



Exploring Business 1

Getting to know your unit

Assessment

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

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

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

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

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

How you will be assessed

This unit will be assessed by a maximum of three internally assessed tasks set by your tutor. Throughout this unit, you will find assessment activities to help you work towards your assignment. Completing them will mean that you have undertaken useful research and preparation, which will be relevant when it comes to your final assignment.

To achieve the tasks in your assignment, check that you have met all the Pass grading criteria. These criteria require clear explanations in your own words, for example describing how contrasting businesses operate. Check against the criteria as you work your way through your assignment. To gain a Merit or Distinction, you should make sure that you present the information in your assignment in the style required by the relevant assessment criterion. For example, Merit criteria require you to analyse and discuss relationships, effects of business environments and changes to businesses in response to market forces. Distinction criteria require you to assess, evaluate and justify your conclusions and make convincing assumptions about future business changes which may be required.

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

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

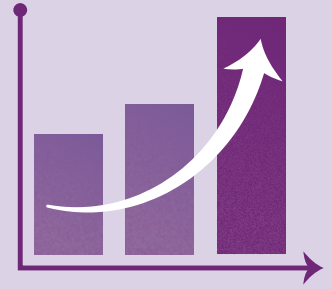
Assessment criteria

This table shows you what you must do in order to achieve a **Pass**, **Merit** or **Distinction** grade, and where you can find activities to help you.

Pass	Merit	Distinction
Learning aim A Explore the features of different businesses and what makes them successful		
A.P1 Explain the features of two contrasting businesses. Assessment activity 1.1 and Assessment practice 1.2	A.M1 Assess the relationship and communication with stakeholders of two contrasting businesses using independent research. Assessment practice 1.1	AB.D1 Evaluate the reasons for the success of two contrasting businesses, reflecting on evidence gathered. Assessment practice 1.1 and Assessment practice 1.2
A.P2 Explain how two contrasting businesses are influenced by stakeholders. Assessment practice 1.1		
Learning aim B Investigate how businesses are organised		
B.P3 Explore the organisation structures, aims and objectives of two contrasting businesses. Assessment practice 1.1	B.M2 Analyse how the structures of two contrasting businesses allow each to achieve its aims and objectives. Assessment practice 1.1	
Learning aim C Examine the environment in which businesses operate		
C.P4 Discuss the internal, external and competitive environment on a given business. Assessment practice 1.2	C.M3 Assess the effects of the business environment on a given business. Assessment practice 1.2	C.D2 Evaluate the extent to which the business environment affects a given business, using a variety of situational analysis techniques. Assessment practice 1.2
C.P5 Select a variety of techniques to undertake a situational analysis of a given business. Assessment practice 1.2		
Learning aim D Examine business markets		
D.P6 Explore how the market structure and influences on supply and demand affect the pricing and output decisions for a given business. Assessment practice 1.3	D.M4 Assess how a given business has responded to changes on the market. Assessment practice 1.3	D.D3 Evaluate how changes in the market have impacted on a given business and how this business may react to future changes. Assessment practice 1.3
Learning aim E Investigate the role and contribution of innovation and enterprise to business success		
E.P7 Explore how innovation and enterprise contribute to the success of business. Assessment practice 1.3	E.M5 Analyse how successful the use of innovation and enterprise has been for a given business. Assessment practice 1.3	E.D4 Justify the use of innovation and enterprise for a business in relation to its changing market and environment. Assessment practice 1.3

Getting started

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



A

Explore the features of different businesses and analyse what makes them successful

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

Features of businesses

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

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

Ownership and liability

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

Private

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

- ▶ Virgin
- ▶ Toys "R" Us
- ▶ Mars
- ▶ Tesco.

Public

Public businesses which are identified as belonging to the public sector are owned by the government. These types of businesses may have been set up by the government or subsequently bought by the government from the private sector for investment or to save them from financial ruin, such as Northern Rock and the Royal Bank of Scotland.

Research

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

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

Not-for-profit

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

Voluntary organisations are also not-for-profit businesses. They are set up, organised and staffed by people working on a purely voluntary basis. Examples include the Women's Royal Voluntary Service (WRVS) and Voluntary Service Overseas (VSO).

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

Key term

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

► **Table 1.1:** Suggested examples of business ownership

Private, for example:		Public, for example:		Not-for-profit, for example:	
Sole trader	• Decorator • Gardener • Photographer • Pilates instructor • Childminder • Taxi driver	Government department	• Department for Education • Department for Business, Innovation and Skills (BIS) • Ofsted • NS&I • Ministry of Defence	Charitable trust	• Buttle UK • Hospice UK • World Wildlife Fund
Partnership	• Accountants • Solicitors • Dental practice			Voluntary	• Rotary Club • Roundtable • MAIN – Taking Autism Seriously • Voluntary Service Overseas • MacMillan Cancer Support
Private limited company	• Estate agents • John Lewis Partnership (JLP) • McLaren Technology Group • River Island				
Public limited company	• Aer Lingus Group • Rolls-Royce Holdings plc • Tesco plc • Manchester United plc				
Cooperative	• The Co-operative Bank • FC United of Manchester • Colman's Mustard				

Tip

For more details on limited companies, visit the UK government website at www.gov.uk/business-legal-structures/limited-company.

Key term

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

Tip

Useful places include Companies House for information about limited companies (Ltd) and the London Stock Exchange for public limited companies (plc).

Key term

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

Research

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

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

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

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

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

JLP is particularly interesting because it operates as a cooperative, although not in the formal sense like the examples listed in Table 1.1. Cooperatives contribute significant annual revenue (£37 billion) to the UK's **economy** and are owned by nearly 15 million people. The word cooperative suggests working together, sharing aims and objectives, which can be implemented in different ways and reward those who cooperate in the business differently.

Liability

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

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

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

Unlimited liability

Some businesses (as suggested in Table 1.1) are owned by sole traders or partnerships. If the owners share the business responsibilities equally, they are responsible not just for the profits but also the losses, such as debts and claims against the business. This means all owners are responsible for any shortfall of money if the business has insufficient funds. This could mean all savings and possessions including car, house, etc are at risk.

Limited liability

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

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



PAUSE POINT

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

Hint

Highlight gaps and conflicting results.

Extend

After comparing with a peer, add an extra column or comments to your research.

Purposes

Most businesses supply products or services, or occasionally both. For example some businesses, such as dentists, provide a service and also sell a small range of products such as toothpaste, floss, toothbrushes, etc. Halfords provide products such as car and bicycle parts and they also provide a service whereby they fit windscreen wipers or bicycle tyres.

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

Difference between for profit and not-for-profit businesses

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

Some examples of large profitable businesses include utility companies such as British Gas and major retailers such as JLP, Next and Marks and Spencer. Profits can and do fluctuate year on year. Some of the UK's most profitable companies include Burberry and the telecommunications giant Vodafone.

Information on the performance of the top 100 businesses measured by shares on the stock market are listed in the **FTSE 100**. You will explore shareholding a little later in this unit.

Examples of smaller businesses making a profit in 2014–15 are PeopleTree: ethical clothing; Levi Root': Reggae, Reggae Sauce; Mad Marc's Sublime Science: making science fun.

Discussion

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

Key term

FTSE – the Financial Times Stock Exchange.

Link

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

Case study

Care in crisis



With people living longer, changes in the way they live, the recession and reduced public funding and strains on the NHS, social care provision is experiencing a

negative impact alongside claims that elderly people are being put at risk. A group of caring individuals formed a cooperative to help redress this problem, starting on a small scale locally and expanding over the last 10 years. They called the business CASA, an acronym for Care and Share Associates and grew to employ more than 850 staff by 2014. Shares in CASA are held by an Employee Ownership Trust, an Employee Benefit Trust, and individual employees.

CASA is an employee-owned social enterprise with a clear purpose. Their primary concern is providing care for older people, the disabled (including children)

and those with learning difficulties. CASA's Managing Director explains their successful business is due to:

'Engaged employee owners provide the highest quality care and we also have low staff turnover, making the business more successful. Profits are then reinvested in staff and growth ... and shared amongst the workforce.'

Because the business does not have any external shareholders, the business can focus on delivering its aims for social care. One employee testimonial states:

'Because we are the owners it's easier to see that we can have a brilliant future if we manage it correctly and really get involved.'

