BTEC Level 3 Business: **Unit 1 Exploring Business**

BTEC Business Level 3: Unit 1: Exploring Business

Knowledge Organiser: Learning Aim C: Examine the environment in which businesses operate

How does the external environment affect a business?

To run the business successfully, it is necessary to understand the environment with in which the business operates.
The environment, which lies outside the organisation, is known as the external environment.
External factors are unpredictable and uncontrollable. They are beyond the control of the company.
These factors are often used by businesses to analyse how and why they will be successful or unsuccessful – this analysis is known as 'PESTLE' which stands for:

P	• Political
E	• Economic
S	• Social
T	• Technological
L	• Legal
E	• Environment

Political Factors: Involve the decisions and laws that governments make. These include:

Tax: Governments can raise or lower corporation tax, which will impact on profits. They can also affect businesses by increasing value-added tax on products or business rates.

Laws: They can bring in new laws like the National Minimum Wage, which impacts on profits and employment rights. Governments can also introduce new health and safety legislation meaning that a business has to change the way it works, for example by training its staff.

Political stability: The vote to leave the European Union, also known as Brexit will have an impact on the way UK firm's trade with the EU single market. The impact may be negative (a loss of trade with EU customers) or positive (less restrictions placed on firms by EU lawmakers). For example, Scottish fishermen hope that leaving the EU will help boost their industry. On the other hand UK-based car manufacturers are worried about losing out on free access to wealthy customers in France and Germany.

Government support – grants and promotions e.g. solar panel grants.

Changes to governments – when there is an election and the ruling party changes.

Government bail-outs of businesses – the buying of businesses to help them to survive.

Being a member of trading communities – sector specific and allows businesses to network.

The European Union – working with other members based on four freedoms of movement (people, goods, services and capital).

Economic Factors: Are all concerned with the so called 'levers' of the economy. These include:

Economic growth: If there is economic growth then more jobs will be created and more tax will be paid. The government introduces support to help ensure that our economy can continue to grow – e.g. the eat out to help out scheme.

Interest rates: When interest rates are high, businesses borrow less and invest less. However they receive more interest on money saved in the bank. When interest rates are low, businesses may borrow and invest more, but will receive less interest on money in the bank.

Unemployment: If unemployment is high, then firms have more potential workers to choose from. More competition for jobs means that it is easier for a business to keep wages down. If the rate of unemployment is low then businesses will have to offer higher competitive wages to secure new employees.

Inflation: When inflation is high, prices rise and customers may stop buying luxury goods and focus on essentials.

Exchange rates: The value of our money in relation to other currencies. Are influenced by factors such as inflation (increase in the price of a product), unemployment and the stock exchange. Exchange rates can rise or fall. When there is a fall in the pound it has both positive and negative impacts on businesses. When the exchange rate for the pound falls it becomes weak. A weak pound makes our goods cheaper to sell abroad. However if UK firms need to buy in raw materials from abroad then the weak pound buys less, making the cost of production higher. This extra cost may be passed on to the customers, resulting in higher prices.

The business cycle: times of boom and times of recession.

Fiscal policy – levels of taxation based on the cost of borrowing.

Monetary and other government policies – relates to the value of our currency and interest rates. Set by the Bank of England and the Monetary Policy Committee.

Supply side policy – aims to improve productivity and produce economic growth. Mainly through changing income tax but could also link to import quotas and export subsidies.

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Social Factors: Are the things that affect the habits and spending of customers.

Attitudes to saving: If people don't have enough disposable income (money to spend), it is difficult for them to save money. Governments introduce tax-free Individual Savings Accounts (ISAs).

Spending and debt: Changes to spending habits influence the types of business that can start up and expand. E.g. recent increase in pawn brokers, gambling sites whereas clothing stores, pubs etc are struggling to survive.

Social responsibility requirements: Consumers are being encouraged to consider ethical matters and the consequences of their actions much more.

Change: Changes for example to the demographic trends can influence business. For example, in Slough, there is a wide diversity of ethnicity which has led to new businesses catering for specialist foods, local government services and training opportunities.

Consumers' tastes / preferences: For example the food industry is now strongly influenced by foreign foods and recipes, while fast food remains very popular.

