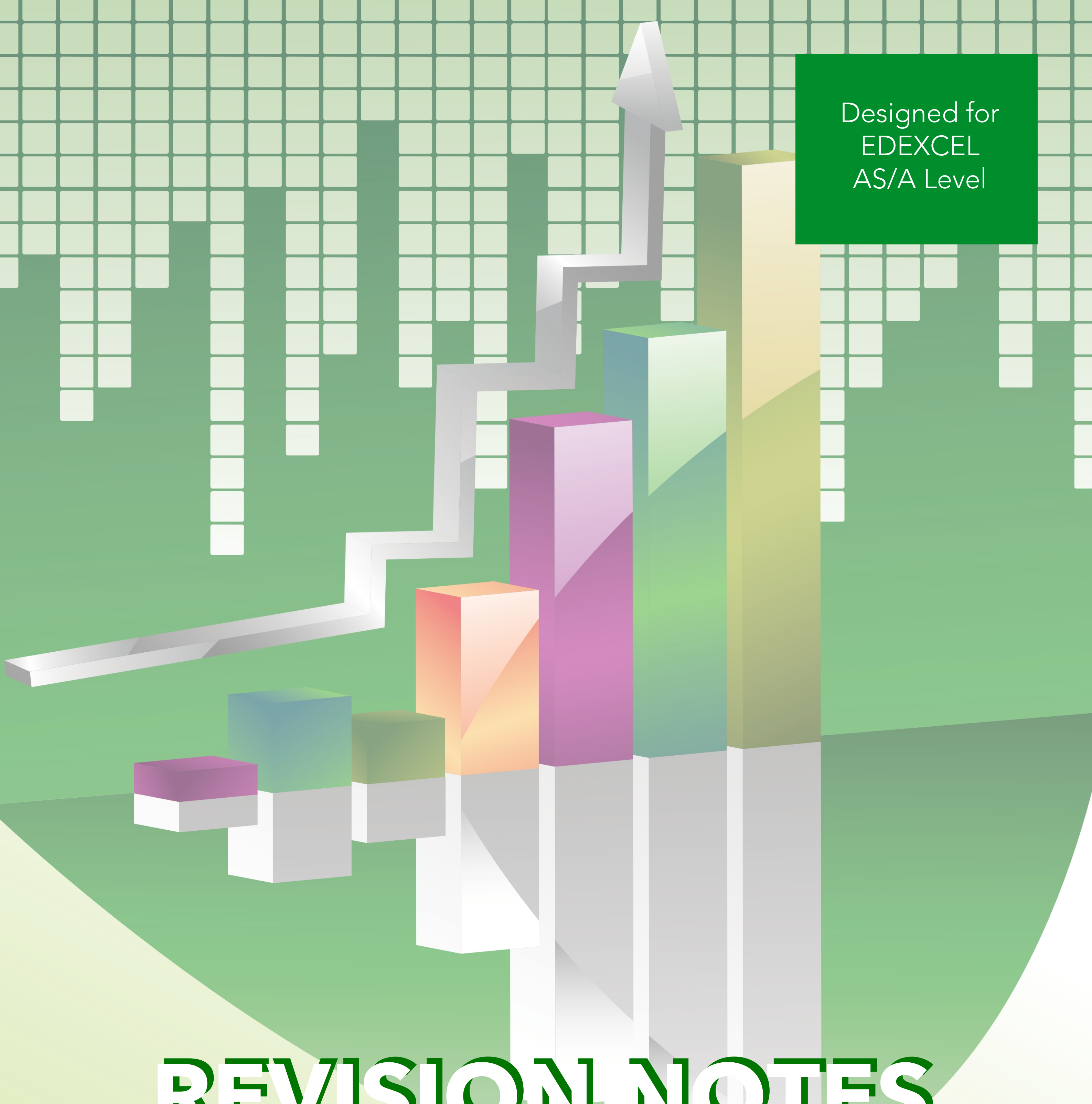
Designed for
EDEXCEL
AS/A Level



REVISION NOTES

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Business AS/A Level

Managing business activities

REVISION NOTES

Raising Finance

Introduction	Start-up finance - Working capital - Finance issues for start-ups - Raising Finance - Financial management
Sources of finance	Need for finance - Internal finance - External sources of finance - External methods of finance
Liability & finance	Unlimited liability - Finances for unlimited liability businesses - Limited liability - Finances for limited liability businesses
Planning & cashflow	Business plan & finance improvements - Cash flow forecast - Changes in cashflow forecast - Analysis of cashflow forecasts - Use & limitations