Check your knowledge

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

II PAUSE POINT

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

Hint

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

Extend

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

Tip

There are also case studies featured in the 10,000 small business brochure from Goldman Sachs. Finance information about limited companies can be explored through Companies House, the Stock Exchange and the Financial Times while private sector small business quarterly economic data is collated by the British Chamber of Commerce.

Sectors

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



Primary



Secondary



Tertiary



Quaternary

► Business sectors from primary to quaternary

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

Primary

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

Secondary

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

Tertiary

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

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

Quaternary

Together with the tertiary sector, employees working in the quaternary sector currently account for 75 per cent of the UK workforce. This sector also provides support services and can appear to overlap the tertiary sector. Examples include the communications infrastructure for day to day operations, such as telephoning and emailing.

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

Scope of business activities

Local

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

National

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

Link

Unit 14: Investigating Customer Service

Discussion

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

You may know some franchised businesses in your area, for example Dunkin' Donuts, Harvey's Furniture Store, Kwik Fit and possibly one of the most well known, McDonald's.

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

International

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

Measuring the size of a business

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

► **Table 1.2:** Defining a business by size

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

The UK parliament publishes reports on the contribution businesses have made to the economy. According to the data supplied by BIS in its Business Population Estimates (2014) there were 4.9 million businesses in 2013, which increased to 5.2 million in 2014. More than 99 per cent were SMEs and employed almost 14.5 million people, contributing to almost half of the UK economy. The number of micro businesses also rose slightly to 5 million.

Reasons for success

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

Profit seeking business

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

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

Just because a business grows it does not automatically follow that it becomes more profitable. This is because its costs might increase and the interest rates paid on loans

Link

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

Link

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

or investments could fluctuate. Sometimes businesses call on the services of other sectors, for example for specialist financial advice from a consultancy service (perhaps on running the business more efficiently to make more profit and reduce costs).

Discussion

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

Non-profit seeking business

Discussion

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

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

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

- ▶ donations for The Royal National Lifeboat Institution (The RNLI)
- ▶ lottery funding for causes such as sports and the arts
- ▶ cultural heritage groups, such as those celebrating the 70th anniversary of the end of the Second World War.

Aims and objectives

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

Clarity of vision

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

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

Key term

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

Research

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

Tip

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

Key term

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

Innovative products or processes

Innovative products, or creative ways to go about a process, can lead to business success. Examples include Mad Marc's idea to enthuse children in science, child innovators of the Crikey Bikey harness and Rob Law's Trunki.

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



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

Stakeholders and their influence

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

Stakeholders

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

Internal

The internal stakeholders include:

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

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

External

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

Suppliers

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

Lenders

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

Competitors

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

Debtors

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

Link

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

Creditors

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

Customers

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

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

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

Case study

'Bring me back'



Walkers Crisps Ltd, owned by PepsiCo, is one of Britain's biggest brands and strives to retain its popularity in a highly competitive market.

Having an innovative idea does not mean that existing ideas or products are obsolete. For example, the UK consumption of

crisps, snacks and nuts has risen significantly and generates revenue of almost £129 million. Therefore it appears that there is still room for expansion into the snack industry.

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

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

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

The benefits to stakeholders of this campaign included:

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

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

Check your knowledge

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

Key term

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

II PAUSE POINT

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

Hint

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

Extend

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

Theory into practice

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

Tip

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

Government agencies and departments

Other external stakeholders include government agencies and departments, which may be local, national or international. Some examples of government departments have been mentioned already in this unit, such as the Department for Business, Innovation and Skills. Other examples of agencies and departments are outlined in Table 1.3.

► **Table 1.3:** Examples of government agencies and departments

Local	National	International
County Councils	Department for Education	Foreign and Commonwealth Office
City/Borough/District Councils	Department for Work and Pensions	URENCO
Parish Councils	Department for Transport	
	Ministry of Justice	

Local government includes your local council. In some areas there are two councils, for example in Leicestershire, where they have a county council and a city council. Each of these councils are responsible for services which affect the whole county, such as education, roads, planning, fire and safety, etc.

London boroughs each have a council and the metropolitan area has another. District councils are responsible for the detail of how, for example, rubbish collections are organised and how the council tax is structured. You may have a parish or community council which deals with very local matters such as allotments and street lighting. Each has a stake in the business and the community, for example to ensure houses are not built on farmland unless permission is granted.

Each government department works with a number of agencies. If you take the example of the Department for Education, a national department working with nine agencies (including Ofsted), they have a stake in your education and provide the funding for your schooling and possibly your education still.

An example of international government is the Foreign and Commonwealth Office. It is responsible for: promoting the UK; working with other countries to seek ways to increase our economy; reporting on global developments and travel; informing policy.

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

Link

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

Communities

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

Pressure groups

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



- ▶ Community demonstrators expressing their views about crematorium proposals

Another example is where communities nationally have placed pressure upon the government to reconsider their plans for the high speed railway (HS2). Longstanding pressure groups exist on a larger and longer-standing scale, such as:

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

Key term

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

Interest groups

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

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

The influence of stakeholders on business success

Stakeholders can influence business success. Earlier, you read about the London Stock Exchange where public limited companies (plcs) offer shares in the company. This raises funding for the business by selling off parts of it as shares. Shareholders are looking for value for money; in business terms this is called **shareholder value**.

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

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

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

Discussion

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

Key term

Shareholder value –

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

Discussion

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

Key term

Customer retention –

customers who remain loyal to specific brands and businesses.

Employee involvement

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

Some businesses have employee contribution schemes, such as JLP, Waitrose, Brompton Bikes and Dyson. In a similar way, your place of study will seek feedback from its employees as well as its students. Suggestions and recommendations can indirectly impact on the success of a business by initiating ideas.

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

Corporate social responsibility

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

Reflect

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

Tip

Read about the Marine Management Organisation's (MMO) strategy for undertaking their commitment. You can find this at <https://www.gov.uk/government/publications/corporate-social-responsibility-strategy>. What other volunteering examples can you find?

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

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

Research

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

Case study

Little Italy



Little Italy started as a business in a small Vespa van with an old 1960s 'pull lever' espresso machine at a village railway station in 2004. It provided hot drinks and freshly baked breakfast snacks to commuters. Norwegian born Cathrine stood outside the station daily in snow, sleet, wind and rain.

After a year of being exposed to the elements, Little Italy Espresso Bar moved inside the newly refurbished station and, from humble beginnings, they now have

four branches on the Chiltern line and a permanent coffee shop in the heart of the village where it all began.

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

Check your knowledge

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



PAUSE POINT

Which aspects of this case study were difficult? Which were the easiest?

Hint

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

Extend

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

Effective business communications

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

While English is widely spoken around the globe, it is too easy to assume that everyone understands exactly what we mean. For example, a simple message shown in the first column in Table 1.4 might be clear, but the same message written in slang (second column) could be difficult for a UK resident to interpret, let alone an overseas customer. The interpretation shown in the third column might be clear, but is it appropriate in a business context?

The example in Table 1.4 shows possible differences in dialect in just a small part of the UK. Consider how many other differences there are in the way people speak because of geographical diversity alone.

► **Table 1.4:** Examples of how a message could be misinterpreted

Intended message	Slang version	A more friendly tone
Good afternoon Could you supply us with 2000 barrels of oil for next Tuesday to arrive at Tilbury by 5pm? Please confirm the cost per barrel in dollars. Regards	Awright geeezzaa! Hiya We wan' ter buy 2000 barrels ov oil an' need i' next Tuesday at Tilbury docks by 5. Can yew tell us da cost in dollars? Ta. Sorted mate.	Hiya We want to buy 2000 barrels of oil and need it next Tuesday at Tilbury docks by 5. Can you tell us the cost in dollars? Ta

Although the message might be understood, the way in which it is conveyed might be not be received so well. It is important to use the right language for the right audience to get the right result. Everyone uses different ways of speaking depending on who they are communicating with and the method they are using to convey the message.

Reflect

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

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

Theory into practice

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

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

Tip

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

Appropriate presentation and delivery of information to a given audience

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

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

Key terms

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

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

Written presentations

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

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

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

Table 1.5 gives some examples of ways to communicate in business.

