Google are known around the world for producing high due to the products themselves (e.g. Google's algorithm for finding information i world) and part is due to the marketing involved (e.g. Apple's ability to promote Understanding and using core competences helps a business to stand apart from computers, for instance, does not offer more than its rivals in processor power o company focuses on style and usability, producing a computer that many people

Short-termism and Long-termism

A business operating in a very difficult economic climate may be focused on shor survival. A business operating in a relatively steady economic climate with mark growing over the long term. Businesses may be experiencing similar economic a make completely different business decisions. This can be influenced by their m performance, owner power, etc.

Influences on corporate decision-making include:

- The **risk** associated with a decision will have a significant influence on wheth not. A high-risk decision will not be implemented immediately, if at all, as m further analysis into its pros and cons before reaching a final decision. A low implemented far quicker than a high-risk one, as there could be less at stake of the potential outcome.
- The **attitude to risk** can influence whether a decision is implemented or not risk is unlikely to implement a high-risk decision, as it is unwilling to do so. built on taking high-risk decisions will not be so hesitant.
- **Past successes** will influence the decisions made. A decision-maker who ha style of decision-making will continue to adopt this approach. However, on using a particular style will look to use a different method. For example, if a successful without the involvement of others, they are likely to continue to successes with this method will seek to involve others in the process, in ord working but also to reduce the degree of blame they endure, if unsuccessfu
- The **nature of the industry** will influence the decisions taken. A highly comp greater focus on thorough market research in reaching a decision, as reachi consumers choosing rivals instead. Hotels are well known for carrying out m or adapting a particular product or facility. They will amend it in light of the
- **Stakeholder power** can influence significantly the decisions made. If a pow particular decision the business is likely to abandon it, if the impact is to be example, Netflix, the DVD rental and online film / TV streaming business, ab separate companies due to customer pressure. If the decision had gone ahe use two different companies to access the products. Furthermore, their de entered on each website. Rather than posting a review on one of the comp on both, they would be required to produce it on each separate website. T would have had to be produced on each website. Consumers were unhapp increase the amount of time they spent accessing the service, if both DVD a were to be used.
- The **ethical values** of the business will influence the decisions made, as one will probably be rejected even if highly profitable. For example, The Co-ope trade with businesses which are known for not implementing basic labour r
- The **resources available** will influence the decisions made. For example, the availability would determine whether a proposed decision is feasible or not or

The Value of Different Measures of Business Performance

Firms measure various aspects of their performance to ascertain whether they a assessing improvement of quality and whether speed of service is satisfactory to by a business and its levels of diversity.

All these areas of measurement can provide targets for a business to meet, e.g. i levels from 50 per cent to 60 per cent. Firms have a variety of business theories

Elkington's Triple Bottom Line (Profit, People, Planet)

Normally, the only bottom line that a firm thinks about is its profit for the year (ne model, the triple bottom line (or the TBL/3BL) refers to the finances of an organ benefits/losses (people) it creates and the environmental effects that it has had are measured in financial figures.

Example: Triple Bottom Line for an Energy Multinational

Profit
Strong revenue and low costs over the financial year.
(25m)

Environmental
Clean up of oil spillage.
(10m)

Co

Negative figures are placed within brackets and so the total for this example is £

Benefits of Elkington's Triple Bottom Line

- The model looks to improve business practices for those directly affected, i.e.
- Companies using the model can feel pressured into performing well, which generate sales
- In relation to the previous point, quality may increase, suppliers may be offe may live in cleaner environments
- This model can help ensure a business is doing all it can in the three areas (p legislation is not enough

Drawbacks of Elkington's Triple Bottom Line

- Many firms would only use Elkington's model if it suited them (such as if an reputation would bolster finances)
- It can be difficult to focus on the measures that most apply to a single busin job loss count is purely down to the firm's decisions
- The total of a triple bottom line is measured in terms of money; however, it type of situation to how much money it is worth

3.7.3 Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. Why might the short-term objectives of a business be different to their lon

2. Marks and Spencer reported that only 20% of its customers shopped from business wants to grow this part of the busine ering a wider choice products more accessible in its largest stores online.[7]

   a. Explain a marketing ich could be set to achieve the corpo
   b. Explain an production) objective which could be set to ac
   c. lai an resources objective which could be set to achieve th
   d. ain a finance objective which could be set to achieve the corpora

[7] source: **http://corporate.marksandspencer.com/aboutus/key-facts**

3.7.4. Analysing the External Environment to Asse Threats: Political and Legal Change

The Impact of Changes in the Political and Legal Environme Functional Decision-making

Government organisations have a variety of methods available to them for when in markets.

Regulation

Governments might intervene to reg[illegible] markets. This is common if the regula are becoming too big a[illegible] and are able to use this market power to ove example, se[illegible] prices for essential products such as in the energy ma

Legislation

Governments might introduce legislation to limit the consumption of goods that For example, the minimum age to purchase tobacco and alcohol and the prohibi

Indirect taxation

As well as introducing legislation, governments might impose indirect taxes on th services that produce negative externalities. Indirect taxes are paid by the seller consumer as they are passed on through higher prices. Indirect taxes can be avo choice. Both tobacco and alcohol products are subject to these types of taxation

Grants and subsidies

The government might offer grants or subsidies to boost the production of good positive externalities. For example, education and healthcare are provided free subsidised. This is to guarantee a certain level of food supply and ensure that fa are positive externalities to agriculture – people value [illegible] ntryside for its vie market prices.

Voluntary agreements

The government may als[illegible] businesses and other parties to adhere to c For exampl[illegible] ay [illegible] firms in certain industries to adhere to limit emissi

Competit[illegible] and the Labour Market

One element of the legal and political environment that firms must contend with on levels of market capitalisation are enforced in order to prevent large firms bec price mechanism, and reducing consumer choice. In the UK, competition policy is Markets Authority, or CMA, which is overseen by the government.

The CMA will often investigate proposed mergers of large firms, to determine whe competition. Mergers can be blocked by the CMA. Regulators in the CMA are also firms are not involved in collusion. Markets can be distorted by large firms colludi illegal anti-competitive practice. The CMA may issue fines or instigate criminal pro finds to have been colluding or distorting prices.

Firms must also contend with a range of employment [illegible] aps the best know National Minimum Wage, which sets a price f[illegible] n [illegible] hourly cost of labour. Th depending on the age of the emplo[illegible] less-experienced workers are m Employment law covers a ra[illegible] areas as well. These include worker prote outlawing discrimina[illegible] workers on the basis of protected characteristics, and a rang[illegible] entitlements, such as holiday pay and maternity leave.

Employment law is designed to ensure that workers are not mistreated or exploite complicated for firms. A range of reforms to employment regulation were introdu mid-2010s, with the intention of creating a more flexible labour market. These ref to hire and dismiss workers, and permitted more informal types of employment c reduce costs for businesses and increase employment.

Enterprise

New businesses create jobs, promote economic growth, and provide goods and s generally having a positive impact on the country. Governments can impact on e businesses in various ways. Firstly, governments often directly support new busi start-up loans to grants to offering expert advice. Secondly, governments can 'cu barriers that impose additional costs or restrictions on businesses. Finally, politic in new opportunities for entrepreneurs – from deciding to build new roads or ho for example, with the UK government's Help to Buy incentives which were aimed buyers to make a purchase, which indirectly supported the house-building market

Of course, political and legal changes can hinder enterprise too, and the impact o businesses is often debated in Parliament. Regulation, although it might have m viewed as a barrier to enterprise, and changes that come through from governm immediate negative impact on individual businesses, even if it is good for busine

Infrastructure

As well as regulating businesses and supporting enterprises, the government car maintaining and supporting the country's infrastructure. Infrastructure refers to businesses and economic activity generally – from transport networks such as ro energy and communications provision. Supporting the roll-out of high-speed bro mobile Internet, for example, have both been recent government policies.

Environmental Legislation

Environmental protection legislation tries to encourage businesses to improve their practices and conduct their activities accordingly, so no negative harm is caused to the environment. It aims to reduce emissions in the air, encourage safe handling and storage of hazardous substances and safe disposal of waste.

Any business that does not comply with the legislative requirements could be prosecuted. Not only could it be fined heavily, but the damage done to its reputation may be irreparable. Consumers may choose alternative businesses and it may become difficult to attract and retain employees.

Case Study: C
In 2002 EU re
lobster catch
of lobsters ca
meant that lo
back more of
on each trip i
have to catch
year instead.
change was t
was maintain
back would h
before being
more lobster
would otherw
short-term n
(loss of incom
population, e
the long term

The **business implications of the legislative requirements** are:

- costs are incurred as the business complies with the legislative requirements
- enhanced reputation and reduced risk of being prosecuted for external damages – for example, if a firm pollutes a local river it may find itself sued for the impact on local health even if its pollution was not regulated
- improved customer loyalty – customers with environmental concerns are li business that shares their aims
- improved staff morale, low labour turnover and easier to attract new staff – their work has a positive impact on the world
- improved long-term business prospects – protecting the environment often its resources for future use (sustainability) – which can mean greater longev otherwise seek short-term profit over long-term survival

Legislation sets out the minimum that is required of businesses by the law, but m core values, consumer expectations and competitor actions, along with other fac business chooses to go beyond what is necessary.

International Trade

The terms of trade with other countries are also determined by the government. A
restrictions to the import and export of certain goods and services. This is in order
from foreign competition, or to maintain domestic environmental and consumer s
elsewhere. Countries may enter into free trade agreements with one another in or
restrictions. This can create new business opportunities in both countries, and low
alike. Countries may also enter into trading blocs, in which a group of countries ag
trade with each other.

The European Union is a key example of a trading bloc. The UK became the first
state to leave the bloc in 2020 following a 2016 referendum in which 52% of the
the EU has created [illegible] and bureaucratic barriers when it comes to tradin
negative for businesses. It has also restricted the ability of EU businesses to
had mixed results for British firms – it has reduced competition in some areas, bu
others. However, leaving the bloc also gives the UK the opportunity to establish
could create new business opportunities in the future.

Business Responses to Changes in the Political and Legal E

Government policy can have significant effects on businesses. Reforming the labo
the quantity and quality of labour, and barriers that may prevent market forces ac
market. Structural unemployment is a result of barriers to free mobility of labour.
barrier to the free-market system. Trades unions work by bringing strength to an
individuals together as one large body. This gives workers more bargaining power
over wages and working conditions. By opening up to immigration, an economy ca
increase its ability to produce goods. Because this affects aggregate supply, laws a
policies.