Financial Liability

Sales forecasting	Purposes of sales forecasting - factors affecting sales forecasting - Difficulties of sales forecasting
Sales, revenue & costs	Sales - Business revenues - Costs of production- Fixed & variable costs - Logic chain
Break-even	Calculating break-even point - Contribution - Break-even charts - Changes in price, output & costs - Using break-even charts - Limitations of break-even
Budgets	Purpose of budgets - How to construct a budget - Types of budget - variance analysis - Analysing budgets & variances - Difficulties of budgeting

Managing Finance

Profit	Calculating profit - Profit & loss - Measuring profitability & profit margins - Ways to improve profits & profitability - Difference between cash & profit
Liquidity	Financial position - Measuring liquidity - Liquidity ratios - Improving liquidity - Importance of cash - Managing working capital
Business failure	Business failure - International & external causes of failure - Non financial causes of business failure minimisation

Resource Management

Introduction	Production methods - Productivity - Factors influencing productivity - Difficulties Being competitive - Efficiency - Minimum cost - Capital & Labour intensive
Production, productivity & efficiency	Methods of production - Productivity - Importance of productivity - Factors affecting productivity - Difficulties increasing productivity - Capital & labour
Capital utilisation	Changing capacity - Measuring capacity - Under & over capacity utilisation - Improving capacity utilisation
Stock Control	Types of stock - Stock control - Poor stock control - Just-in-time - Waste minimisation - Advantage of lean production
Quality management	Importance of quality - Improving quality - Quality initiatives - Continuous improvements - Advantages of quality management

External influences

Economic influences	The economy - Economic climate - Business cycle - Inflation - Interest rates - Exchange rates - Taxation & govt. spending - Economic uncertainty
Legislation	Legislation - Consumer protection - Employee protection - Environmental protection - Competition policy - Health & Safety
The competitive environment	Competitive market - Competition within a market - Competition & market size - Changing competitive market

A. Raising Finance
23. Planning

Business plan & finance

Executive summary
- . who you are
- . why you will be successful

Product / service
- . why customers will want your product/service

Market
- . identify the market
- . market competitors

Marketing plan
- . target custome[illegible]
- . how to target th[illegible]

O[illegible]ional plan
- . how [illegible]t the product mark[illegible]

[illegible]
- . [illegible]shflow prediction
- . [illegible]tify financial needs

Interpreting a cash flow forecast

Cashflow
- . cash in & cash out

Cash inflow
- . cash in from customers
- . cash from other sources

Cash [illegible]
- . monthly p[illegible]
- . [illegible]al paym[illegible]

[illegible]onthly balance
- . positive or negative cashflow per month
- . opening & closing balance
- . negative = overdraft

Changes in cash flow forecasts

Changes in cashflow
- . delayed paym[illegible] - different reasons: delayed delivery; faulty products etc.
- . unexpecte[illegible]ment[illegible]urchase replacement; repairs to equipment etc
- . change [illegible]ms - c[illegible] terms from 60 to 90 days

Analysis of cash flow forecasts

[illegible]sing & [illegible]
- . mo[illegible]nds in [illegible]shflow [illegible]e or [illegible]ative

Monthly closing balance
- . predict trends
- . seasonal variations

Cashflow timings
- . timing & frequency of cash in & out
- . difference in credit terms

Uses & limitations of a cash flow forecast

[illegible]gative cash flow can be improved:
- . limit stock being held - ideally 'just-in-time'
- . early payments from customers - less credit

Keeping cash
- . reducing expenditure
- . lease & rent

Limitations
- . forecasts over optimistic
- . start-up credit terms
- . cash reserve for emergencies

A. Raising Finance
23. Introduction to finance: planning

Finance for start-ups

Assumptions for start-ups

. over enthusiastic about finances

. not enough working capital (50% start-up - 50% wor… …pital)

. not enough time to get business (assume business b…

Working capital

Need to know

. initial start-up costs

. sales needed to cover costs

. daily outgoings

Lo… …ain

Last wo… …ng capital balance

…m cus… …s

Money for suppliers, wages & bills

New working capital balance

Financial issues for start-ups

Start-up costs

. total cost fro… idea to opening the… …s inc. premises, f… …s sto… etc.

Run… …osts

. rent; utilities; wages, … …ses or loans etc

. variable costs: stock; …dvertising etc

Revenue

. difficult to forecast how many customers & how much they will spend & when they will come

Raising Finance

…ort te… (new business)

…ne…

ba… …ed overdraft

credit … …ppliers

…ade cred…

Medium term (2-5 years)

. bank loans (rates high for small businesses)

. leasing for equipment & vehicles

Long term

. reinvested profits

. venture capital loans

. share sale

Financial management

…udget control

. revenue v costs

. extra sales not always equal extra profit

.