► **Table 1.5:** Examples of ways to communicate in business

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

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

Oral presentations

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

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

Importance of communication to aid business success

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

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

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

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

Case study

Manufacturing in the West Midlands

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

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



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

'In order for businesses to survive and thrive new ways of working that save time and money but still gain the results is key. This project offers businesses an exciting opportunity to try out and explore the innovative technology by putting their new products and ideas to the test in a cost effective, reliable and safe environment. I am pleased that we are able to provide support to a project that will be really beneficial to the future development of businesses in the West Midlands,' said Communities Minister Baroness Hanham CBE.

The new project called CASim2 is supported by £2.6 million from the European Regional Development Fund, which is managed by the Department for

Communities and Local Government and matched through funding and staff skills by the University of Birmingham, the Manufacturing Technology Centre, Airbus and Rolls-Royce. 'We will engage SMEs in the West Midlands through demonstrating the commercial benefits of using innovative technologies to deliver step changes in their business offering.'

Check your knowledge

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

II PAUSE POINT

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

Hint

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

Tip

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

Research

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

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

B Investigate how businesses are organised

Structure and organisation

Organisational structure

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

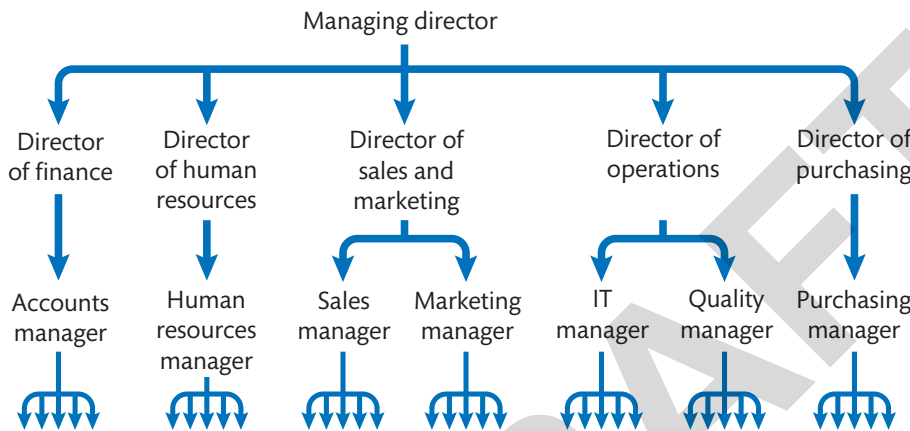
- ▶ all jobs that need doing are identified and allocated
- ▶ lines of communication are established
- ▶ levels of responsibility are identified and allocated
- ▶ levels of authority are attributed.

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

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

Hierarchical

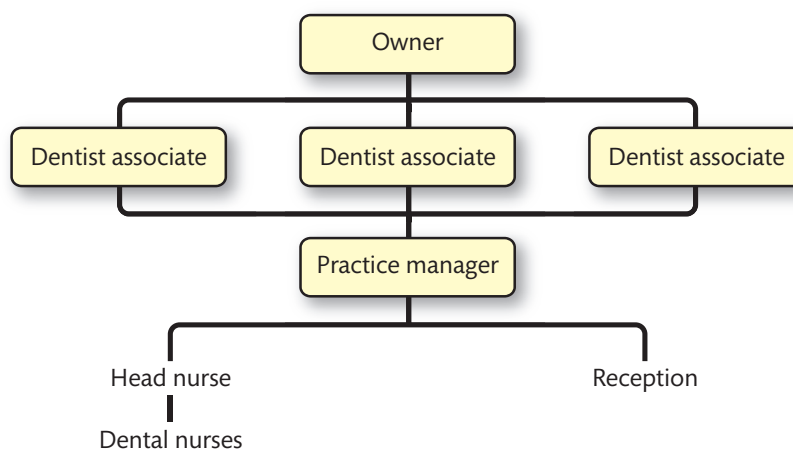
As the name suggests, this structure shows a hierarchy of responsibility and authority showing who is responsible for what and who has authority to make decisions regarding business operations. This type of structure is fairly easy to understand and, as Figure 1.1 shows, there is one person with overall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



► **Figure 1.1:** Example of a hierarchical structure

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

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



► **Figure 1.2:** An alternative example of a hierarchical structure

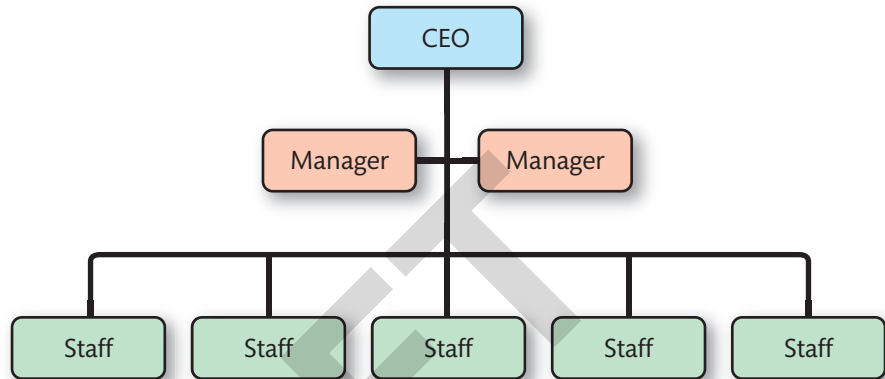
Discussion

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

Other examples of hierarchical structures include pubs with restaurants where the bar and restaurant are likely to be managed separately, for example by the bar manager and head chef, with staff reporting directly to the boss of their section. The owner has overall authority and responsibility and this can impact on the time it takes for decisions to be made.

Flat structure

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



► **Figure 1.3:** Example of a flat structure

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

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

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

Matrix

The matrix type of structure is complex. It brings together teams of people depending on their abilities to work on specific projects. BT put together teams of employees to work on projects, as do Microsoft. Another example is a national football team such as England which is made up of English players drawn from individual football clubs around the world (for example Manchester United, Real Madrid, Bayern Munich) for the football World Cup.

Holocratic

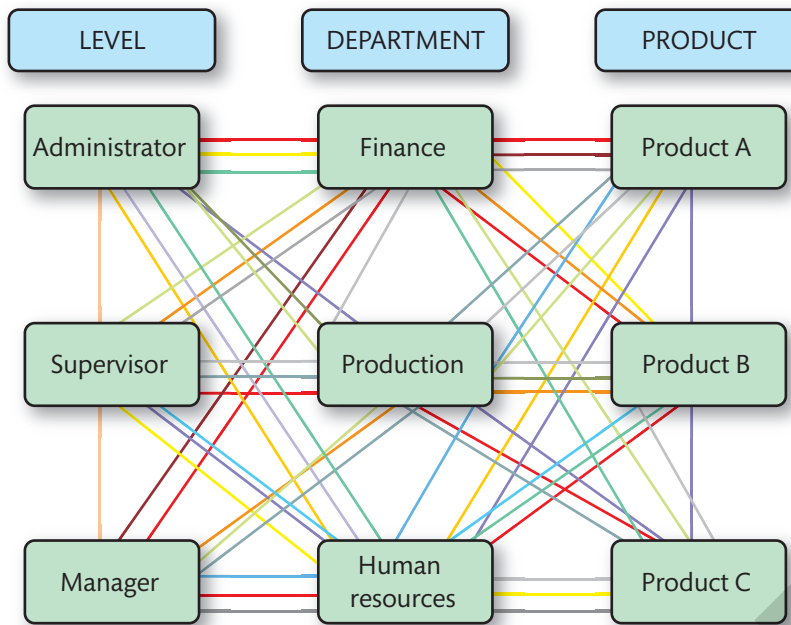
A holocratic organisation structure offers a holistic approach to running a business where responsibility and authority are distributed amongst the workforce. One disadvantage of other structures is the level of bureaucracy that can appear to get in the way of getting on with the job. Holocracy claims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

Key term

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

Research

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



► **Figure 1.4:** An example of a matrix structure



► **Figure 1.5:** Concept of a holocratic structure

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

Research

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

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

Compare your findings with another learner.

Functional/operational areas

Businesses have several functions in order to operate efficiently.