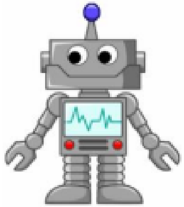
Technological Factors: Technological advancements and changes influence businesses and create opportunities for new businesses.

Automation – robot technology being used across businesses in factories and shops.

Improved communications – the internet, wifi, G networks for phones.

Complexity of technology – a basic product that once had only one function can now do more than one.

New innovations – the move to micro and nano technology in products.



Legal Factors: Certain legislation must be complied with in business otherwise heavy fines are imposed or even imprisonment. Some laws affecting businesses are:

Partnership Act 1890 – all partnerships are governed by the Act and it lays out what happens to a partnership if it dissolves for any reason and how it will run.

Companies Act 2006 – outlines a code of conduct for businesses and the policies that they should follow.

Charities Act 2011 – protects charities and ensures that their fundraising activities are in line with business expectations.

Competition Act 1998 – aims to ensure that each market is competitive, looks at dominant market positions and anti-competitive agreements.

UK Corporate Governance Code – affects public sector businesses. Tells them what they need to do to operate.

Financial services regulation – protects consumers and monitors the financial activities of third parties e.g. auditors and the stock exchange.

Industry regulators – set up to supervise businesses with a key focus. E.g. The Health and Safety Executive.

Government departments – These advise businesses how to meet the laws and look at key developments and changes that need to happen to them.

Environmental Factors and Ethical Trends: We share a sense of social responsibility for our survival and that of the planet.

Carbon emissions: impact on business costs e.g. increased taxes imposed on fuel.

Waste: Household rubbish must be segregated between different bins for the council to collect and dispose of in controlled ways. Charges for plastic bags at supermarkets.

Recycling: Green policies. Businesses have been built on recycling e.g. the Recycling Factory which sells ink cartridges.

Pollution: The amount produced impacts on our health, buildings and surroundings. Demand for reduced pollution is forcing businesses to close, such as Didcot Power Station, demolished almost 43 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 e.g. 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.

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TAMWORTH SIXTH FORM

Internal Environment: Refers to factors within the business itself. These are factors that the business has control over.

Corporate culture: Normally defined as The way things are done around here. This means the way in which the attitudes, beliefs, values and norms of the firm are visible and evident and shared by all employees in the organisation.

Corporate cultures can vary hugely from business to business. For example, large banks in the city are known for their long hours and cut-throat attitudes whereas Twitter is known for its friendly, inclusive culture.

Corporate Social Responsibility (CSR): Describes a company's commitment to carry out their business in an ethical way.

This means managing their business processes while taking account of their social, economic and environmental impact, and considering human rights.

Corporate responsibility can cut across almost everything a business does. It can involve a range of CSR activities, such as:

- environmental management, e.g. waste reduction and sustainability
- responsible sourcing, e.g. using only fair trade ingredients
- improvement of working standards and conditions
- contributing to educational and social programmes

Ethics: Concern an individual's moral judgements about right and wrong. Decisions taken within an organisation may be made by individuals or groups, but whoever makes them will be influenced by the culture of the company. The decision to behave ethically is a moral one; employees must decide what they think is the right course of action. This may involve rejecting the route that would lead to the biggest short-term profit.
Every day businesses will face ethical challenges.
The way the business is organised and operates will depend on their ethical stance. It could also have an impact on their funding and company values.
Businesses need policies and procedures in place to ensure their employees behave ethically.
The government could step in to stop unethical practices.
As well as CSR policies businesses can also have other ethical policies such as whistle-blowing.

Competitive Environment: The competitive environment relates to how a business is affected by its competition and how it adapts its businesses practices to enable it to compete effectively.

There are three levels of competition:

- Local – Reading
- National – The UK
- International – in more than one continent (Europe and North America)

What impact will competition have on a business?
The one major impact that competition will have is that it will mean that the business must plan with competition in mind.
It could lead to better decisions regarding reputation, quality, design of products or services, prices and value for money.