By increasing minimum wage, businesses that employ large numbers of low-paid
would see an increase in their wage bill, which is usually the biggest single cost fo
workers would be willing to work, increasing the supply of labour overall and lea
therefore, better-skilled [illegible], which should benefit some businesses. A hig
lead to increased productivity among the firm's lowest-paid workers, as they are
might also [illegible] work fewer hours to pay their bills.

Equally, by reducing unemployment benefits, this would create disincentives for
and encourage them to work. However, unemployment benefits are there to pr
so there is a trade-off between protection and incentive.

Firms can respond in a variety of ways to changes in the political and legal enviro
develop new products or change the way it provides a good or service to comply
legislation. Durham Crematorium installed new environmental cremators in res
requiring mercury to be removed from crematorium emissions by December 201

If the Bank of England **increases interest rates** the business may choose to pass the additional cost of borrowing onto consumers in higher prices, but this is dependent on the product's demand being price inelastic. If this is not possible, the business will accept a lower profit margin or look at becoming more efficient, so cost savings allow the profit margin to be maintained. Higher interest rates will possibly lead to businesses choosing to delay capital investment, either as the cost of borrowing to fund these increases, but as consumer spending may be anticipated to fall, as their disposable income falls.

[8] Source: **http://www.bbc.co.uk/news/uk-england-wear-12871155**

If the Bank of England **decreases interest rates** the business may be more willing inv
borrowing to fund these will be cheaper. The business may respond by increasing o
as demand is anticipated to increase, as consumers' disposable income increases w

If the Government **increases taxes** and **reduces government spending** non-nece
reducing output, as demand is anticipated to fall, as Government bodies are spe
disposable income is lower due to having to pay more tax. Staff may be made re
perceive it as a short-term problem and capacity could be reduced. A business m
country with lower operational costs, if a tax rise increases costs.

The business may review its production practices in order to comply with **environm**
in some equipment and machinery changing, along with production practices. The
ensure they are meeting the new standards they need or source new ones, if exist

Some businesses will engage in a training programme to ensure that all employe
understanding of what they must do to comply with **employment** and **health an**
employees are being trained production may be interrupted. Some businesses m
staff notice board and the duties it places on employees, but there is no guarant

Achieving an A grade

Do not focus extensively on why particular government policies are implement necessary. Your focus must be on the impact of government policies on busine may respond to them as opportunities and threats.

Remember to address how government policies affect businesses and why all a way. For example, it is presumed that if interest rates increase fewer luxury ite cost of borrowing has increased and these are non-essential purchases. Howeve be affected if they have a product with a strong brand image that consum purchasing, even if their disposable income decreases. Firms such as Apple hav profitable during the recession, indicating that their products are still pe even when consumer spending power has fallen. Also keep in mind that a gove direct impact on UK consumers may have no impact on a UK business, if its cus overseas. Make sure you can analyse and evaluate the strategies a business co government policies. Ensure you outline the factors which influence the strate businesses will respond in the same way, if at all. Assess why approaches differ

Some businesses will win and others will lose out when a government policy is able to analyse why this occurs. Lastly, it is argued that market competitivenes efficient in their operations, especially at a time when consumers are well info purchase from a different firm. John Lewis is renowned for its high standards w employment, environment, and health and safety. It could be argued governm necessary, as many businesses go way beyond the legislative requirements, bu and, therefore, a minimum standard has to be expected of all.

3.7.4 Questions

Please write your answers on a separate piece of paper or in an exercise book.

1. Identify three ways the government can intervene in the economy.
2. Explain **two** ways in which environmental legislation might impact on a
3. In 2023, the government increased the minimum wage through the Na
   a. Explain why some employees may welcome the increase in the Na
   b. Explain why some employers may have been displeased with the i
4. Explain **one** advantage and **one** disadvantage of businesses complying w

3.7.5. Analysing the External Environment to Asse Threats: Economic Change

The Impact of Changes in the UK and the Global Economic Strategic and Functional Decision-making

Many of the economic measures and policy tools bel… …plained and revisi course. However, the point of them here is to ex…lor… …eir implications to busin the economic environment in which b… …ne… …operate.

GDP

Economic g… …re… …s to the rate of increase in an economy over a period of ti domestic pr… (GDP) or gross national product (GNP) can be used to measure

- ***GDP*** – the value of a country's total output of goods and services over a per
- ***GNP*** – the value of a country's total output of goods and services over a per earned by UK businesses and citizens in overseas markets, but excluding inc investors in the UK economy.

Economic growth should be considered in light of inflation (see 3.1.1.4) to deter growing in real terms or not. Economic growth indicates positive trading conditi goods or services of an economy over a specified period of time. A growing econ ***confidence***, as increased demand results in it increasing output, which results in business is more willing in these conditions to ***expand*** and/or ***launch new produ*** whilst others are willing to ***start a business*** for the first time, as they believe the consumers more willing to spend on new goods and services. A growing econom opportunities, but also ***employment opportunities***, as … …a… hired to help org of demand. Economic growth can ***improve stand…rd… …living*** as the increased consume more goods and services, wh… … …who previously were unemploye benefit from an increased pur…sing …wer due to higher levels of disposable in citizen incomes can inc… …th…ugh economic growth, the government gains th ***increasing*** … …hi… …ow greater funds to be allocated to public spending.

A positive rate of economic growth in overseas countries can lead to opportuniti may become more desirable to overseas customers, resulting in their ***exporting*** Although economic growth has its advantages it can lead to ***insufficient labour a available*** to meet the increasing demand for goods and services. This can result ***wages/salaries*** to attract new staff and retain existing ones, ***suppliers increasing*** starts to exceed supply for their resources and ***firms increasing prices*** to overco to maintain profit margins.

However, negative or zero economic growth will have the opposite effect, as out economy falls resulting in ***lower sales and profits***, due to falling demand. This ca ***trading***, resulting in ***increased levels of unemployment*** and ***lower levels of tax r citizen income levels fall***.

Interest Rates

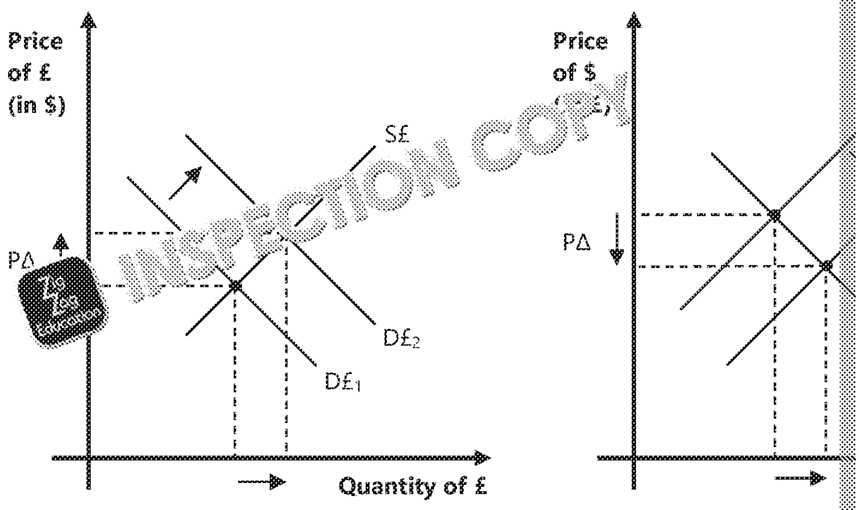
Firms may need to borrow money in order to invest. Interest rates determine ho
back when they borrow money. If interest rates go up, the cost of borrowing incr
invest. Equally, investing money has an opportunity cost. The return a firm gets
the interest the firm would receive from saving the money. Because interest rate
firm gains from saving, the effects of interest rates on investment are twofold. If
becomes more expensive and its opportunity cost also increases; therefore, firms

Falling interest rates will increase demand for firms' goods. This is because cons
saving will fall and they are more likely to go out and spend their money rather t
borrowing has fallen, and so consumers are more likely to borrow money in orde
with mortgages they will have more disposable income, so again are more likely
This means businesses that an increase in interest rates will cause an increase
they will find revenues increasing.

Exchange Rates

When a good is bought, an amount of money is given over 'in exchange' for the goo
shown by the amount of money swapped for it. The exchange rate shows how mu
swopped (exchanged) for another currency, or, the value of one currency (e.g. £) in

If an American consumer decides to buy a British good then they will need to cha
into British currency (£s) because the good is valued in £s.



Let's look at the exchange rate of £s and $s and how this transaction would chan
foreign exchange market. The first graph shows the demand and supply of £, the
economy is shown on the x-axis; 'quantity of £'. The price of £s is shown on the
shown in $s as we want to know how many £s we can get for $s. The bottom gra
supply of $, the quantity of $s in the global economy is shown on the x-axis; 'qua
shown on the y-axis and the price/value of $s is shown in £s as we want to know

As the American wishes to buy £s, the demand for £s increases from D£$_1$ to D£$_2$.
to increase by P∆. The value of the £ has appreciated, this means the purchasing
£ to buy) has increased; we can buy more $s than before. As they sell their $s
for S$$_1$ to S$$_2$, the price of $s decreases by P∆. The $ has depreciated in the v
$ has decreased, its purchasing power has fallen and it can buy less £.

> ***Remember!***
> Strong Pound = Imports Cheap, Exports Dear

So how does this affect business…?

If the £ **appreciates**, then UK goods will appear more expensiv
(assuming their currency stays the same; ceteris paribus). UK
competitiveness'. This means demand for UK goods will fall a
rise; demand for exports will fall and demand for imports will
goods appear cheaper in relation to foreign goods. The dema
domestic consumers will shift away from buying imports so th

For exporting companies, the exchange rate affects the relative price of their go
demand for their goods. An appreciation can mean a fall in demand (and, theref
depreciation can mean a rise in demand (and, therefore, revenue).

For importing companies, the exchange rate affects their costs. If firms import f
or import input materials for production, then an **appreciation** of *foreign* curren
products they are purchasing and thus will eat into their profit margins. A **depre**
lower the costs and thus increase profit margins.

> **Ceteris Paribus**
> This is one of the most important simplifications in economics. It means 'with a
>
> Let's use an example:
>
> The prediction that 'you will be colder on a snowy day than you would be on a s
> are many variables that come with this. The case may be, for instance, that you
> the heating on full and remain warm. Or, if you do go outside, you might wear a
> warm and you may even be warmer than you would be on a sunny day, especia
> sunny day. *Ceteris paribus* means that you assume these other varying condi
> only looking at how the outcome may change as this one condition changes. You w
> ceteris paribus (if wind speed, surroundings and clothes worn remain the same

Taxation

Indirect taxes are taxes that are imposed on an economic agent but are not paid
imposed on a producer but are passed on to a consumer. The tax is indirectly pa
party does not have to pay the tax, as in, they can choose not to buy the product
example, taxes on fuel or other goods and services are indirect taxes; VAT is an i
to avoid because there are very few goods/services the tax doesn't apply to.