Functions

A brief definition of each function is:

- human resources (HR) (responsible for managing the people in the organisation to include their welfare, job roles, progression opportunities)
- research and development (R&D) (of new products or concepts)
- sales (selling products or services)
- marketing (promotion of business)
- purchasing (supplies, products, stationery)

- ▶ production and quality (manufacturing, undertaking checks that products meet specifications)
- ▶ finance (accounting, raising invoices, paying bills, wages)
- ▶ customer service (resolving customer queries and complaints, seeking feedback to improve products or service, or develop ideas)
- ▶ IT (telecommunications and computer infrastructure such as website)
- ▶ administration (the ongoing support for the business to function, such as following processes, dealing with correspondence, organising meetings and any travel).

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

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

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

Operations

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

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

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

Research

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

Aims and objectives

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

Link

You will explore customer service in more detail in *Unit 14: Investigating Customer Service*.



▶ Robotic 'barstaff' on new cruise ships

Aims of businesses in different sectors

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

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

Mission

You may have heard or seen the mission statement of the place where you are studying. Mission statements are often found at the front of any marketing materials and websites. While a mission statement is intended to represent the overall aim of the business, it should be informed by the vision and values of the business. Here are three examples from different business types.

Salon: Body Beautiful

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

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

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

Carefree Coaches

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

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

Ingleham Community Project

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

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

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

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

Vision

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

Values

Organisational values will vary across businesses depending on their overall aim. Businesses such as Sainsbury plc promote their eagerness for growth, while Coca-Cola are keen to promote their commitment to a sustainable environment. British Gas also promote their commitment to the environment.

Research

Look at the websites for Sainsbury plc, Coca Cola and British Gas. How prominent do they make their values on their website? Can you identify the key values for each business? How do you think each company chose their values?

Link

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

Private

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

- ▶ making profits – most multi-national businesses aim to make a profit
- ▶ profit maximisation, where efficiency and cost of supplies, service or production are streamlined to ensure a greater margin between those costs and the revenue received, therefore maximising profits; examples include some budget airlines which charge extra for in-flight meals, drinks and baggage
- ▶ breakeven – the critical measure identifying at what point a business will make a profit or become non-viable; the breakeven point is the basis of business plans and especially a new business, where a calculation identifies how many products or services are needed to generate sufficient income to cover all outgoing costs, such as buying supplies, premises, wages, paying taxes etc
- ▶ survival – such as the struggles reported over recent times being faced by Mulberry and Ladbroke's; other businesses such as Clinton Cards and Jessops have struggled to stay afloat – the former has sold off many of its stores and Jessops has closed almost 100 stores and reduced staff numbers by at least 550 in 2013; Clinton Cards may have overlooked the growth in sending ecards
- ▶ growth – for example pound shops and pawn brokers which always do well in times of austerity (the number of UK pawn brokers was reported to have increased substantially during the recession)
- ▶ market leadership – Sainsbury plc is an example where the company's mission is to gain market leadership, while British Gas strives to retain its leadership in the utilities sector and BT to regain the lead across all its services.

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

Public

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

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

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

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

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

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

Service quality

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

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

Meeting government standards

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

Service provision

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

Cost control

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

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



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

Key term

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

Research

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

Key term

Multi-collaborative – collaborating with multiple partners.

Value for money

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

Service quality

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

Strangely, customers can get very agitated over very minor transactions while a major purchase or service might be overlooked, for example buying a holiday or a new home. People are becoming more critical about service quality and reports feature frequently about the NHS or how BT has fought to repair a failing reputation for its support services. It is now the norm to check review websites, such as TripAdvisor or Amazon reviews, before visiting a business or making a purchase. However, there is a danger that people are more likely to leave a review after a negative experience, rather than a positive one.

Meeting government standards

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

- ▶ care standards for those working in the care sector
- ▶ food standards for any business providing food and drink to the public
- ▶ Ofsted regulating education and training, including schools, nurseries, child minders
- ▶ organic certification for those growing organic produce
- ▶ disease notification regulations for farmers.

Not-for-profit

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

The National Science and Learning Centre is an education provider and therefore a not-for-profit organisation offering tutor education in the UK and Northern Ireland. As a **multi-collaborative** charity registered organisation, it operates as a joint venture between the Department for Education and the Wellcome Trust. It has multiple funding sources so has many stakeholders to satisfy.

Housing associations, such as the Housing Villages situated in the north-west of England, also publish their mission statement: 'To Be More Than Just A Landlord. Working In Partnership To Create An Environment For Communities To Flourish'. Their aim is clear and succinct and their website describes how and why they work in partnership and lists their values in support of their vision.

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

Shops to raise funds for charities such as these have appeared in many shopping centres and high streets during the recession, taking advantage of the opportunity of prime location premises paying lower rents. You may have seen some local authorities making temporary use of empty stores to promote community projects, such as mobility services or careers advice, occupying government owned empty space which might otherwise become derelict.

Research

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

Case study

'Good Bubble'



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

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

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

Check your knowledge

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

Objectives: SMART

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

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

A 'SMART' objective should be:

- ▶ Specific
- ▶ Measurable
- ▶ Achievable
- ▶ Realistic
- ▶ Time constrained.

Reflect

You'll recall that, earlier in the unit, you were encouraged to create a plan to help you to achieve that aims and objectives of this unit, and to think about your timeframe. Now that you have explored more about business aims and objectives, review your plan and adjust it where relevant. You might need to break down some of the objectives into smaller chunks with varying dates for completion. Ask yourself these questions about your objectives.

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

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

Assessment practice 1.1

A.P1

A.P2

B.P3

B.M2

A.M1

AB.D1

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

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

In your report you should:

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

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

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

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

Plan

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

Do

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

Review

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

C Examine the environment in which businesses operate

The term 'environment' has multiple features. During this unit, you will have recognised how the economic environment has influenced businesses, for example **retail** outlets and businesses closing down due to the recession. Some shops such as high-end brand retailers, pound shops, technology, gambling sites and pawn brokers have thrived, while others have had to close down due to lack of sales.

External environment

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

Political
Economic
Social
Technological
Legal
Environment.

Political

Government support, such as monetary grants or promotion, can inject considerable enthusiasm into new business ideas such as wind farms and solar panels. Although grants are time constrained, you have probably noticed both of these examples springing up around the country. Of course, there is a motive for government support according to government policy and promises.

The government website regularly updates with announcements. You may also recall the example of government bail-out when Northern Rock and the Royal Bank of Scotland (RBS) were in financial trouble. However, there are plenty of business owners who claim government do little to support their sectors.

Membership of trading communities

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

The European Union

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

Economic

Economic factors greatly influence the success or demise of businesses. As you know, the recession has been blamed for the closure of thousands of high street stores. These businesses may have failed to take into account economic needs, competition and technological advancements. You have also learned about the success of new or diversified businesses, informed by government initiatives such as solar panels and air source heating.

Key term

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

Key term

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

Link

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

Research

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

Key term

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

Fiscal

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

Research

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

Monetary and other government policies

Monetary policy affects everybody as it relates to the value of our currency and interest rates. This policy is determined by the government and decisions about how to meet expectations are controlled by the Bank of England and the Monetary Policy Committee (MPC). All businesses are affected by decisions made by the MPC.

Supply side policy

These policies aim to improve productivity and produce economic growth. Ways to achieve this include reducing taxes, such as income tax in 2014, and reducing corporation tax (the tax paid by private and public limited companies) in 2015.

Economic growth

The government is striving to grow the economy so that the UK does not return to a recession. If you imagine that the government is you, look at your own financial circumstances. Calculate how much money you have coming in and how much you expect to spend. What is left? Everyone needs money to survive, so you have to ensure that you do not spend more than you can afford or else you have to find ways of generating more income.

The country is no different and the government has to find ways to grow our economy at international, national, regional and local levels according to opportunity and need, for example, building projects, Help to Buy a home, and increasing job and training opportunities.

Exchange rates

Another factor influencing the success or failure of businesses and our economy is exchange rates. These can fluctuate greatly and how our UK currency, pounds sterling, compares with the US dollar, euros and the Japanese yen is analysed daily. Each of these currencies is influential in the UK's purchasing and selling power globally, although not exclusively, depending on the countries trading. Exchange rates are influenced by many factors such as unemployment, **inflation** and other complex factors such as the activity on the stock exchange and speculation. In other words, how much our currency is worth when trading with other countries. You may well have experienced fluctuations if you have ever bought foreign currency to go on holiday.