Expansion

. rise is sales is good but costs increase (more or bigger premises, extra staff etc)

. expansion too quickly is the downfall of many businesses

A. Raising Finance

24-25. Sources of finance: internal & external

Need for finance

Start-up
. raw materials
. premises + utilities
. wages
. ongoing costs

Capital expenditure
. items needed for the business: premises; equipment; vehicles etc
. used in the long term

[…]enue expenditure
. […]sed quickly: wag[…] materials; suppli[…]trol etc

Internal finance

Owner's finance
. own savings for the business

Retained profit
. profit put back into the business

Sale of asse[…]
. sell-off s[…] parts of the bus[…]
. sale[…]sell an[…] asset the[…] back

[…]ement of capital
. […] payments
. trade credits

External sources of finance

Family & friends
. usual for small start-up
. little or no interest payment
.

[…]anks
. […]ely loan to […]rt-ups
. […]eral needed for loa[…]
. […]s available

Peer-to-peer
. online companies offer loans from individuals for businesses
. better interest rates than banks

Business […]s

Angel […]tors
. lend for […]e business
. […]s or indi[…]s

Crowdfunding
. similar to peer-to-peer
. large number of people (crowd) who provide money for something in return

Other businesses
. business may set up a subsidiary
. joint-venture
. buy shares of another

Extern[…] metho[…] fin[…]

[…]
. repa[…] interest
. unsecure[…] lender takes […]sk)
. secured (against assets e.g. property)

[…]nk overdrafts
. most businesses have an overdraft option
. short term debt, high interest rate paid by business

Share capital (ltd. com.)
. sell shares in the co.
. ordinary shares - dividend may be paid
. preference shares - fixed rate paid

Leasing
. rent equipment rather than buying
. reduces capital outlay
. expensive in the long term

Venture capital
. take a share of the co.
. not always long term

Trade credit
. credit for goods but often at higher price

Grants
. some grants available but difficult to qualify
. not usually repaid

A. Raising Finance

A3. Financial liability

Unlimited liability

Unlimited liability

- unincorporated

. legally owner & business the same

. often sole traders & partnerships

Implications

. owner liable for any [illegible] ny debt

. owner liab [illegible] lawful [illegible] by company

Finances for unlimited liability businesses

Owner's capital

. owner's savings

Mortgage

. remortgage house to finance business

Banks

. unsecu [illegible] ans [illegible] for star [illegible]

. ov [illegible] rdrafts a [illegible]

Re [illegible] profit

[illegible] nce u [illegible] ing can [illegible] profits

Peer-to-peer

. online finance

Crowdfunding

. increasingly popular method of raising finance

Limited liability

Limited liability

- incorporate [illegible]

. business [illegible] ners [illegible] y separate

. busine [illegible] fo [illegible] debt

[illegible] mplications

. owners not liable only their share in the co.

. owners not liable for unlawful acts by company - unless owners actions are a crime

Finances for limited liability busine [illegible]

[illegible] re ca [illegible]

. [illegible] ld by the own [illegible]

. [illegible] an raise [illegible] amounts [illegible] finance

[illegible] bentures

. [illegible] Cs can raise money from debentures - often long term loans (30 years)

. no control over the company

Retained profit

. reinvest profits in co.

. for large companies they can have £ millions in cash reserves

Trade credit, overdrafts

. limited liability companies can get very good credit terms

. get large overdrafts

Venture capital

. most of their capital goes to limited companies

Business angels

. invest at an earlier stage than venture capitalists

. both unlimited & limited

B. Financial planning
29. Sales forecasting

Sales forecasting

Purpose

. forecasting sales very important: how much stock to buy; number of staff; size of premises; expected profits etc

. give good cashflow forecast

Time series analysis

. data based on pre[illegible] years - use past to forecast the future

. analysing d[illegible]w several things:

. Th[illegible]d

[illegible]uctuations

. Cycl[illegible]tuations

[illegible]andom fluctuations

Factors affecting sales forecasts

Consumer trends

. consumer habits & behaviour change over tim[illegible] e.g. advances in technology[illegible] demographics

. success = predicti[illegible]g trends

. being ready for [illegible]

[illegible]onal va[illegible]

. [illegible]oducts/s[illegible]ices are s[illegible]

[illegible]ompetiti[illegible]