Direct taxes are paid directly by the economic agent that they are imposed upon
tax is imposed on an agent and is paid directly by that agent to the government.
through consumption choice.

Taxes affect firms because they are a cost to firms. If the government increases
give more money away and will then have less profit. ... as taxes increase,
their goods in order to cover this. Increased prices ... mean a loss of customers

If the government increases income tax, although this affects households, it still
Increased taxes mean consumers have less disposable income. If consumers hav
they will have less money to spend on goods and so firms will see a fall in deman

Unemployment

Unemployed workers are not receiving an income and will find they are less able
This means consumers will reduce their spending. Falling incomes and falling spe
firms' goods will fall and they will lose revenue.

If employment is high, firms would have to offer higher than existing wages in or
leave their current jobs and work for them instead. High levels of unemploymen
available workers and firms can offer lower wages because a low wage is better t
although unemployment means fewer customers are consuming firm's products,
increase production because there is a pool of unused labour to employ.

Inflation

Inflation impacts consumers, business and the economy in many ways. Changing
change their labels, print new menus, etc. Changing prices on machines, tills, ve
Equally, it is disconcerting for firms and can create uncertainty for future plannin

If prices increase then the people's costs of living increase. Increased living costs
therefore, consumption. Firms will find their sales and revenues fall. Increasing
it increases their costs.

It additionally impacts those firms that interact on the global market. As UK pric
expensive on the global market in comparison to foreign goods. Therefore, infla
competitiveness as it makes goods and services appear relatively expensive.

However, if inflation is anticipated, firms and governments can include it in plann
themselves from inflation and mitigating its effects. Unanticipated inflation can
budgets, which will lead to problems.

3.7.5 Questions (Part 1)

Please write your answers on a separate piece of paper or in an exercise book.

1. Explain **one** disadvantage of economic growth for a business.
2. Identify **one** strategy a business may implement during positive economic
3. Explain how a business providing non-necessity items is affected by a decr
4. Explain the extent to which Apple is affected by an increase in interest rate

Fiscal and Monetary Policy

Economic policies involve the Government implementing strategies to control th economic objectives. The Government has a difficult task to get the balance of s beneficial in meeting one objective but cause another not to be achieved. For ex reduce the income tax rate, so consumers have more disposable income in the h increased spending and improves demand for UK goods and services. This may r unemployment, as more employees are required to meet the increase in deman could cause prices to rise, thus inflation may go beyond the policy 2.0% target. The Government are monetary policy, fiscal policy and supply-side policies.

Monetary policy and fiscal policy are designed to influence the economy as a wh aimed at encouraging the economy to be more efficient.

Monetary policy involves influencing the amount of money which is in circulatio increase in the amount of money available in the economy leads to higher dema leads to higher economic growth. A reduction in the amount of money circulati demand for goods and services, which leads to lower economic growth. Moneta changing interest rates, controlling the supply of credit and influencing exchange

Interest rates are one of the major tools used to influence the economy, but this the Government, but the Bank of England's Monetary Policy Committee (MPC), s

Interest rates have a direct impact on the cost of borrowing. An increase will lea borrow, whilst a decrease will lead to lower borrowing costs. The MPC may incr increasing too rapidly, as this affects UK competitiveness both in the domestic a of borrowing increases, the amount of disposable income available to consumer income goes towards servicing their debt costs, thus resulting in lower spending reduce demand for goods and services, leading to businesses cutting back outpu they try to encourage demand. A higher interest rate could lead to unemployme are needed if demand is falling. Economic growth will slow down as output leve against other currencies is likely to become stronger, as overseas investors incre which they will place in UK investments, due to the higher rate of return availab

If demand is considered too low in the economy with high unemployment levels interest rates may be reduced. By reducing interest rates the cost of borrowing increase in demand for non-necessity items, as consumers have more disposabl economic growth becoming stronger. Businesses will seek to hire more staff to leading to unemployment levels falling in the economy. Prices may start to rise spending and output, as businesses may not be able to keep up with the higher pressure on prices. Both consumers and businesses may be willing to pay the hi term, as the market conditions make them affordable due to more disposable in revenue for the latter. The value of the pound against other currencies will wea as the return rate available on UK investments is lower, thus overseas investors countries. This could result in more sterling being made available in the market, exchange it for other currencies in countries with a higher investment rate, thus

Fiscal policy involves the Government using tax and spending to influence t earns revenue from both income tax and corporation tax. If it wants to increase eco possibly due to low economic growth and rising unemployment, it will reduce th employees are paid quarterly. Both consumer disposable income and business percentage of income and profits are paid to the Government. Consumer spend increases and business spending on capital items is higher, as an investment is n to increased business demand and output. Economic growth is stronger and un businesses hire more staff to meet the increase in demand. Business revenue a

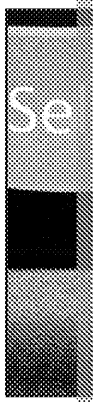
The Government may also increase its spending in order to boost economic activ
on building new motorways and roads, schools and hospitals or increases the fu
organisations can spend this leads to increased demand for businesses who supp
For example, construction firms benefit from higher demand, if the Government
whilst publishers benefit if the Government increases school budgets. The increa
output, lower unemployment and stronger economic growth.

If the Government believes the economy is too strong, as with inflationary
UK competitiveness, it may increase taxes and reduce spending. A higher tax rat
disposable income and business profits, which reduces the amount available to s
demand and output, which results in unemployment increasing, as businesses m
to requirements reducing. Lower spending by the Government reduces deman
suppliers. Inflationary conditions should improve, as prices will fall because exce
and domestic goods and services weakens.

More Open Trade vs Protectionism

Free trade areas are groups of countries which have an agreement to allow free
meant that there are low to no trade restrictions or barriers between the countr
be increased trade among these countries

This agreement only determines the way in which the countries trade with the o
agreement. The countries involved (member countries) are allowed to set their
with countries outside of the agreement (non-member countries). From this, no
potential high trade barriers of other member countries by entering through the
lowest/cheapest trade barriers. Once they have accessed the free trade area th
they are able to trade with the other member countries without the high-barrier



The **World Trade Organisation (WTO)** is an international body who aims to promote free trade by encouraging countries to stop using trade barriers, such as tariffs and quotas. It supervises free-trade agreements, resolves trade disputes between governments and arranges trade negotiations. Decisions made by the WTO are compulsory; every member has to abide by its rulings. This can make it easier for UK firms to locate and export to one of the 153 countries which belong to the WTO, thus providing a larger customer base or the potential of lower operational costs, either through importing raw materials or basing operations in one of these countries. The WTO has been criticised with regards to developing countries, as it has not put provisions in place to encourage the 'rich' countries to open up their markets to products from these poorer nations.

Countries that partake in international trade will find their growth rates will incre
to the international market will mean an increase in product audience and so the
and grow. Equally, countries can import raw materials and 'low-value added' go
table company importing pine wood. Firms can outsource production to other c
markets but also their production and have lower costs in order to obtain a com
2008 financial crisis, the world saw a decrease in the amount of international tra
for protectionist measures, i.e. taking care of themselves and their own people.

3.7.5 Questions (Part 2)

Please write your answers on a separate piece of paper or in an exercise book.

5. What is the difference between monetary policy and fiscal policy?

6. Explain how the government may use fiscal policy to improve economic ac

3.7.6. Analysing the External Environment to Asse Threats: Social and Technological

Demographic Changes and Population Movements

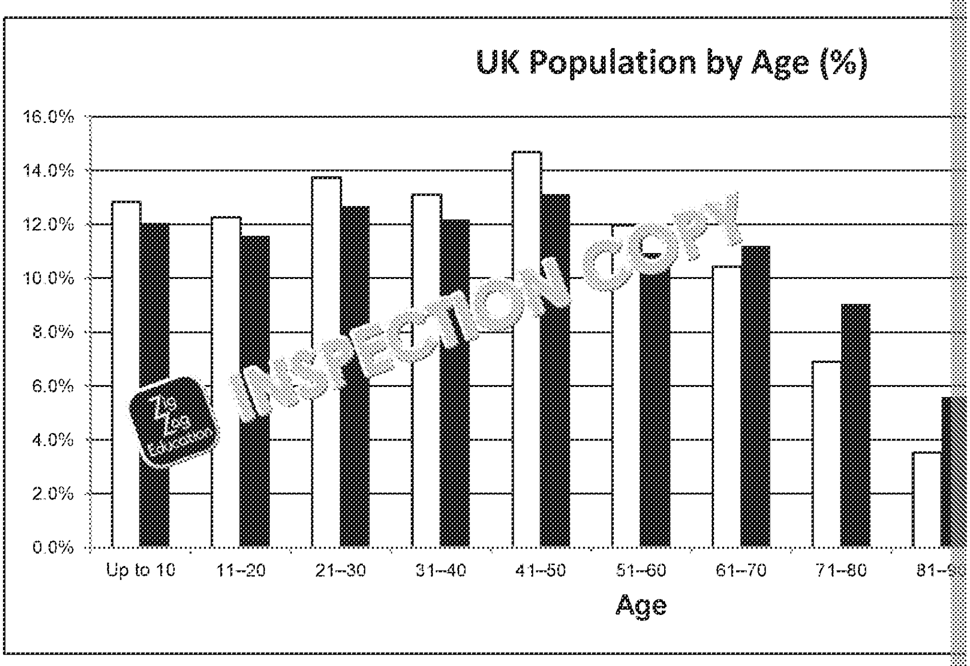
The social environment relates to the behaviours and relationships which individ personal and private lives. These are influenced by demographic changes, value and lifestyles.

Demographics refers to the features of the population based on such factors as a ethnicity, income, employment, religion and sexual orientation. Demographic gr possibly due to cultural, ethnic and economic influences.

Changes in demographic groups can pose both threats and opportunities for bus prepared to meet these challenges as they occur, otherwise their competitivenes

Ageing population

The UK's population in 2010 was approximately 62 million, but by 2035 it is expe group aged 61 or older is expected to have the fastest growth rate. Currently th UK population and is expected to be 27.5% by 2035.