Factors influencing competitive advantage:

- Differentiation – where a business changes a product or service to make themselves different from the competition.
- Pricing policies – how a business determines prices for wholesale. This also includes how much the retail of products or services will help the business to achieve its planned profits.
- Market leadership – how much of the market a business controls due to sales.
- Reputation – This is earnt by businesses. It is based on expectations usually through experience. A good reputation can improve a businesses sales and profits, a bad reputation can leave a business in jeopardy for some time.
- Market share – The percentage of a given market that a business holds. The highest percentage does not automatically mean that the business is the market leader.
- Cost control – managing the costs of a business to remain viable. Lack of control can lead to the decline of the business.
- Technology relationships with customers – businesses will hold databases and use telephone and online support.

Businesses may need to outsource:
Suppliers – known as logistics this could be supplies, transport or availability of personnel.
Employees – supply workers or using other businesses to supply labour.
Factors affecting the amount available for employees may include available capital, order levels, suitably skilled staff or the amount of available recruits with the required qualifications.

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 is undertaken using various techniques which are outlined below.

PESTLE analysis

Collecting information is a key part of the problem solving process. There are many techniques that can be used to help identify what information to collect. One of these techniques is called PESTLE analysis.

PESTLE is an acronym, and PESTLE analysis is a technique used to understand the impact of outside factors on a location, business or organisation.

It allows an individual or organisation to understand the 'big picture' of the environment they are situated in.

SWOT analysis

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats, and so a SWOT Analysis is a technique for assessing these four aspects of your business.

A business can use SWOT Analysis to make the most of what they've got, to the organization's best advantage. And they can reduce the chances of failure, by understanding what the business is lacking, and eliminating hazards that would otherwise catch them unawares.

Better still, the business can start to craft a strategy that distinguishes it from its competitors, and so compete successfully in its market.

SWOT ANALYSIS	
Strengths Strengths are factors which the company holds expertise in and contribute to the continued success of the organization. These are the basis for the continued success of the organization and will assist in gaining the organization's mission.	**Weaknesses** Weaknesses are factors that prevent an organization from meeting its mission and achieving full potential. These weaknesses hamper the organizational success and growth.
Opportunities The environment within which our organization operates offers opportunities. An organization can identify such opportunities and enjoy benefit arising from them by planning and executing required strategies.	**Threats** Threats are factors existing in the external environment that jeopardize the profitability and reliability of the organization. Such threats are uncontrollable and prove to be a risk to the stability and survival of the organizations.

5C Analysis

Is a marketing framework to analyze the environment in which a company operates. It can provide insight into the key drivers of success, as well as the risk exposure to various environmental factors. The 5Cs are Company, Collaborators, Customers, Competitors, and Context.

SWOT ANALYSIS	Categories	Areas evaluated	Judgements
	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	

Porter's Five Forces

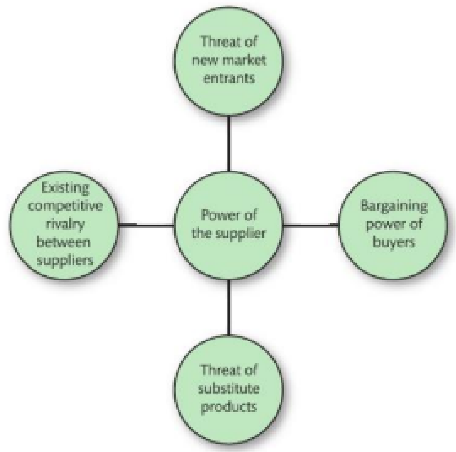
This is used to evaluate the position of a business in terms of its competition. Each category is evaluated in relation to the impact of suppliers on the business.

Threats of new entry: Consider how easily others could enter your market and threaten your company's position.

Threat of substitution: Determine the likelihood that your customers will replace your product or service with an alternative that solves the same need.

Bargaining power of suppliers: Analyzes how easily suppliers could increase their prices and thus affect your bottom line.

Bargaining power of buyers: You also need to determine whether buyers have the power to drive your prices down.



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Knowledge Organiser: Learning Aim D: Examining Business Markets

Different market structures

There are several types of market structures 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.