[illegible]tions of others [illegible]t businesses

Economy

. taxation

. exchange rates

. inflations

. booms/bust cycles

Difficulties of sales forecasting

Difficulties

. ex[illegible]tion: u[illegible]ds to predict the future

useful [illegible] short term

[illegible]eful for medium - long term

[illegible]uture not always follow the past

too many variables for accurate forecasting

B. Finance Planning

30. Sales, revenue & costs

Sales

Sales

Sales volumes: number of units sold

Sales revenue: units sold x price

Revenue: sold on credit; sold at discount etc

Revenue

Revenue

Units sold

Aim: higher price (less sales)[illegible]her reve[illegible]r profits

lower price (more s[illegible]les), [illegible]evenues [illegible]gher profits

Higher price in markets w[illegible]s comp[illegible]

Lower price where markets a[illegible]ore compe[illegible]e

Online pricing more flexible & [illegible]le

Production costs

Costs of [illegible]uctio[illegible]

. costs [illegible]ill det[illegible]ine price & whether it is profitable

Fix[illegible]ariable

[illegible]ed[illegible]s

. [illegible]ame [illegible]e, not depend [illegible]

exa[illegible]ent; salaries; tax etc

. Fixed c[illegible]n change over time

. [illegible]nterest rates can change

. Variable costs

. variable costs that depend on output

examples: raw materials; utilities etc

. Costs rise as output rises - but can have discounts from suppliers with bulk buying

[illegible]l costs

. [illegible]xed & variable = total costs

ways to cut costs

cheaper supplies → variable costs fall

cheaper premises → fixed costs fall

Total costs fall

B. Financial Planning

31. Break-even

Calculating break-even point

Calculation

Need to know:

. how many products to sell to cover their costs: break-even

Calculation

. selling price . fixed costs . va[illegible] costs

Break even = fixed co[illegible] / (sellin[illegible] le [illegible] er unit)

Contribution

Contribution is:

. price - variable = contribution

. total contribution = contribution per[illegible] x qua[illegible] sold

. profit = total contribution - fixed c[illegible]

Break-even charts

A break-even chart

. revenue & costs at different levels of demand

. shows level of pr[illegible] & loss - margin of [illegible]

.

Logi[illegible]

boost to[illegible]tribution → sell more units or boost contribution per unit

boost contribution per unit ← by increasing price or [illegible]tting variable costs

Changes in price, output and cost

Break-e[illegible] [illegible]anges

. changes [illegible] break-even po[illegible]

Price [illegible] increase revenue & profit potential

Ri[illegible] fall in demand: no effect on break-even point

[illegible] **in variable costs:** effect break-even point

. **Fall in fixed costs:** fall in total costs

Usi[illegible] brea[illegible]en [illegible]

Use [illegible]ven for:

[illegible]predict o[illegible]t needed in the future to be able to make profit

[illegible]assess any changes impacting break-even (prices/costs etc)

Limitations of break-even

. Simplification

. assumes things are a constant

. Price variation

. prices not the same - discounts etc

. All output sold

. not everything produced is sold

. Static model

. not follow trends

B. Financial Planning

33. Budgets

Purpose of budgets

Budgets are used for:

. **Spending:** keep in limits

. **Measures:** success or failure

. **Spending power:** delegated

. **Motivation:** performance

Budget holders:

1. Directors - master budg[illegible]

2. Regional

3. Branch mana[illegible]

4. Section manage[illegible]

5. Worke[illegible]

How to construct a budget

What is a budget?

. setting targets

. spending to achieve targets

. turn theory into reality

Proce[illegible]

. **Sa[illegible]** [illegible]di[illegible]es for [illegible] year

. **Costs:** [illegible] cost[illegible]nk with profits

. [illegible]**t:** make [illegible]artment/worker accountable

. **M**[illegible] delega[illegible] - make responsible

Types of budget

Types: difficult as costs can rise [illegible]pectedly

. **Historic:** use p[illegible]e - add inflation rate budget rise

. **Zero based:** [illegible]t with zero, th[illegible]y the budget - link to business objectives

. **Simple:** %[illegible]ease [illegible]ross all

Variance analysis

W[illegible]nce?

[illegible]tual c[illegible]red to budget

[illegible]profit

. adv[illegible]wer profits

Analysing budgets & variances

budget unrealistic?

yes, budget rethink

budgets negotiated not set?

no, why excess spending?

make one person responsible?

fewer adverse variances

Difficulties of budgeting

[illegible]gets

. common but not always appropriate

. budgets take time & money - are they worth it?