Businesses have developed and amended their marketing strategies to take adva population who have the funds available to enjoy their advancing years. No long sheltered housing or mobility aids, but opportunities have been created for mar envisaged. The holiday market not only provides escorted tours and cruises, but those who wish to engage in white-water rafting or rock climbing, e.g. Macs Adv expectations of this group, which is increasing in size and maximise business sale

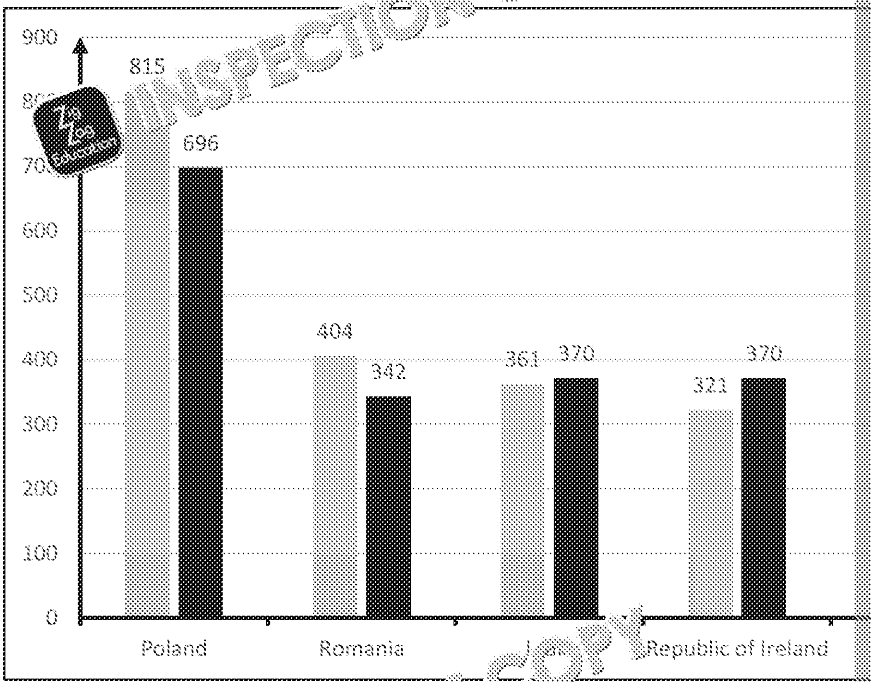
Businesses have also recognised that the older population has a wealth of exper human relations management function. They are deemed to be more dedicated lower labour turnover rate and less absenteeism. Their experience and persona efficient running of the business, which can ensure customer service and produc Firms such as B&Q encourage older job applicants, as they can provide effective which can help young employees gain in confidence and develop a wide range o possible through off-the-job training.

9 Source: **www.ons.gov.uk**

Immigration

The UK is known for being a multicultural society, but this became more evident a Caribbean citizens settling here during the 1950s and 1960s and those from India and 1970s. In the 2010s, the UK saw an influx of citizens from Eastern Europe, wh increase in the number of EU member countries, thus making mobility between th with the UK's departure from the EU, Polish migrants are still the largest group fro reside in the UK in recent years.

Top Five Overseas Nationals Resider the UK (estimated thousands



Citizens of Poland, the Republic of I ia, Romania and Italy are the most choose to reside in the UK.

Immigratio nt both threats and opportunities for businesses. It may plac ensure their opportunity and non-discrimination employment policies are migrant population. Businesses can gain from the different experiences and exp working environment.

Businesses have been able to take advantage of the changing population based o and services which relate specifically to the different groups, thus providing the o and profits. Tesco is renowned for ensuring that its branches stock some produc communities in which they are based. Some businesses have set up specialising to certain cultural groups. It should not be assumed that businesses will target ju particular items. As the UK has become exposed to a greater range of products f resulted in people who do not belong to these groups still having the opportunit make them part of their normal purchasing decisions. This is very evident in the

Environmental issues relate to the impact busi es ac y has on environmental involve pollution, depletion or degra n ural resources, including air, wate during production can cause h to t se living within the vicinity of the busines This is deemed to be blematic in developing countries where the legislati occurrence ot as developed as more economically and legislatively estab contribute p ly to the environment in which it operates by creating jobs and remove potential environmental harm. It can also play a part by improving the ph communities in which it is based. Sharing its expertise and understanding on how costs to a minimum with relatively new domestic businesses in developing countri only concerned about their own activities. This can help the business to have a po

Business responses to environmental pressures include:

- using sustainable materials that do not cause harm to the environment
- using recycled materials, which reduces the amount of waste going to landfi
- redesigning products so they are more efficient, use less packaging and materials and have fewer emissions
- training employees to be efficient so fewer errors occur and fewer material are wasted
- investing in research and development so alternatives to natural resources which are running out are developed and can be used in future production
- using their environmental strategies in promotions to enhance the brand im

New businesses have successfully been created based purely on social and envir Body Shop and Ben & Jerry's. Businesses are giving more attention to their envi do so is foolhardy, as not only can a business be subject to prosecution if laws ar its reputation could take a long time to repair. For many years Unilever endured demonstrations arranged by Greenpeace due to its use of palm oil, which was le natural habitat of orangutans being destroyed in Indonesia. BP's oil spill in the G attracted international negative media coverage, but also resulted in USA sales f Taking time to develop environmental products and practices in a society which can provide a unique selling point, which allows a product to be the preferred ch as a significant purchasing criteria, e.g. Toyota Prius – hybrid car.

Technological Change

Technology refers to the creative process which uses human, scientific and materi improve efficiency. Technological change can be evidenced through new products can lead to new business operations and skills being utilised. Technological chang consumers. For example, improved product quality due to enhanced productio added value, which benefits a business due to profit margins rising. Consumers m service more easily, thus saving them time, as they do not have to spend time trav

Technological developments have impacted on **marketing opportunities** in a nu

- **New products** – new markets have been created by technological developm games consoles, satellite navigation systems, computer tablets, MP3s and o these developments have been able to create a unique selling point, which if they are first into the market with such new products. Technological deve and improve existing products, as evidenced with the frequent launch of ne business to be deemed up to date and possibly pushing the technological b competitive advantage. The development of new products can lead to the evidenced with the fall in demand for traditional postal services with the in of communication.
- **Promotion** – the Internet has provided businesses with a means to promot wide audience at a cheaper price than other advertising alternatives. Furth to communicate directly with a customer, not only responding to enquiries promotions unique to them. The technology used within loyalty cards allow consumers and their spending habits, thus permitting them to target individ to them.
- **Consumer shopping and online services** – the development of mobile pho enhancements have made it possible for consumers to shop online 24 hour no longer have to physically visit different retailers or a range of them to fin use of comparison sites to support the latter process. Furthermore, th pay for goods using a mobile phone app reduces the need for them to carry

Technological developments have impacted on **business operations** in a number of ways:

- **Communication** – video conferencing and email has allowed communication to take place between employees and with the business and its suppliers/customers, although they are not physically in the same location. This reduces the need for employees to attend meetings in person leading to lower travel costs.
- **Stock management** – the use of barcodes and a [illegible] system allows a business to know exactly what stock is held at any given moment in a new order of stock for a particular item, when it reaches its reorder level. have to manually count [illegible] stock is held and decide on how much to order suppliers [illegible] to date on the sales pattern of a business, thus allo to pro[illegible]d when. An effective stock control system allows a business to reduce [illegible]age costs and increases profits.
- **Production process** – computer-aided design (CAD), computer-aided manuf all led to significant improvements in the manufacturing process. The speed quickened, whilst production times have been decreased. The use of techno to products being more accurately produced with fewer errors evident. Bus because products are of a higher standard, but with less wastage productio
- **Online business** – the Internet allows consumers to obtain quotes for travel household insurance, for example. The sophistication of the technology dev specific to the customer's needs and if they decide to go ahead with the pur used online to pay. Personalised policy details are forwarded to the custom payment has been processed successfully. This has resulted in insurance fir team, but also speeded up the time involved for consumers to access this p

Technological developments have impacted on the **human resources function** in

- **Working from home** – technological developments have provided the oppo to work from home. Many firms [illegible] this provision, especially if it mean essential to the business [illegible]. This may help to keep the labour t employees they ma[illegible] face-to-face interaction with their colleagues, their [illegible] produced.
- **Trainin**[illegible] introduction of any new technology will require some staff to the short term will increase costs. For some this can actually lead to their ex completely new role having to be undertaken.
- **Redundancies** – as new technology is introduced it could result in redundan industry when production lines and robotics were first introduced. Redunda associated with introducing new technology.
- **Staff resistance** – the introduction of new technology can be met with staff worried about job security or are fearful they will not be able to develop the to trade union involvement, which can delay the decision-making process, b reputation, especially if the media becomes involved.
- **Motivational** – for some employees the introduction of new technology can skills, which improves their chances of promotion, both [illegible] and outside the b motivational levels improving.
- **Job creation** – although the introdu[illegible] new technology can lead to som create a whole new range of jo[illegible] example, although traditional printin engineers who can f[illegible]tain digital printers has created a new indus

How emplo[illegible] to react to new technology will depend on the **business cult** and behavio[illegible]n organisation as a whole or amongst specific groups within it. A what to do and are not informed why decisions are being made or given any say in t result in staff resistance when new technology is introduced. They may not underst impact on them, due to management adopting a role of telling them what is happen discussion with them. If the business has fostered a culture where change is an acce who are welcoming and supportive of this, it can make the introduction of new tech

The **advantages** of technological change are:

- **Improved efficiency and less waste** – more accurate than humans leading t
- **Lower unit costs** – fewer errors and a higher output than humans reduces u
- **Improved competitiveness** – unique features and improved quality can pro
- **Improved consumer goods and services** – the technological change can lea also technology can lead to fewer errors and an improved good or service.

The **disadvantages** of technological change are:

- **Cost implications** – the business ha[illegible] only develop or buy the technol cost implications with re[illegible]ing, redundancies, training, etc. This the business, wh[illegible]able.
- **Emplo[illegible]ployee relations** – staff resistance may occur if they feel t pressu[illegible] learn new skills. The relationship between the employer and real possibility of industrial action occurring.
- **Understanding when and how to respond to technological changes** – the b with the required level of expertise to know whether they should respond t so, how they should respond and when. Consultants could be paid to advis the services obtained will be influenced by the amount the business can aff
- **Teething problems** – not all new technology will work as anticipated straigh transition phase between the new replacing the old. This could lead to outp deteriorating until any problems are resolved.
- **Speed of technological change** – some industries are known for rapid techn difficult for some firms to keep up with this, especially if they are experienc employee skills to develop it accordingly.