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

Exchange rates are partly responsible for fluctuating oil prices. For example, in the summer of 2015 the price of petrol was 30p per litre less than two years previously. Consider what other factors might have influenced this reduction.

Key term

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

Social

Attitudes to saving

Banks and the government rely on people to save money. The money saved is used to boost the economy as it is borrowed by businesses and householders for mortgages etc. However, with less money in people's pockets (disposable income) and interest rates remaining at a low rate previously unheard of, banks and government are finding it difficult to encourage saving. This is why the government has introduced initiatives such as increasing the amount that can be invested in **ISAs** and premium bonds.

Key term

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

Spending and debt

Changes to spending habits influence the types of business that can start up and expand. For example, recent times have seen an increase in pawn brokers, gambling sites, pound and charity shops, payday lenders and businesses like Bright House which offer weekly payment schemes. (Charity shops do not have to pay business rates.) By contrast, pubs, building contractors, clothing, furniture and photography stores etc are struggling to survive.

Social responsibility requirements

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

Change

Changes, for example to the **demographic trends**, can have a significant influence on business. For example, in Slough, Berkshire, there is a wide diversity of ethnicity which has led to new businesses catering for specialist foods, local government services and training opportunities. In Kent, there are large Nepalese settlements while, in other areas of the UK, immigrants from Somalia are building communities. These are just a few of the factors influencing our businesses.

Key term

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

Consumers' tastes/preferences

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

However, tastes can also remain unchanged – reports from the Foreign and Commonwealth Office (FCO) reveal that our favourite takeaway food is still traditional fish and chips.

Research

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

Discussion

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

Technological change

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



► Robotic surgery taking place

Automation

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

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

Improved communications

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

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

Legal

Certain legislation must be complied with in business otherwise heavy fines are imposed and even imprisonment. Some of the laws affecting businesses are outlined in Table 1.6.

► **Table 1.6:** A sample of laws which affect business

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

Research

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

Key terms

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

Ethical trends – trends determined by moral principles.

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

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

Environmental factors and ethical trends

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

- ▶ Carbon emissions.
 - This means an impact on business costs such as increased taxes imposed on fuel.
- ▶ Waste.
 - Household rubbish must now be segregated between different bins which the council collect and dispose of in controlled ways. Landfill sites are also heavily regulated, as is how water and sewage are disposed of.
 - In order to reduce the waste from bags given out by supermarkets and larger stores, the government imposed a charge on bags from October 2015.
- ▶ Recycling.
 - Businesses must comply with the government's green policies which ultimately impact on all our lives. The government's 'lets recycle' policy is under review in their quest for zero waste.
 - Examples of businesses built on recycling include The Recycling Factory, which sells ink cartridges, and Traid, which remakes donated clothes for resale.
- ▶ Pollution.
 - The amount of pollution produced impacts on our health, buildings and surroundings. Demand for reduced pollution is forcing businesses to close, such as Didcot Power Station, demolished 44 years after it opened in 1970.

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

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

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

Internal environment

Corporate culture

Business (corporate) culture is a hot topic. You might have heard people talk about a blame culture – how an organisation is structured can have a great impact on whether or not there is a blame culture and, more importantly, whether employees and managers share the same view of this. Corporate cultures vary hugely from business to business. For example, large banks in the city are known for their long hours and

cut-throat attitudes whereas technology start-ups, such as those found in Silicon Valley and Old Street, are known for their relaxed, casual atmosphere. What impact do you think different cultures have on businesses?

Corporate Social Responsibility (CSR)

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

CSR can greatly influence the operations of a business. For example, in the nuclear industry many people jump to conclusions about the dangers of enriching uranium: they readily conjure up stories which frighten others or embellish stories from historic events such as Chernobyl in 1998. These examples are usually driven by fear of the unknown and incorrect assumptions, but they can impact greatly on the success of a business. A more recent example in the nuclear industry was the Tsunami disaster at Fukushima in March 2011. This led to reductions in demand and lack of confidence in investing in planned nuclear power stations.

Ethics

Businesses are also shaped by ethical considerations. One such example is the range of services offered by the NHS. In 1978, the birth of Louise Brown, the world's first ever test tube baby, led to some disapproval and claims that such intervention was unethical.

The health service is probably the most obvious example of the importance of ethics – IVF being almost commonplace and R&D appearing to make rapid progress, committees and government are challenged constantly about the ethics, for example, of body transplants. Very recently the announcement of human hand transplants and the proposal for 3D printing of body parts are undergoing an ethical debate.

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

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

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

Competitive environment

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

Competition can be at different levels:

- ▶ local
- ▶ national
- ▶ international.

Having competitors does not mean that a business will automatically succeed or fail – rather, it relies on careful business planning and a consideration of all factors. For example, if Little Italy decided to open a coffee bar at a small rural railway station



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

Key term

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

which already had one, it could be viewed as a bad business decision. However, if their reputation preceded them by offering a superior product, better customer satisfaction or improved value for money, then their business might well wipe out their competitor. Decisions like this cannot be taken lightly. You can probably name several examples where competitors appear to work alongside each other in harmony such as opticians, dental practices, estate agents, chemists, department stores, supermarkets, fast food chains, electrical retailers etc.

Factors influencing competitive advantage

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

Key term

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

- ▶ **Differentiation:** for example developing new products, branching out into new products or services, especially something unique from your competitors, such as the Dyson Ball cylinder vacuums.
- ▶ **Pricing policies:** how a business determines prices for **wholesale** and retail products or services to achieve its planned profits.
- ▶ **Market leadership:** defines a business which has the largest or larger share of the market in relation to its competitors, for example Coca Cola and British Airways.
- ▶ **Reputation:** something a business cannot buy and which has to be earned. Businesses such as Waitrose, Virgin Atlantic, M&S and Walt Disney thrive on their reputation which has been developed and maintained over many years. Customers also highly rate Amazon, Microsoft, Apple and Plusnet. A bad reputation can rapidly ruin a business no matter how large or small. BT has been working hard to improve its reputation. Security company Blackwater even changed its name to Xe in an attempt to improve its reputation, without success, after a terrible incident in Iraq in 2007 that resulted in lost lives.
- ▶ **Market share:** the percentage of a given market that a business holds. Holding a market share does not mean that the business is the market leader, however. For example, in 2014 Samsung was reported to hold 26 per cent of the global market share in Smart televisions whereas in 2009 it was market leader with its range of LCD TVs.
- ▶ **Cost control:** managing and controlling costs for a business to remain viable. For example, Phones 4U acted as an interface or broker between mobile phone companies but the businesses it provided its services to decided to sell its services directly. Unfortunately, these other business declined to pay Phones 4U leading to its bankruptcy.
- ▶ **Technology relationships with customers:** different means of technology are relied upon heavily for communicating with customers such as:
 - databases holding customer details, purchase history and preferences etc
 - telephone and online support.

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

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

Key term

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

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

Key term

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

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

Benefits and importance of establishing and maintaining a competitive advantage

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

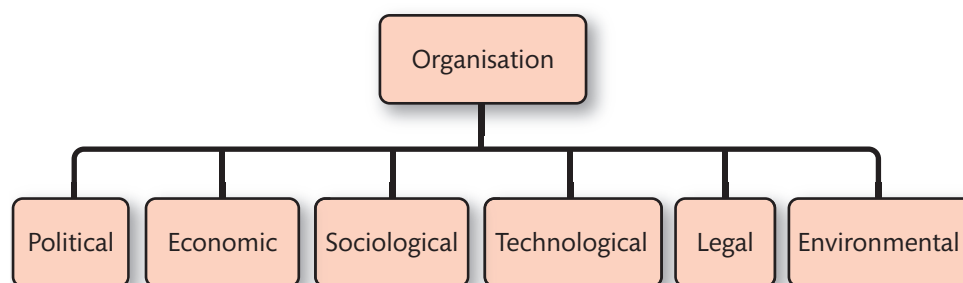
Important features include anticipating business and job security, providing what the market demands or needs and anticipating areas for development.

Situational analysis

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

PESTLE analysis

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



▶ **Figure 1.6:** Example template for PESTLE analysis

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

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

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

SWOT analysis

SWOT is a useful approach to undertake in conjunction with, prior to or subsequent to carrying out a PESTLE analysis. The two can then be compared and challenged. A simple template can be used to undertake a SWOT analysis.