Perfect Competition

Where businesses supply exactly the same product at the same price.
There are no barriers to entry.
There are 5 criteria to achieving perfect competition:

- All businesses sell an identical product
- All businesses are price takers.
- All businesses have a relatively small market share.
- Buyers know the nature of the product being sold and the prices charged by each business.
- The industry is characterised by freedom of entry and exit.

Agriculture

Foreign Exchange

Online Shopping

Imperfect Competition

There is less competition in this type of market structure.
There are many sellers, but their products do not have to be the same. Therefore businesses can determine their own prices.
Businesses can produce and sell own brands as well as branded products.

Differences between perfect and imperfect competition are based on:

- The 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 or services

Features of different market structures

Each market structure has similar and different features.

	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.

Three main features which impact on business markets

Number of firms:
In perfect competition it will mean that there will be many selling for the same fixed price.
In imperfect competition the number will have an effect on the price consumers pay.

Freedom of entry:
There are unlimited number of buyers and sellers in perfect competition.
However, in an imperfect competition structure the criteria for operation has flexibility in prices which could restrict the number of buyers and mean higher costs of running the business.

Nature of the product:
This will determine the freedom of entry, the number of competitors and whether there is sufficient market share for the business to enter the market.
The end goal for the business must be whether they can make enough profit.

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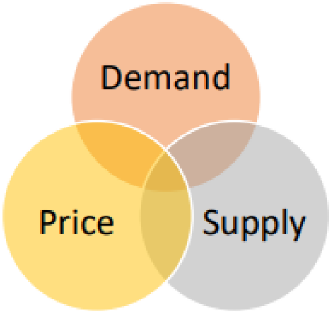
Relationship between demand, supply and price



Influences on Demand

Affordability – if we can afford a product or service we are more likely to buy it.

Competition – if our competition reduces prices demand for our products/services will go down.

Availability of substitutes – the more availability there is of a substitute for a product/service the more likely it is that demand will be affected for another.

The level of Gross Domestic Product (GDP) – GDP is the total value of all goods and services produced by an economy in a year. It relies on the collection of:

- Output – the value of the goods and services produced across every sector by every business.
- Expenditure – the value of all goods and services purchased including exported sales.
- Income – the value of money generated through wages and profits.

Needs and aspirations of consumers – consumers will influence demand, if something is in fashion then they are more likely to buy a luxury item, if it is a necessity that they are buying they will have an impact on basic essentials.

Influences on Supply

Availability of raw materials and labour – There are many different factors that will affect the availability from the weather to change in supplier. There are also some raw materials that are in short supply globally.

Logistics – the process of getting the raw materials and products from A to B. As a nation we rely on road, rail, air and sea travel for our logistics.

Ability to produce profitably – if we can't produce profitably then this will reduce the available finances for buying raw materials or covering other costs, which could lead to a reduction in production.

Competition for raw materials – if our competitors are getting the resources and raw materials that we need we may not be able to supply the amount which is demanded.

Government support – The government may decide to support businesses to help with the supply chain. This can help to generate a need for supply.

Elasticity: Price elasticity of demand

'Price elasticity' refers to the measurement of the relationship between quantity in demand and the change in price.

Price elasticity of demand =
% change in quantity / % change in price

If a small change in price is accompanied by a large change in quantity demanded (greater than 1) the product is elastic (responsive to price changes).

If a large change in prices results in a small change in quantity demanded (less than 1) the product is inelastic.

Pricing and output decisions

Perfect competition businesses are usually small and will not be able to affect price, this means that the price paid for supplies may be unlikely to be negotiated.

In imperfect competition businesses will be able to have the opportunity to negotiate and to impact on price and output.

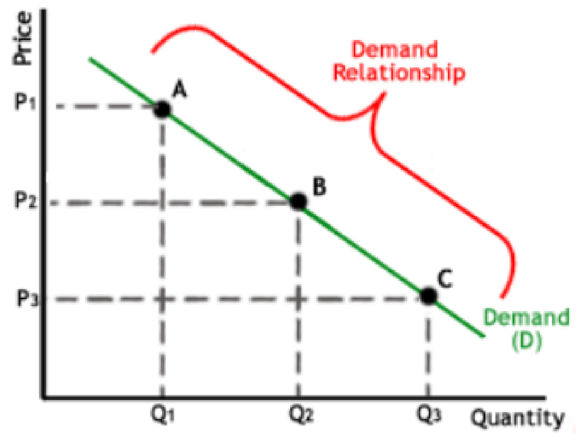
Loss leaders:

Some businesses will introduce loss leaders. This is when a product is sold at a low price to encourage sales.