The **factors a business will consider when deciding wh[illegible] respond to techn**

- **Finances** – any new technology introduced t[illegible]ss not only has the di the costs associated with training[illegible]taff redundant, financing, etc. A overall cost of the techno[illegible]elation to the sources of finance avail and competitive b[illegible]ected.
- **Comp[illegible]** – [illegible]business will review the technology used by competitors acquir[illegible]y the type they use, if any at all. If existing technology is antic objectives for the long term, there is no need to replace it even if competito technological breakthrough will be patented by competitors, thus preventin invention and placing a duty on them to develop their own, but better.
- **Industry norms** – a business operating in a fast-changing technological mark to conform, as new technology evolves, if this is essential for continuing to mobile phone industry. This can influence production processes, goods or s customer accesses the product.
- **Staff reaction** – the response of employees to any new technology has to b support the process may be delayed and not provide the benefits desired.
- **Transition** – the business has to assess the operational implications, as it in phases out those no longer needed. Its assessment h[illegible] address the pote capacity may fall during this transition phase [illegible] ight cause problems f could increase, along with customer[illegible]rates decreasing. A busine to deal with any teething pr[illegible]erwise not only could output suffer,
- **Compatibility** – an[illegible]ology which is proposed to be introduced ma techn[illegible]firm. New technology which is not compatible with a not be[illegible]onsideration.
- **Forecast data** – the business will consider not only the cost implications of t will provide with regards to expected output, wastage rates, sales, etc. It ha of the forecast data, but be prepared with alternative strategies if the outc higher than predicted.

Any technological change a business considers will be influenced by many factor
will have a significant role to play. They will have to be convinced that the long-t
term costs, if they are to agree to it. If a key manager's support is needed for ch
averse to change, it becomes more difficult for those proposing it to make it hap

Achieving an A grade

A technological advancement is not necessarily adopted by all who it could app
considered in light of the industry and type of product being produced. A mark
renowned for fast-changing technological developments is likely to have busine
fits in with customer expectations and is essential for remaining competitive, e
televisions, etc. Some industries have had few technological developments in r
product and service produced do not require it, e.g. food manufacturing. A good
businesses are influenced by technological change and others are not.

If an essay requires the impact of technological change to be analysed it should
viewpoint, but also that of different stakeholders. Customers may gain through
may lose out by having to pay a premium price, as similar products are not avai

Finally, it is important to examine why some businesses in the same industry w
change and others not. Has the financial position, market understanding and at
management had a part to play in the decisions made?

3.7.6 Questions (Part 1)

1. Explain **one** way a consumer can benefit from technological change.
2. Why might employees resist technological change?
3. HMV was slow to respond to the download music market. Analyse why HM
promptly to the developments in new technology, which allowed consume
new way. (You should write 1–2 A4 sides and you may wish to further rese
decision-making.)

Ethics, the Social Environment and Corporate Social Respo

Business ethics relate to the moral values which influence the conduct and decisi one whose behaviour and decisions are morally correct. This can be very difficul right by one type of stakeholder may not be judged so by another. For example, selling padded bikini tops aimed at girls as young as seven years. It was consider group should be focused on being children rather than being sexualised. This att coverage, eventually resulting in the product being withdrawn from sale, even th

Some of the moral dilemmas faced by businesses include:

- Should charitable donations be reduced as profit margins fall?
- As cigarettes have been linked to illnesses including cancer, should a busine
- Should a business continue to use a supplier who has poor employee workin
- Should a business relocate overseas to reduce costs, even though UK staff w

Attempting to make ethical decisions that satisfy all stakeholders will be difficult expectations and it will be difficult to please all. The business has to balance its what it considers the priority.

Corporate Social Responsibility (CSR) and the Pressures for Socially-responsible Behaviour

Elements of being 'socially responsible', such as paying a minimum wage to emp by governments. Corporate social responsibility is the voluntary practices that b and beyond their legal obligations. CSR refers to not only *what* a business choos it makes them. It addresses how companies deal with their social, economic and as the effect it has on stakeholders, including customers, suppliers and local com business acknowledging through its words and actions that it has a duty to these goes beyond what is required by the law.

Implementing CSR should provide benefits to both society and businesses. **Socie**

- **employees** have access to training which allows them to acquire new skills, not be discriminated against, work in a safe environment and have social ev
- **supplie**rs are paid a fair price for their raw materials and components, are p training to improve their own working conditions and do not have contracts
- **customers** receive safe products, which match the description provided. Th coerced into buying and receive good aftersales care.
- the **local community** benefits from jobs being created, local suppliers receiv congestion are kept to a minimum, while management provides time to sup funds to them

CSR strategies can be adopted for a number of reasons:

- CSR underpins the core business values – The Co-operative and The Body Sh
- operating costs are reduced through improved efficiency – Toyota Productio
- fulfilling consumer expectations – car manufacturing industry
- rivals are adopting CSR strategies
- positive brand image – Cadbury sourcing cocoa from Fairtrade farmers in Gh
- differentiation – Ben & Jerry's
- attract and retain the best employees
- a positive reputation among the local community which might make it easie future plans

[10] source: **http://www.guardian.co.uk/business/2010/apr/14/primark-children-padded-bikini-to**

Advantages of CSR:

- **Easier to recruit and retain staff** – a business that is known for making th relation to the environment, society and its stakeholders, including empl new staff and will have a low labour turnover rate. This helps to keep re
- **Improved employee motivation** – ethical businesses are believed to hav dedicated and supportive of the business activities than those that are n efforts, thus leading to high levels of productivity, quality and efficiency.
- **Positive brand image** – making the right moral decisions can help differe luxury ice cream is renowned not just for its quality, but also the good ca the brand owner as one which has genuine care about the communities than just profit seeking. This will appeal to consumers who wish to purch
- **Competitive advantage** – consumers are now able to find out more abou they buy, especially with the use of the Internet and the requirement for corporate social report. A business that is known for making decisions w environment and/or society could face a fall in demand, as consumers sw their environmental and social expectations. A business which meets the advantage over those which do not, which should lead to increased sales

Disadvantages of CSR:

- **Costs** – business costs can increase, as a decision might be made to use a they provide recyclable materials which are less damaging to the environ work alongside suppliers to help them adopt more ethical practices, but doing so increases costs. Production changes, in terms of machinery and efficiency levels and reduce waste will increase costs in the short term. T financial benefits of these strategies in the short term, but should in the the cost savings generated through efficiency improvements.
- **Lost sales** – The Co-operative Bank will not deal with businesses that prod weapons, such as cluster bombs, or with poor records on labour rights. Th losing revenue, but it might in fact gain by attracting consumers who w
- **Conflict** – any ethical decision which compromises the profits of the busine shareholders who do not agree with it. The extent to which an ethical ap influenced by the amount of power shareholders have over this. Balancin not easy, as they have different expectations and this can lead to conflict the business.

Making **ethical decisions influences all areas of business activity**:

- **Promotion** – ethical policies used by a business can form part of its promoti brand and differentiates it from others.
- **New product development** – a business may develop products to fit in with consumers, e.g. The Body Shop, Toyota's Prius.
- **Production** – new production techniques may be used to improve efficiency
- **Pricing** – a business may choose to price products based on what is reasona as high as the market allows.
- **Human resources** – staff will be trained so ethical standards can be met, bu decision-making where possible, so they feel their views are given considera
- **Financial** – businesses will seek to pay suppliers within a reasonable amount o as possible. This is very important for small suppliers whose cash flow can be who do not pay promptly. This is a particular problem between some superm

The extent to which a business will adopt CSR strategies will depend on many fa customer expectations, the extent to which it is scrutinised by the public and thr requirements are not complied with will influence the final decision.

Achieving an A grade

Reports can be very accurate with regards to ethical and unethical business prac
present an incomplete view, which leads the reader to a conclusion which may b
all the facts were available. Ensure you analyse all the relevant data and informa
conclusion, otherwise there is the possibility your judgement does not consider
example, it may be tempting to judge a multinational as unethical, if it pays muc
country to that of a developed country. However, some reports often do not hig
different to the UK, thus the wage received might allow a good standard of living

Remember a business has different stakeholders to satisfy, so what one group m
may not. A good evaluation does not just believe a business decision is ethical or uneth
range of viewpoints and the circumstances which influenced it before reaching a

Lastly, keep in mind that two businesses could be faced with similar circumsta
strategies. Does this mean that one is more ethical than the other? Analyse the
influenced the decisions reached and why one or more may have had a strong
and not the other.

Shareholder v Stakeholder Approach

The divide between profit-based (shareholder) objectives and wider (shareholde
of interest for a business.

A business that focuses solely on shareholder expectations is taking a **sharehold**
the business is run purely for the benefit of its owners and any decisions made a
the best return on their investment. The business adopts strategies which maxi
value, even if it may be to the detriment of other stakeholders.

The shareholder approach may be considered outdated as certain stakeholder g
requiring the business to give them greater consideration in decisions made. As
their consumer rights through television programmes and the Internet, business
expectations cannot be ignored without serious consideration. Furthermore, the Co
on directors to balance the interests of all stakeholders in the decisions underta
business that attempts to satisfy all stakeholder needs is demonstrating the **stak**

A business may choose at times to focus on the needs of one particular stakeho
This is known as the **win–lose approach**. Focusing on the needs of one type of s
detriment of another. For example, the Toyota accelerator pedal crisis, resulted
fatalities due to the accelerator pedal sticking whilst cars were being driven. To
the expectations of consumers who wanted to be driving safe cars. Some mode
problem, which added to the costs of the business. Suppliers may have been pu
components at the required standard, as this was the origin of the problem. Sh
to higher operational costs, resulting in a lower dividend allocation, if profits we
business had not acted to deal with the problem its corporate image may have b
both suppliers and shareholders affected, if the continuity of the business was th

More examples of stakeholder conflict include:

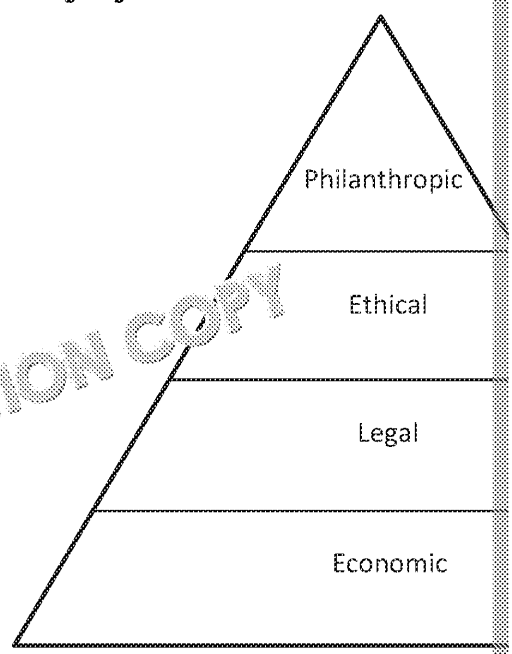
- **Management vs Employees:** the management of the company wishes to ge
company by producing more goods, while the employees are not prepared t
salaries improve
- **Government vs Owners:** new sustainability legislation means that a compa
equipment in order to reduce its levels of carbon dioxide. While important
expenditure eats into the potential profits of the company.
- **Suppliers vs Banks:** this conflict occurs as the business needs to keep a posi
but also make large payments to its suppliers – if raw materials are not paid
have less flexibility in setting future payment deadlines, or it will have fewe
in bulk.