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

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

▶ **Figure 1.7:** Simple SWOT analysis template

5Cs analysis

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

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

▶ **Figure 1.8:** Example template for 5Cs analysis

Key term

SWOT – strengths, weaknesses, opportunities and threats.

Key term

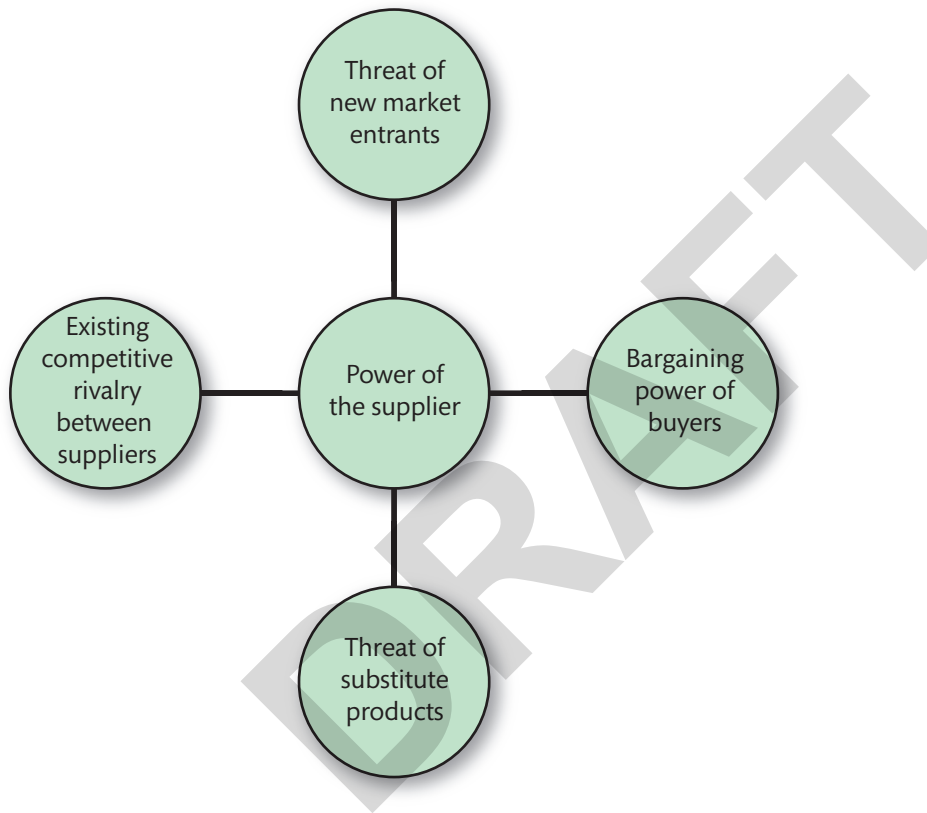
5Cs – company, collaborators, customers, competitors, climate.

Porter's Five Forces

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

- ▶ existing competitive rivalry between suppliers
- ▶ threat of new market entrants
- ▶ bargaining power of buyers
- ▶ power of suppliers
- ▶ threat of substitute products (including technology change).

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



▶ **Figure 1.9:** Example template for Porter's Five Forces

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

Key term

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



PAUSE POINT

In what other ways could you structure a portfolio?

Hint

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

Extend

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

D

Examining business markets

Different market structures

There are several different types of market structure which dictate the degree of risk to business operations. For example, the market structure determines the amount of power and competition in the market. A business will need to understand its market structure in order to plan strategically and operationally.

Market structures

You will focus on two types of market structure – perfect competition and imperfect competition (although there are at least four main types, including a monopoly).

Perfect competition

This concept refers to those businesses which all supply exactly the same product at the same price, such as newspapers and possibly basic food products. However, in reality, where suppliers can manufacture their own brands they become more competitive. Where the cost of products cannot be increased by individual businesses to increase their profits, the business has to find other ways to ensure they maintain or increase their market share, such as customer service or location.

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

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

Imperfect competition

This type of market structure faces less competition than businesses fitting the perfect competition structure. While there may be many sellers, such as clothing shops, cafes, jewellers, etc. their product lines are not identical. Therefore businesses can determine their own prices, as seen in jewellery stores including Ernest Jones, H Samuel and Goldsmiths.

The differences between perfect and imperfect competition are based on:

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

Features of different market structures

Each different market structure has similar and different features (see Table 1.7).

▶ **Table 1.7:** Features of different market structures

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

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

Key terms

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

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

Number of firms

You have already considered how a business with a perfect competition structure can compete amongst other businesses offering the same product at a fixed price. Note how newspaper sellers can operate in a small locality yet still survive, although profits will be small. Yet they are not without risk and even the smallest retailer needs to understand their own strengths and weaknesses, and those of their competitors, to gain market share (albeit small in their sector).

Freedom of entry

You have looked at how perfect competition allows freedom of entry (and exit) to the market and the factors you have been learning about in this learning aim are crucial factors in making those decisions.

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

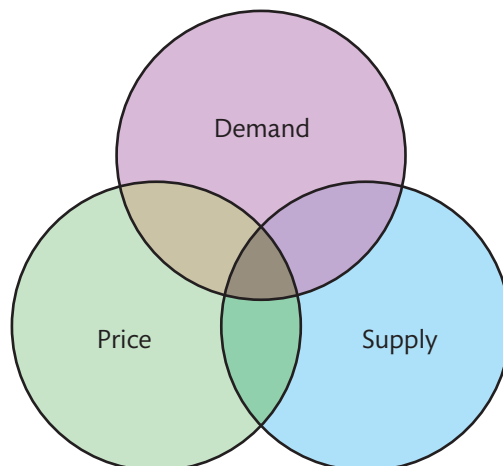
Nature of product

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

For example, Currys, Comet and PC World all offered similar product lines with a few variances. Often they were situated in out-of-town retail parks competing against each other. When the businesses were no longer sustainable, Comet closed down and Currys merged with PC World. The nature of the products they offered was too similar for the demand - the products were not sufficiently different to remain competitively priced yet increase profits.

Relationship between demand, supply and price

You have started to explore the relationship between demand and price. Business markets rely on examining the relationship between demand, price and supply, represented here in a **Venn diagram** (Figure 1.10):



Key term

Venn diagram – a logical relationship diagram representing overlaps between categories.

► **Figure 1.10:** Venn diagram representing the relationship between demand, supply and price

Influences on demand

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

Affordability

Whether or not customers can afford or are willing to pay for the offer.

Competition

Demand can reduce significantly if the competition reduces its prices for like products, quality and service (think about Comet, Woolworth and the problems being faced by HMV and Jessops).

Availability of substitutes

If businesses are struggling to make sufficient profit to remain operating, they will seek alternative products or suppliers to keep their costs down and profits up. A business may resort to a substitute which is inferior or superior or seek out alternative and more competitively priced suppliers. Therefore alternatives depend on supply and demand from all sides of the operation. A business must consider all the external factors and undertake a situational analysis before taking the risk of bringing in a superior substitute product at a higher price.

Level of Gross Domestic Product (GDP)

The GDP is one of the most important indicators used by economists to calculate the state of the economy. The ONS (Office for National Statistics) produces these figures and relies on quarterly data gathered from:

- ▶ output – the value of goods and services produced from a sample of every type of business and sector
- ▶ expenditure – the value of all goods and services purchased by businesses, government and individuals, including all exported sales
- ▶ income – the value of money generated primarily through wages and profits.

Needs and aspirations of consumers

Consumers influence demand by their needs and aspirations. Our needs include basic requirements such as food, warmth, water and safety. These are common to everyone. Consumers also have other and varying needs which are those products and services they are used to and believe they cannot, or do not want to, live without. These might include:

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

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

We also have aspirations which may include:

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

Link

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

Influences on supply

Whether supply can meet demand relies on being able to anticipate current and future demands based on GDP data and other statistical information such as UK consumer spending and Consumer Price Index, both available from the ONS. Crucial to meeting demand is the ability of the business to meet supply needs. For example, if an unexpected spell of hot weather increases consumer demand for BBQ charcoal, business is lost if the supplies are not available. Other influences on supply are outlined below.