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

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

In imperfect competition businesses can influence prices as they will hold a higher percentage of the market. Factors that will influence the output decisions will include cost of production, environment and market power.



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Knowledge Organiser: Learning Aim E: Investigating the role and contribution of innovation and enterprise to business success

The role of innovation and enterprise

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

Innovation

Innovation can be defined as:
"The application of better solutions that meet new requirements, unfulfilled needs, or existing market needs"

Businesses can innovate in many ways:

- Developing new products or services e.g. Apple i-phone 12
- Increasing business efficiency or improving profitability e.g. Dell Computers adopting Just in Time which reduced stock holding costs and reduced the lead times to customers.
- Successfully exploiting a new idea e.g. Innocent Drinks, Dyson etc.
- Adding value to products e.g. adding a camera to a mobile phone
- Services are added and new markets exploited to differentiate from competition E.g. on line banking, multi car insurance

Enterprise

Enterprise refers to showing initiative and entrepreneurship.
One of the key qualities of successful entrepreneurs is creativity.

Creative thinking: There are two types of creative thinking:

- Lateral Thinking: Looking at problems in a different way to find new and unexpected ideas. Other wise known as 'Thinking outside the box'
- 'Blue Sky' Thinking: A technique of creative thinking where participants are encouraged to think of as many ideas as possible about an issue or a problem.

Intuition can be defined as: "the ability to understand something instinctively, without the need for conscious reasoning."
E.g. Steve Jobs famously did very little market research when he formed Apple, just offered the Market what he thought they wanted.

Chance and serendipity: Serendipity is defined as: "luck that takes the form of finding valuable or pleasant things that are not looked for"
In a business sense it could be getting an order after a chance meeting with a supplier or inventing a product by accident

Benefits of innovation and enterprise:

Improvement to products: Businesses need to consider:

- Will there be sufficient improvements to existing products to increase revenue and profits
- Is sufficient demand for these improvements

Processes: Business Processes can be bureaucratic and 'get in the way' Finding more efficient, more cost effective processes can benefit the business and its customers.

Services and Customer experience: Innovation and enterprise can greatly improve services and customer experience. These can also give the business a competitive advantage

Business Growth: Businesses are looking to increase profit, market share and possibly strive to become a market leader. To grow businesses need to find ways to move with the times to meet consumer demand

Development of new and niche markets: Means developing entirely new products or an addition to a line of products. A niche market means a specialist market meeting a specific group of customers' needs.

Offering unique selling points (USP): A USP is a factor that differentiates a product from its competitors, such as the lowest cost, the highest quality or the first-ever product of its kind. USPs can benefit a business providing they are based on solid research that confirms demand

Improved recognition and reputation: By offering good customer experience customers become advocates for the business. If businesses feel their product or service is not recognised sufficiently they have to spend a lot of money on rebranding.

The risks of innovation and enterprise

- Failing to meet operational and commercial requirements: i.e. Health and Safety legislation – businesses need to ensure that they meet legal requirements when introducing new business ideas and concepts.
- An interruption in the process: Accidents or issues that interrupt the innovation process could have a negative impact on the quality of the product of service and the customer perception.
- Failing to achieve a return on investment: Investing heavily in research and development is very expensive and there is no guarantee of success. By the time it comes to market the demand may have been met by a competitor or an alternative product or service.
- Cultural Problems: Cultural problems can prevent an idea or product coming to market.
- Unsupportive systems and processes: Process - a series of ordered activities to help you get something done. System - what actually occurs when carrying out the process. An inefficient process can get in the way of the system.
- Insufficient support from leadership and management: Innovation can be affected by:
    - Lack of financial support, time or additional resources to develop the idea
    - Lack of ambition and the management's attitude to risk
    - The majority of ideas do not receive sufficient support from management