A business that attempts to balance the needs of all stakeholders is demonstrati principle all should benefit eventually. A business taking time to work with suppl increases costs, which possibly could reduce profits and dividend allocations in th The products produced by the business will improve due to the suppliers meeting enhances the reputation of the business which could lead to higher sales and pro they are allocated a proportion of these in a profit sharing scheme, whilst shareh dividend allocation. Suppliers obtain repeat business due to their reliability. The confident of job security in the region with the potential employment opportu government benefits, as the business is working positively alongside suppliers to include complying with legislation and reducing emissions. In the short term it m does not satisfy all stakeholders but in the medium to long term each one benef

Achieving an A grade
When considering stakeholders how realistic is it that all stakeholders can be sa medium to long term? Does the business need to satisfy the needs of all stakeh

Carroll's Corporate Responsibility Pyramid

Archie B Carroll created his CSR pyramid in 1991. The pyramid shows the four key responsibilities in order of importance for a business to meet.



Legal responsibilities, for instance, which involve following the letter of the law, cannot be viable until the company is economically viable, i.e. costs are covered by the company's revenues. Ethics (i.e. making a greater effort than that which the law requires) cannot be put into practice until legal responsibilities are met, while firms cannot enter philanthropy until their ethical, legal and economic responsibilities are met. An example of philanthropy can be seen in McDonald's, a company that invests in the UK's grassroots football, ensuring that more children have a chance at kee Naturally, many commentators consider the products that McDonald's offers chi sceptical of the company funding such philanthropic schemes.

3.7.6 Questions (Part 2)

Please write your answers on a separate piece of paper or in an exercise book.

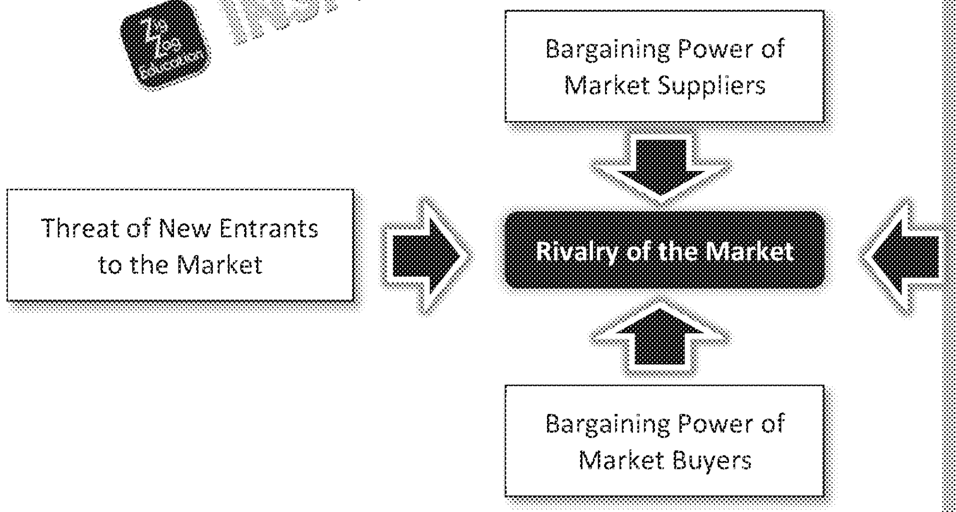
4. Describe two strategies a manufacturing business could adopt to be more co
5. Evaluate the extent to which a business's decision to use Fairtrade cocoa in i was because they wanted to be more corporately socially responsible. (Yo sides and you may wish to research Cadbury's decision further.)

3.7.7. Analysing the External Environment to Asse Threats: the Competitive Environment

Porter's Five Forces and Shaping Competitive Strategy

Michael Porter describes the competitiveness (rivalry) of a market as determined

The structure of a dynamic market is constantly changing and so, in order to achi have good information on every external factor. This way, businesses can react a competitive strategy) whenever a change occurs.



Porter's Five Forces

New Entrants

Firms that already exist within the market need their goods to be at the right qua compete should a new competitor enter the market. Likewise, businesses work o unique selling points (USPs) of their products in order to stand out from the crow

Businesses look at *barriers to entry* when deciding whether to join a market; howev existing firms. A market with high barriers to entry (e.g. the telecommunications m amounts of infrastructure) can benefit already-existing businesses, which have a lot goods. If a big business decides to enter the market, the already-existing firms coul in order to prevent this loss, draw up exclusive agreements with suppliers in order t

Substitutes

These are the alternative products/services that a consumer might want to buy in The Mars bar, for example, is in direct competition with the Toffee Crisp (i.e. it is a for the Mars bar could be an orange, as it is still considered a snack food though is better than!) the Mars bar. A substitute for a physical book might be an eBook re

The power of substitutes will depend on many elements, including *price*, *percept* If an orange is cheaper, more convenient and perceived to be a better buy than t start to move away from the product. It will then cost the company a lot in time, activities if they decide to try to win back their market.

Buyer Power

If a market has many producers but only a few consumers, the buyers have a lot are many consumers and few producers, buyer power is much less significant. In every third store was a barbershop, the consumers would probably benefit becau competing on price and quality. If there was only one barbershop, however, the as consumers would have no choice but to buy from them.

Consumers that buy in super bulk have significant power too. Take a cow farm (e.g. a large supermarket chain) purchases most of the farm's milk, the farm bec consumer. The farm now has a regular buyer (the supermarket) but that buyer h to commanding price reductions and changes in quality.

Changes in technology give more power to the consumer and seller, too. While banners and promoted placement on search engines such as Google, consumers right at their fingertips. If a consumer wishes to know the price of a good in orde shop price is fair, it does not take too much searching online to find out.

Supplier Power

When there are many suppliers to a market, the power that each one has over th however, the source of goods/services is focused to a select few suppliers, those the market. Suppliers in this position can heavily influence prices and standards control over supply is to collude with other businesses in order to decide what to practice is illegal in most of the developed world, though can still occur (especiall

Microsoft is a good example of how a supplier can gain control over the market. may not have the most up-to-date image anymore, the business is still responsib systems used worldwide (i.e. Windows). As such, the power that Microsoft has o

Rivalry

The type of competition (rivalry) sets the tone for everything else. If a monopoly suppliers can lose out significantly through lack of bargaining power. Oligopolies the form of price; Porter insists on the importance of a business differen oligopoly, e.g. internet service provider market, this might involve businesse deals to potential customers.

3.7.7. Questions

Please write your answers on a separate piece of paper or in an exercise boo

1. What barriers to entry exist in the print newspaper market?
2. How might the threat of substitutes affect the traditional newspaper mark

3.7.8. Analysing Strategic Options: Investment Ap

Financial Methods of Assessing and Investment

Businesses use investment appraisal techniques to answer two key questions:

- If we make an investment, how long will it take to get the money back?
- If we make an investment, how profitable will it be?

Essentially, firms are analysing how beneficial it would be to make a particular in the *investment*.

There are three main methods to answer these questions, namely *simple paybac* *present val* Each method gives businesses different bits of information to hel should invest in something or keep their money in the bank.

All three methods of investment appraisal start with a *cash flow table*. The follo

Year	Cash in (£000s)	Cash out (£000s)	Net cash flow (£000s)
Present	-------	36	(36)
Year 1	24	12	12
Year 2	24	12	12
Year 3	24	12	12
Year 4	24	12	12
Year 5	24	12	12
Year 6	24	12	12

The table shows that a business plans to buy a machine costing £36,000. The ma will help the business earn £24,000 per year. However, it will cost the business £ for a net cash flow of £12,000 per year.

Simple Payback

This method of appraisal focuses on the time it takes for a company to *get its mo*

$$\text{Payback} = \frac{\text{Sum invested}}{\text{Net cash per time period}}$$

In the case of the company in the previous table, we can quickly calculate payba

$$\text{Payback} = \frac{\text{36000 invested}}{\text{12000 per year}}$$

$$\textbf{Payback = 3 years}$$

We could already see this answer from the table above. The calculation is quicke precise – this is useful when there is no exact year at which the investment was s

Let's use another example:

Year	Cash in (£000s)	Cash out (£000s)	Net cash flow (£000s)
Present	—	45	(45)
Year 1	24	12	12
Year 2	24	12	12
Year 3	24	12	12
Year 4	24	12	12
Year 5	24	12	12
Year 6	24	12	12

The investm[illegible]ov[illegible]5,000 while the net cash flow is the same. The tabl
be able to [illegible]its investment somewhere between year three and year four –

By year three, the company still owes £9,000. We can use this figure as the sum
across the twelve months of the year to see when exactly the company paid bac

$$\text{Payback} = \frac{\text{Sum invested}}{\text{Net cash per time period}}$$

$$\text{Payback} = \frac{9000 \text{ from year 3}}{12000 \text{ over 12 months}}$$

$$\text{Payback} = \frac{9000}{12000/12}$$

$$\text{Payback} = \frac{9000}{1000}$$

$$\text{Payback} = 9$$

Payback = 3 years and 9 months

Interpretations of Simple Payback

Simple payback benefits businesses as the calculations show them how long thei
the money is at risk as opposed to being kept in the bank, earning interest.

Business owners often look for the shortest payback period possible with investm
at play) and so simple payback can be very useful when comparing two or more
investment takes the least amount of time to pay back will be the one managem
owners may also compare investments based on how much the company stands
simple payback can show.

Limitations of Simple Payback

Showing a business the length of time it takes for payback [illegible]xtremely useful, bu
with this method of appraisal:

- This is not a definite estimate: some[illegible]o[illegible]xes even) may increase mor
- If management of a busin[illegible]s t[illegible]cused on the short-term aspects of pay benefits of long-te[illegible]
- This m[illegible]on[illegible]focuses on payback, not profitability, and so a business ca investm[illegible]pportunities

Average (Accounting) Rate of Return

While payback looks at the timing of cash flow, average rate of return (ARR) focu the average annual return (from an investment) with the amount of money inves

ARR is calculated in the following manner:

$$\text{Average Rate of Return} = \frac{\text{Average Annual Return}}{\text{Initial Outlay}} \times 1$$

To get to this calculation, a business [illegible] a couple of others:

1. $\text{Total profit over lifetime of investment} = \text{Total net cash flows} - \text{Investment outl}$

2. $\text{Average annual return} = \dfrac{\text{Total profit over lifetime of investment}}{\text{Number of years of the investment project}}$

3. $\text{Average rate of return} = \dfrac{\text{Average Annual Return}}{\text{Initial Outlay}} \times 100$

Let's use an example:

A business wishes to make an investment of £35,000 over a five-year period. Th *initial outlay.*

The table below shows the business's cash flows over the next five years.