Availability of raw materials and labour

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

Key term

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

Examples of raw materials in short supply globally include:

- ▶ graphite
- ▶ platinum
- ▶ iron ore
- ▶ coal
- ▶ scrap iron
- ▶ Colombian emeralds.

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

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

Logistics

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

Ability to produce profitably

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

Key term

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

Key term

Elasticity – responsive to price changes.

Key term

Output decisions – an economist term relating to maximising profit.

Key term

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

Competition for raw materials

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

Government support

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

- ▶ British Airways
- ▶ Jaguar Land Rover
- ▶ Sainsbury's
- ▶ Marks and Spencer
- ▶ O2
- ▶ Rolls Royce and many others.

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

Elasticity: price elasticity of demand

Economists use the term 'price **elasticity**' to measure the relationship between quantity in demand and change in pricing. The formula for this calculation is:

$$\text{price elasticity of demand} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

If a small change in price is accompanied by a large change in the quantity demanded, the product is said to be elastic (or responsive to price changes). Alternatively, a product is inelastic if a large change in price is accompanied by a small amount of change in the quantity demanded.

Pricing and output decisions

You have been learning about how market structures and pricing and **output decisions** relate to perfect and imperfect competition businesses in different ways.

Perfect competition businesses are usually so small that they are unable to affect price because the prices for the products they sell are predetermined and therefore the price they pay to suppliers is also unlikely to be negotiable.

However, imperfect competitive businesses may have more influence over both pricing and output decision making. Businesses can use a range of strategies to increase their profits based on either the price they charge for their products and services or the price they are willing to pay for output such as goods, services and labour. Depending on the type of business, what is output to one can be input to another depending on whether goods are coming in or out. Some of the strategies businesses use are outlined below.

Loss leaders

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

- ▶ estate agents, especially those selling large numbers of new housing for developers, may offer one house as a loss leader, especially if house sales have been slow or non-existent

- ▶ retailers may offer bargains on product lines which are slow to move
- ▶ the travel industry, for example, airlines will sell cheap flights or train companies may promote bargain prices for first class seats rather than run empty carriages
- ▶ restaurants and bars promote happy hour to attract customers at quiet times or to shift excess stock.

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

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

Businesses with a perfect competition structure are too small to influence changes to prices as they hold a small share of the market.

Imperfect competitive structures can influence pricing by forcing suppliers to reduce costs when demand increases or the cost of raw materials decreases. Factors which contribute to their ability to influence output decisions include the:

- ▶ cost of production
- ▶ environment
- ▶ market power.

Assessment practice 1.2

C.P4

C.P5

C.M3

D.P6

D.M4

C.D2

D.D3

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

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

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

Plan

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

Do

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

Review

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

E

Investigate the role and contribution of innovation and enterprise to business success

Role of innovation and enterprise

For a business to retain or grow its market share, the role of innovation and enterprise is vitally important.

Innovation

You explored one example of innovation earlier when you looked at the CASA case study and their approach to providing care for vulnerable adults and children. Other ways in which a business can be innovative are outlined below.

- ▶ Creative process – a staged approach to creativity which does not occur by accident and involves a set of distinct processes as shown in Table 1.8.

▶ **Table 1.8:** Example of a staged creative process

Preparation	Such as research or reviewing current processes
Incubation	A period of reflection and working through ideas both consciously and subconsciously
Illumination	The light bulb moment when ideas become crystallised
Implementation	When the ideas or process are put into action

- ▶ Theoretical models exist in a variety of formats, stages and terminology, for example Graham Wallas' 1926 four stages of creativity model, where implementation is a verification stage, testing out the process for suitability.
- ▶ Product or service development require both innovation and logical steps to the process. While refining a current product or service might appear to take a less formal approach, there are theoretical models for new product development (NPD) developed by Booz, Allen and Hamilton. However, any business needs to establish a strategy for development to avoid compromising the existing business.
- ▶ New ways of increasing business efficiency or improving profitability are another way a business can be innovative. Improvements to business efficiency can increase productivity, cut costs and improve profitability.
- ▶ Successfully exploiting a new idea is both innovative and enterprising and may be the start of a new business or development of an existing business. Examples of recent success stories include:
 - Innocent drinks
 - Moneysupermarket.com
 - Tyrells Potato Crisps
 - Dyson and the bagless vacuum cleaner.
- ▶ Adding value to products has become an expectation, especially as we are technologically dependent. Examples of digital and non-digital products include:
 - adding cameras to mobile phones
 - internet-enabled phones
 - sandwich packaging which also serves as a temporary tray
 - Saucy Fish Company where the packaging is used for the cooking process.
- ▶ Services are added and new markets are exploited to differentiate a business from its competitors, such as:
 - the introduction of tablets transforming the popularity of desktop computers
 - Reactolite rapide glasses enabling prescription glasses to react to light changes

- Velcro providing alternative fastening to traditional methods such as press studs or hooks and eyes and which can be used on a wider range of products such as trainers
- Virgin, from the humble beginnings as a student magazine in the 1960s, to record company diversifying into airlines, trains, telecommunications and finance
- online banking and mobile banking, first introduced in the US in the early 1980s
- standard broadband to fibre optic
- multi-car insurance offering discounts for families with more than one car.

Enterprise

Identifying opportunities to develop business activities

- ▶ Creativity is sought by employers and it is required if a business is to thrive. Organisations exist to support the research and development of creative enterprise. Project teams explore ways to develop exciting and creative commercial enterprises into subjects such as music, fashion, computing and cooking.

Research

Explore how creativity and innovation has made Heston Blumenthal OBE a household name in the world of cooking.

- ▶ **Lateral** thinking is a concept originally created by Edward de Bono to encourage creativity. You might know this approach as the currently popular term of 'thinking outside the box'. De Bono also introduced his 'Six Hats' concept which means considering an idea from the perspective of how others might view it. His metaphor of wearing someone else's hat is deemed to be extremely powerful.
- ▶ **'Blue sky' thinking** represents a no holds barred approach to thinking creatively. Consider it as giving permission for anything to be possible – the sky's the limit to expand individual and group ideas beyond any constraints which may appear to exist.
- ▶ Chance and **serendipity** are valuable ideas that occur out of the blue. They could relate to business which is unexpected, perhaps due to a misdialled phone number. For example, much like the serendipitous circumstances that led to the development of penicillin, James Schlatter discovered the artificial sweetener NutraSweet through unrelated work with amino acids. Of course, not all examples will result in a positive outcome, but one very famous example of a discovery by chance and serendipity was made by Alan Turing's team. Their discoveries ultimately saved thousands of lives, ending the Second World War earlier than expected. Their work also led to the production of the world's first electronic computer. Other serendipity products include Kellogg's Corn Flakes which were developed due to a delayed cooking process. The medical sector have also known several serendipity moments. The discovery of penicillin, and the discovery in 1998 that Viagra has additional uses other than its intended use as a heart remedy, were regarded as very happy accidents.
- ▶ Intuition can also lead to viable business opportunities. It can be considered to be something that happens by accident but theories exist that intuition occurs naturally as a result of complex thought processes and decision making. Many suggest that Steve Jobs showed great insight with his creation for Apple – he famously did little market research but, rather, offered the market what he felt they wanted, with obvious success.

Key term

Lateral – approaching subjects from alternative perspectives.

'Blue sky' thinking – approaching subjects with no restrictions on perspectives.

Serendipity – a pleasant discovery that occurs unexpectedly or by accident.

Case study

The Philips' story

Compact discs (CDs) were first introduced in November 1982 by UK electronics company Philips. CDs are the forerunner of today's extensive family of optical discs used in a wide range of devices and used universally.

The Philips family established their company in 1891 in the Netherlands, 14 years after Thomas Edison accidentally discovered how to record sounds, in 1877, while experimenting with recording Morse signals. They began their business manufacturing carbon-filament lamps, swiftly becoming Europe's largest supplier of light bulbs. In the early 20th century, they set up their first research laboratory, stimulated by the industrial revolution, and their diverse inventions continue to enrich our everyday lives. Famous inventions include radio technology, televisions, electric shavers and x-rays.