Time Period	Net Cash Flow (£000s)	Cumulative C
Year 0	(35)	[illegible]
Year 1	9	[illegible]
Year 2	9	[illegible]
Year 3	1[illegible]	[illegible]
Year 4	12	[illegible]
Year 5	9	[illegible]

The total n[illegible] flow for the business will be £51,000, which leads to a total pr of the inves[illegible]:

We can use these figures, plus the initial outlay of £35,000, to calculate the ARR:

1. $\text{Total profit over lifetime of investment} = \text{Total net cash flows} - \text{In}$

$$\text{Total profit over lifetime of investment} = 51000 - 35$$

$$\textbf{Total profit over lifetime of investment} = \textbf{£16,000}$$

2. $\text{Average annual return} = \dfrac{\text{Total profit over lifetime of inve}}{\text{Number of years of the investme}}$

$$\text{Average annual return} = \frac{16000}{5 \text{ years}}$$

$$\text{Average annual return} = \frac{16000}{5 \text{ years}}$$

$$\textbf{Average annual return} = \textbf{£3,200}$$

3.

$$\text{Average Rate of Return} = \frac{\text{Average Annual Return}}{\text{Initial Outlay}} \times 1$$

$$\text{Average Rate of Return} = \frac{3200}{35000} \times 100$$

$$\text{Average Rate of Return} = \frac{3200}{35000} \times 100$$

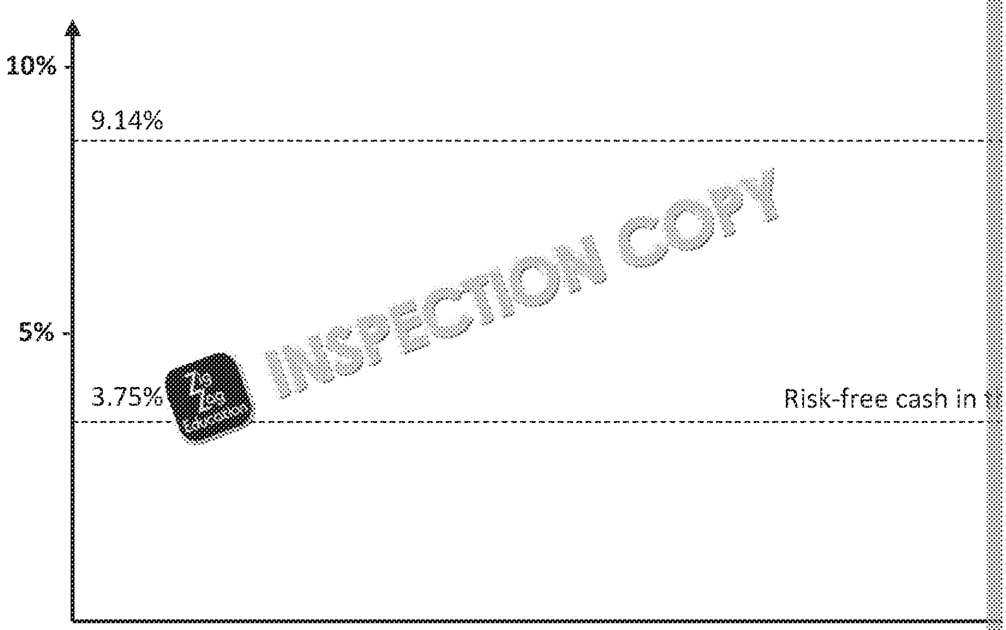
Average Rate of Return = 9.14 per cent (to 2 dp)

This set of calculations shows the profitability of the business's investment s
compared with the £35,000 that it originally invested.

Interpretations of Average Rate of Return

Companies using ARR can take advantage of many benefits, including:

- Setting targets for profitability: if a business decides it will only take on invest cent profitability or more, it will know not to invest in the example above
- It is easy to compare two or more opportunities on the basis of which stands
- If there is only one opportunity available, the business can compare the rewa the money in the bank. The graph below shows an example:



Graph: Example of reward for investment risk

The example in the graph shows that a business stands to make 3.75 per cent in in the bank. If the business decides to take the investment, however, it will not so, if the reward for risk (i.e. making the investment) is 9.14 per cent, the busine interest of 3.75 to show the true reward of its investment.

True reward of investment = ARR – Potential bank int

True reward of investment = 9.14 – 3.75

True reward of investment = 5.39 per cent

The higher the potential interest rate, the lower the true reward and, therefore, t
appears to a business.

> **It Pays to be Big**
> Small businesses are less likely to make investments where the rewards are sm
> risk. Big businesses, on the other hand, can afford to take these risks because t
> place (and money behind them) to better cover these costs.

Limitations of Average Rate of Return

Some of the drawbacks that businesses find with ARR include:

- The method has a narrow focus as it only looks at overall profitability.
- ARR ignores the timings for when cash flows, i.e. the method does not tell bu
  the most/least profitable. This can hinder other forecasts, such as planning w

Net Present Value

Discounted Cash Flow

While payback only looks at timings and average rate of return only looks at prof
takes both of these factors into consideration. Businesses achieve this by focusin
their investments, i.e. what (or how much) they are giving up by deciding to mak

In the case of discounted cash flow, businesses are giving up the interest rate tha
keeping their cash in the bank. This means that a business's money is worth mo
of money in three years' time. If interest rates were at 7 per cent, for example, a
worth 7 per cent less every year that it is not earning interest in the bank.

Businesses use discount factors to work out how much their money would be wor
discount factors, businesses need to know how many years the investment will las

Year	3%	5%	7%	9%
[illegible]	1.00	1.00	1.00	1.00
1	0.97	0.95	0.93	0.92
2	0.94	0.91	0.87	0.84
3	0.92	0.86	0.82	0.77
4	0.89	0.82	0.76	0.71
5	0.86	0.78	0.71	0.65
6	0.84	0.75	0.67	0.60

Table: Discount Factors

If a business is looking to make a four-year investment, for instance, and the rate
discount factor would be 0.66. The business can then calculate the value of, say,

Present Value over time = Cash flow x Discount Fact

Present Value after four years = 1,000 x 0.66

Present Value after four years = **£660**

The present value calculation shows that the company's cash of £1,000 would ha
time. This is the *opportunity cost* of not keeping the cash in the bank, i.e. of failin

Net Present Value

Present value is useful to a business, but it is only one value. What businesses re
value affects them over time. Net present value (NPV) allows businesses to com
involve the same investment.

Let's use two examples: Project Alpha and Project Gamma. Both projects requir
£700,000 and both earn the same amount of revenue over time. The projects al
7 per cent. However, their cash flows are different. Project Alpha earns more re
while Project Gamma earns more towards the end.

Project Alpha				P	
Year	Cash Flow	Factor	Present Value	Year	Cash Flow
0	(£700,000)	1.00	(£700,000)	0	(£700,000)
1	£430,000	0.93	£401,869	1	£10,000
2	£275,000	0.87	£240,196	2	£25,000
3	£10,000	0.82	£8,163	3	£17,500
4	£160,000	0.76	£122,063	4	£275,000
5	£25,000	0.71	£17,825	5	£160,000
6	£17,500	0.67	£11,661	6	£430,000
Net Present Value			**£101,777**	Net Present V	

Table: NPV Comparison between Project Alpha and Proje

The two tables show that, even though both projects cost the same in initial inve
amount over time, Project Gamma has a lower NPV. This is because the discoun
the company's cash over time: since Project Gamma doesn't earn the majority o
time period, its earnings are worth less than those of Project Alpha.

Interpretations of Net Present Value

Companies can keep close track of the timings of their cash flows and the value o
to its present value.

Businesses like to use NPV because it is a handy 'what if?' calculator. A firm can
their investments based on various factors, such as:

- time period of investment
- differing interest rates
- differing amounts of initial investment
- differing structures of cash flow

Limitations of Net Present Value

Even with its advantages over payback and ARR, this method is still not the be-al
problems, such as:

- two or more projects can only be compared if their initial investments are th
- NPV can be very difficult to calculate
- the method can also be very difficult to grasp and, therefore, communicate

Limitations of Investment Appraisal in General

As we have seen, each method of investment appraisal has its own benefits and d
limitations span across investment appraisal in general, such as:

- it can take much time to gather the information required for investment ap
  deciding whether an investment is too expensive is an expensive process in
- there are many unforeseen costs and taxes that occur in business, which inv
  not consider
- much of investment appraisal can be difficult to understand (and, therefore,
  benefits and drawbacks of certain opportunities are often missed
- business owners and managers often look to the short-term benefits of an i
  investment with the least risk being the one chosen. However, this narrow f
  long-term potential of an investment.
- by putting a figure on every risk, business owners can lose sight of the rewa
  first place

Factors Influencing Investment Decisions

Qualitative Influences

These are the stories behind the numbers and refer to quality of information. Ta
business. You have £10 million that you would like to invest in a film. You would
good return on your investment. You could earn £1.2 million in a savings accoun
maximise you money?

Perhaps you would like to invest in a film:

Avatar	£91m
Titanic	£88m
Lord of the Rings	£76m
Jaws	£70m
The Full Monty	£68m
Star Wars	£66m
Grease	£60m
Toy Story 2	£55m
ET	£55m

These are the UK takings alone – not including the rest of the world. Of course t
you might lose your initial investment; for example, in 2011 Uma Thurman's mov
its first weekend in the UK despite costing over $5 million to make. It just proves
sure investment, all will carry an element of risk or uncertainty.

Quantitative Factors

These are the numbers behind the stories. There are many influences of numeri
Against a backdrop of weak consumer confidence, very competitive markets and
businesses need to make decisions that will affect the financial future and health

Your job in an exam is to make a calculation and then discuss the results as you
involve looking at more than one table to gather information for analysis. For ex
absenteeism information may be on two different tables and you may need to ma
you can get to your final result. Much like a logic problem you have to look for t
together. You will be expected to recommend a decision the case study compan
fence. Imagine you have to face the finance director tomorrow in a meeting and
Before you meet him/her face to face you better make sure a) your numbers are
reasons to back up your decision.

3.7.8 Questions

Knead More plc is a bakery trading across the UK through a variety of retail
Against a backdrop of bread profit margins being squeezed due to rising wh
considering its options. They would like to increase efficiency rather than in
are looking to also improve their green credentials. They have three choice

Project A: Investment in more efficient ovens – this would give cost savin

Project B: Investment in more aerodynamic vehicles – this would increase
costs and fossil fuel used.

Project C: Investment in a new factory building at the Glasgow plant, whi
efficient b... production line – this is to replace old equipmen

Project A: New Ovens

Initial Investment £9m	Cash In	Cash Out
Year 1	3.0	2.0
Year 2	5.2	2.2
Year 3	5.6	2.3
Year 4	5.8	2.6
		Profit to

Project B: Aerodynamic Vehicles

Initial Investment £6m	Cash In	Cash Out
Year 1	[illegible].3	1.2
Year 2	3.2	1.0
Year 3	3.3	1.0
Year 4	3.5	1.0
		Profit to

Project C: New Factory Building

Initial Investment £15m	Cash In	Cash Out
Year 1	4.2	1.5
Year 2	7.5	2.0
Year 3	8.9	2.2
Year 4	8.9	2.5
		Profit to

Using [illegible] calculate the ARR of each project and analyse your results.

Answers

3.7.1

1. a. Full-page spread in a magazine is tactical because it is a short-term move t more exposure.
   b. Appraisal of customer service is a strategic decision because the company processes are at a standard that encourages repe ness from consume
   c. Cross-promotional partnership is tactical is a temporary measu more customers. However, once thi rt ship is over, those customers

2. A mission statement co the business values to key stakeholders, it c employee commi

3. A missi ment can be a good public relations exercise, which makes the b Furtherm e, if rivals have a mission statement the business may believe it is at

4. Students should show understanding of internal and external influences and wh operational objectives. Examples may include:
   1. Communication: all teams need to be kept updated if the company is to bri
   2. Competitors: these companies may bring down costs further or even raise Comfy Bottoms Ltd as a cheap, low-value alternative
   3. Unforeseen circumstances: the company's supply may suddenly be cut off
   4. Operations Director: this person may prefer to offer ethical products at the

5. For strengths, students might mention profitability, quality, reputation, location For weaknesses, students might mention staff turnover, reputation and location

6. • Another strength might be the reputation that Royal Mail has built as a tru
   • Another weakness might be the fact that it has so physical locations customers access the services online.
   • Another opportunity might be the c tegration of technology wit
   • Another threat might be ri s, such as FedEx and DPD, which a

3.7.2

1. a. Co les excludes any of a business's expenses, instead focusing only o opening stock plus purchases and its closing stock.
   b. Current assets are assets that have been with a business for less than a yea

2. a. The supplier may wish to see either the statement of financial position or t income.
   b. The supplier may wish to see the statement of financial position in order t liquidity of Pies 'n' Chips Ltd. The supplier will want to know whether Pie capital to convert into cash when necessary and that the company is not b financial commitments.

3. a. Gearing ratio shows how much of a company's finances are funded by long
   b. ROCE (return on capital employed) shows the profitability of an investor's

4. a.

$$\text{G} \quad \text{tio (GR)} = \frac{\text{Non-current liabilities}}{\text{Capital employed}}$$

$$\text{GR for Tomfoolery International Ltd} = \frac{123{,}00}{237{,}00}$$

$$\text{GR for Tomfoolery International Ltd} = 51.90\%$$

   b. With a gearing ratio of 51.90%, Tomfoolery International Ltd is highly gea position. The company's leadership needs to consider its expenditure in o on external funding, such as bank loans.

3.7.3

1. Short-term objectives usually reflect the circumstances which a business finds i… objectives are based on where it wishes to be in the future.

2. The functional areas of Marks and Spencer could set their objectives as follows:
   a. Marketing objectives – increase its product range, improves product differ… awareness of in-store products and increase online sales.
   b. Operations objectives – increase capacity and flex[illegible].
   c. Human relations objectives – improve the [illegible] level, skills and product k… ranges.
   d. Finance objective – incre[illegible] funds available by 5% to support the achie…

3.7.4

1. Govern[illegible] intervention can include providing goods and services, subsidies, t… and regulations and implementing economic policies.

2. Answers may include negative impacts which mainly centre on increased costs… Students may also write about positive impacts such as: sustainable environme… stability for businesses that rely on specific resources, such as the lobster examp… stakeholders such as employees and the local community who have environmen…

3. a. Improved living standards; reduction in poverty; more disposable income… markets; could lead to improved motivation and productivity.
   b. Increases operating costs, competitiveness could suffer (especially when c… to price inflation as higher costs are passed onto consumers.

4. Advantage – strengthens reputation/brand, easier to attract and retain employe… lower and it is unlikely the business will face prosecution and fines. Disadvanta… implementing new legislation.

3.7.5

1. A growing economy puts pressure on the supplies of goods and services, which… Business costs will [illegible] as suppliers start to charge more, which may reduc… to pass [illegible] onto consumers in higher prices, if they sell a price-elastic product. … wage c[illegible], as their spending power is being reduced if prices are increasin… busines[illegible]ts.

2. During positive economic growth a business may expand into new markets, dev… actively seek new investment opportunities.

3. A non-necessity item is not required for a person to survive. It is presumed to b… interest rates reduces the cost of borrowing and possibly could encourage highe… items, as these become more affordable either due to the cost of financing for su… because consumers now have a higher level of disposable income.

4. An increase in interest rates increases the cost of borrowing. If a business has a… interest this leads to the cost of borrowing increasing, which reduces its profit m… known for having enormous stocks of cash so would benefit from higher interes… who have any borrowings could have a lower level of disposable income, if a gre… go towards covering the costs of their debts. This [illegible] to the demand for A… become less affordable. However, due to its st[illegible] brand image consumers ma… product and decide to reduce their [illegible] on other items.

5. Monetary policy aim[illegible] the economic activity of a country through co… interest [illegible], e[illegible] rates and credit available within the country. Fiscal po… activit[illegible] government spending and taxation.

6. Reduce taxes – increased disposable income leading to consumer spending powe… higher level of demand. Reducing corporation tax leads to businesses paying less… This improves their profit margins and may encourage them to go ahead with pro… increasing the demand for industrial goods and services, as well requiring more e… spending – this leads to greater demand for goods and services, as well as employ…

3.7.6

1. Improved features, reliability, quality, distribution networks, standards of living becomes more efficient through the use of technology.

2. Employees may resist the introduction of new technology, as they do not unders They may not have been involved in the decision-making process regarding this technology because they are fearful they cannot develop the required skills or th

3. Complacency – believing its brand image was str[illegible] to maintain deman market effectively to understand the thre[illegible] the business, if it did not funds to develop and implement [illegible] strategy in a timely manner. It ma who lacked the required s[illegible] to [illegible] the business, as the market changed arou

4. Recycl[illegible] for the future, changing processes to reduce the CO2 pro

5. CSR – pa[illegible] its ethos. In the nineteenth century Cadbury provided housing for is part of its core value system, as it has always been concerned about the comm always attempted to make a positive contribution to them. Other reason – Fairt Chocolate, has become very successful. Using Fairtrade cocoa allows Cadbury t especially at a time when this market continues to grow. If major rivals like Nes never be able to recover any market share it loses, if it was not the first one to a market leaders. It also promotes the business in a positive light, which can help attracting and retaining customers and employees. This can be a way to bring D increasing sales. The extent to which this strategy is based on CSR will depend o business and its mission statement. It might be part of its usual CSR strategies as values, like Innocent Drinks.

3.7.7

1. Barriers which may stop new competitors arising in the print newspaper marke
   - The high costs of printing, distributing and advertis[illegible] e very first edition
   - Regulations which newspapers must abide b[illegible] ng copyright and libel l that might put off venture capitalists [illegible] in a start-up paper.
   - Arguably, brand name and lo[illegible] ar[illegible] strong in this market, with many one title, to the point [illegible] it every day and having a distaste for any oth

2. Tradit[illegible] papers face threats from all kinds of substitutes, mostly a In the d[illegible] ge, news is delivered through a variety of forms including website such as smartphones and tablet computers. The low barriers to entering digital substitutes (indirect competitors) abound. Not only are there articles online th people are getting news delivered in snippets on social media or through Googl podcasts. Online games and cartoon strips are also a substitute for the puzzles With low costs and high competition, the digital market is offering an array of p substitutes for newspapers, and often free or cheap, although very often of lowe offers cheap and effective forms of advertising, which will impact on newspaper response, newspapers may be forced to adapt – to cut costs, emphasise their US professional journalism, or take the leap into the digital market and out of print

3.7.8

Project A: New Ovens

Initial Investment £9m	Cash In	Cash Out	Profit
Year 1	3.0	2.0	1.0
Year 2	5.2	2.2	3.0
Year 3	5.6	2.3	3.3
Year 4	5.8	2.6	3.2
		Profit total	**10.5**

Project B: Aerody

Initial Investment £6m
Year 1
Year 2
Year 3
Year 4

Project C: New Factory Building

Initial Investment £15m	Cash In	Cash Out	Profit
Year 1	4.2	1.5	2.7
Year 2	7.5	2.0	5.5
Year 3	8.9	2.2	6.7
Year 4	8.9	2.5	6.4
		Profit total	**21.3**

$$\text{ARR} = \text{Total cash return} - \text{Initial cost} = X$$

$$\frac{X}{\text{no. of years}} = Y$$

$$\frac{Y}{\text{initial cost} \times 100} = \text{ARR}\%$$

Project A: New Ovens

Total profit (cash return) = 10.5
Initial cost = 9
Number of years = 4

10.5 – 9 = 1.5
1.5 / 4 = 0.375
0.375 / 9 × 100 = 4.16%

Project B: Aerodyna

Total profit (cash ret
8.1
Initial cost = 6
Number of years = 4

Project C: New Factory Building

Total profit (cash return) = 21.3
Initial cost = 15
Number of years = 4

21.3 – 15 = 6.3
6.3/4 = 1.575
1.575 / 15 × 100 = 10.5%

Answers (AO1 and AO3) might include:

You would recommend Project C because it has the highest ARR percentage. How what else could be done with the money – could higher returns be found elsewhe interest rate at a bank savings account is 12% then none of these projects should basis. So finally, consider other objectives. If you were to select which one best m efficiency and improving green credentials) with the highest ARR then you should

Going for the A grade:

You need to show your examiner all the workings out in the box to get the full final answer is not enough. Make sure your workings are neat; take time to get still score marks if you do not get the final answer and you can also score for go