However, while the Philips brand has a worldwide reputation for being revolutionary, not all their innovations have been an immediate success. While they had major breakthroughs with the storage of digital

data, images and sounds, some of their products are seen as too restrictive because they are too exclusive. Therefore, while some of their products were unique they were also likely to be more expensive than mass produced products. For example, when they introduced their first ever domestic video recorder (VCR) in the early 1970s, it required a Philips' video tape which was not compatible with other makes or later versions and it became obsolete. However, the technology lived on, leading to the inventions of the LaserVision optical disc, DVDs and optical telecommunication systems.

Check your knowledge

- 1 How does Philips maintain its market share?
- 2 What risks have Philips taken and what are the outcomes?
- 3 Name at least two functional/operational areas in the organisation which contribute to its survival.
- 4 Give examples of the affects between demand, supply and price.



PAUSE POINT

What contribution has Philips made to consumers?

Hint

How has Philips responded to changes in the market?

Extend

Compare and evaluate the reasons for the success of two contrasting businesses. Evaluate how changes in the market have influenced business decisions and how successful they have been.

Benefits and risks associated with innovation and enterprise

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

Benefits

Improvements to products

Businesses need to consider if:

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

Processes

Processes can be too cumbersome or bureaucratic to be efficient and you may be able to think of an example where you have found a process that has 'got in the way'. Overly bureaucratic processes are often blamed in the public sector leading to a duplication of work or delayed results.

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

Services and customer experience

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

Business growth

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

Development of new and niche markets

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

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

Offering unique selling points (USP)

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

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

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

Well known USPs include:

- ▶ Burger King and their promise to respond to customer changes in their fast food 'have it your way'
- ▶ Avis cars offering customer pick up services
- ▶ John Lewis Partnership's slogan 'never knowingly undersold'
- ▶ Skype - 'the whole world for free'
- ▶ Amazon - 'Earth's biggest bookstore'
- ▶ BMW - 'the ultimate driving machine'.

Key term

Unique selling point (USP)

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

Key term

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

Improved recognition and reputation

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

Branding

The **branding** of a product or organisation can make or break a business and should represent what it is offering so that it is easily recognisable.

Smarter working

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

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

Risks

To make strategic decisions requires considering the risks as well as the benefits. Considerations are outlined below.

- ▶ Failing to meet operational and commercial requirements, for example legislative requirements such as health and safety. Businesses have to comply with commercial requirements; these could be variable depending on the type of business. For example the construction industry (such as plumbing) will have to comply with specific legislation when working with gas. Therefore a business could not extend its services by providing gas installations without relevantly skilled and qualified gas engineers.
- ▶ On a lesser but still important scale, the decision not to go ahead with an innovative idea might be due to an interruption in the process which impacts on the quality of a product or service. An example could be where a shelf stacker is rushing to restock products by stacking the front of the shelf instead of moving old stock forward and placing new stock at the back of the shelves.
- ▶ Failing to achieve a return on investment is a massive risk associated with innovation and enterprise. Consider the research and development team working on a project for many years at significant cost which, at its outset, is cutting edge and innovative. However, by the time it is refined, tested and comes to market, the demand may have been met by a competitor or an alternative product or service.
- ▶ Clive Sinclair is an example of an entrepreneur and inventor for whom some ideas never came to market. He is best known for his inventions of miniature pocket TVs, ZX80 and ZX81 computers and the C5 battery operated single-person car.
- ▶ DeLorean's invention, the DMC-12 car, failed mainly due to cost, the time it took to produce and product quality.
- ▶ An invention which never came to market is the 1926 Ford 'Flying Fivver' single seat plane.
- ▶ Cultural problems can prevent an idea or product coming to market. These include:
 - resistance to change, for example customers who prefer to stick with what they use already or employees who refuse to change or adapt to new processes: Samsung's introduction of a mobile phone with a curved screen in 2013 has so far not been revolutionary nor has Microsoft's range of curved keyboards

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

Case study

The beauty in the skies



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

Concorde took over 25 years to produce just 20 aircraft from initial project stage to first passenger flight, jointly between UK and France, supported by manufacturer

Airbus. Only 14 Concorde were in operation at enormous economic losses and considerable government subsidies. Despite having received considerable interest from other airlines to purchase 74 planes in the 1960s, these were cancelled during the early 1970s making production unprofitable. Reasons given included environmental concerns and spiralling costs of manufacture. At the same time, budget airlines started to appear and competition for reducing passenger air travel was rife.

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

Check your knowledge

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



PAUSE POINT

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

Hint

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

Extend

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

Assessment practice 1.3

E.P7

E.M5

E.D4

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

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

Plan

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

Do

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

Review

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



PAUSE POINT

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

Hint

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

Extend

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

Further reading and resources

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

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

Smith, J. *Start an Online Business in easy steps: Practical Help for Entrepreneurs*. In Easy Steps Ltd (2011).

THINK ▶ FUTURE



Andrew Churchill

Landscaping
business owner

Andrew Churchill set up his garden landscaping business in 2004 offering a professional range of services. As owner, he is responsible for guaranteeing the work and ensuring all employees are suitably skilled to undertake work to the design specification.

When working with customers to discuss their requirements and their design ideas, Andrew calls on the support of his team members. For example, if the customer wants complex lighting arrangements or water features, the relevant skilled representative will accompany him on-site to discuss requirements.

Due to the success of his company, Andrew entered into a merger with Chiltern Fencing in June 2011 to form Chiltern Churchill. The new company has an even larger client base, including both landscaping and fencing solutions. As the business grows with more customers and larger jobs, Andrew may have to consider taking on additional assistance to help deal with customers, suppliers, sourcing materials and ensuring processes and systems are fit-for-purpose for a growing business.

Focusing your skills

Preparing yourself

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

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

Getting ready for assessment



Josh is working towards a merit in his BTEC National Diploma in Business and is pushing himself to achieve a distinction. He was given an assignment about a large not-for-profit business covering learning aims C and D. He had to produce a report which represented how the business had adapted to changes in environmental factors over the years. He had to consider all angles that had impacted on the business and informed the decisions and then analyse the strengths and weaknesses of the decisions made and anticipate how the business will respond to future changes.

How I got started

First I created a plan. Next I underlined all the key elements of the assessment and checked against the learning aims to make sure I didn't miss anything. I created a file for all my research sources and used the references suggested in this unit. I searched for the books I thought would be useful and ordered them from the library early. I made a list of not-for-profit businesses and then reduced the list according to their size. I asked family and friends for any suggestions in case I had missed any. I didn't rely on just one business as I wanted to get the most out of this assignment. I was challenged to think about my reasons for selecting certain businesses in a previous activity. I set aside quiet time to undertake my research and enquired about business report writing and how to produce an executive summary.

What I learned from the experience

- ▶ I thought what I had written made sense and was accurate, but found even I make mistakes!
- ▶ Write the executive summary last after you know what you have written about.
- ▶ It's quite hard to write the conclusion.
- ▶ Check against the assessment criteria to make sure everything is covered, not only the merit and distinction but also the pass criteria.
- ▶ I'm glad I kept all my notes as some of them were better than when I tried to improve them (because I had made it too complicated). I also found it motivating to see how much I had learned and achieved especially at times when I thought I wasn't getting anywhere.
- ▶ Build in extra time to do assignments, I had a cold so my brain was woolly for a couple of days.
- ▶ The plan and order may change, especially when you need more books or your internet is down.
- ▶ I must always save my files – and often! I lost a whole page when we had a power cut.
- ▶ Don't just check the spelling and other obvious things but how the whole report looks. Sometimes the sections were just a sea of words and I lost interest in reading it.

How I brought it all together

I started my report by creating an outline to make sure it had the main headings, page numbers and, most importantly, my name and student number. We had been given a format which told us what type and size of font to use and the approximate length of the report. This is how I went about producing my report.

- ▶ I typed up my findings while the information was fresh and buzzing around in my head.
- ▶ I went back over my work many times to check it made sense, was in the right order and I hadn't missed anything.
- ▶ I used diagrams or models to explain.
- ▶ I kept all stages of my work including doodles and notes, just in case.
- ▶ To choose my business to examine, I went back over the examples in this unit and especially the case studies. As I want to get a merit at least, I thought it would be better to find one of my own. I also felt quite proud as if I had discovered something new.

Think about it

- ▶ What method will you use to plan your assignment?
- ▶ Where will you work so you won't get interrupted or lose focus?
- ▶ What will you do to maintain your interest and enthusiasm?
- ▶ How will you know when you have finished?