Variables:

. weather

. unexpected cost increases

Benefits:

. process can be of benefit

. be motivational

. keep costs down

C. Managing finance

34. Profits

Calculating profit

Gross Profit:

Revenue - cost of sales = gross profit

Operating Profit:

Gross profit - fixed overheads = operating profit

Net Profit:

Operating profit - [illegible] finance = net profit [illegible]

Revenu[illegible] [illegible] ost [illegible] ed overhead [illegible] nance + [illegible] = **net profit**

Profit and loss account

Public Limited Companies:

.have to show a statement of comprehensive income - profit and loss

St[illegible] ent s[illegible] s:

. pr[illegible] operat[illegible] profit & net profit

. ne[illegible] divi[illegible] s

Measuring profitability

Profitability as a [illegible]

$\frac{\textbf{gross profit}}{\textbf{sales}}$ [illegible] = %

Ope[illegible] g profit margin

$\frac{\textbf{[illegible] rofit}}{\textbf{sales revenue}}$ x 100 = %

Net profit margin

$\frac{\textbf{profit}}{\textbf{sales revenue}}$ x 100 = %

Measuring profit margins

[illegible] asuri [illegible]

. [illegible] od [illegible] ns

. [illegible] profits over time

Ways to improve profits

Increase profits

. increase revenue

. decrease costs

. combination of both

Ways to improve profitability

[illegible] rove:

. increase the price

. cut costs

Difference between cash and profit

. Revenue = value of sales

. Cash = money taken

C. Managing finance

35. Liquidity

Statement of financial position

Limited companies:

. statement - balance sheet

. assets & liabilities

(money it has and money owed)

Measuring liquidity

Liquidity:

. can a company pay its bills over the next year?

Liab[illegible]s:

. su[illegible]

. tax

Assets:

. [illegible]tock (inventories)

. cash

.(plus future sales)

Calculating liquidity ratios

How much mone[illegible] enough

ratio $\frac{\text{curren[illegible]}}{\text{curr[illegible]liabilities}}$

ratios: 1[illegible] good

Acid test not including stock

ratio $\frac{\text{current assets - inventories}}{\text{current liabilities}}$

ratios: 1:1 is good

Improving liquidity

Im[illegible]

. [illegible]unde[illegible]ed fixed assets

. [illegible]e m[illegible]al

. In[illegible]ong term borrowing

. [illegible]educe[illegible]outlay

Importance of cash

Cash

. cash to pay bills

. cash to take opportunities

. less development

Managing working capital

[illegible]ital in

sell to customers on credit → customers pay debts → buy materials → produce goods →

Uncertainty:
10% contingency funds

Manage working capital:

. minimise stock levels

. plan ahead

. keep credit as low as possible

. get good credit terms

. sell goods asap

. spend less on fixed assets

C. Managing finance

36. Business failure

Business failure

Forbes - reasons for failure

. not in touch with customers . not communicate bu[illegible]ess idea[illegible]

. too little differentiation . poor leade[illegible]

. lack of profitability due to lack of revenue streams

Internal causes of business failure

Internal reasons

. marketing failure: new products/serv[illegible]

. financial failure: over expans[illegible]anagem[illegible]ing capital

. systems failure: IT system[illegible]not [illegible]e job the[illegible]eed to

External causes of business failure

External reasons

. technological advan[illegible]ain big advantage (Nokia v Apple)

. new comp[illegible]: has unique selling point (Amazon cheaper online)

. econom[illegible]ange[illegible]rld recession (2009 car industry)

. finan[illegible]ndin[illegible]S)

Financial causes of business failure

[illegible]ancia[illegible]asons - running out of cash:

. [illegible]h[illegible] than cash inflows

. [illegible]crisis: dependent on one large customer (may change credit terms)

. overtr[illegible]apid sales rise can drain cash (very common)

Non-financial causes of business failure

[illegible]n-financial reasons:

. slow loss of business to competitors (HMV v online)

. poor customer service over a long period of time (online reviews)

. repeated business failures (IT systems)

D. Resource management

D1. Introduction to resource management

Resource management

What is resource management?

. not in touch with customers . not communicate business i

. too little differentiation . poor leadersh

. lack of profitability due to lack of revenue stream

Step 1: design

Design

. marketing failure: new products/servi

. financial failure: over expansion, m emen working capital

. systems failure: IT systems not do ey ne

Step 2: supply chain

Establishing a supply ch n

. technological advance petitors advantage (Nokia v Apple)

. new competitor: has uniq ling point Amazon cheaper online)

. economic chan world re n (2009 car industry)

. finance: bank

Step 3: suppliers

Working sup s

. cash ou than nflows

. cashflow crisi on one large customer (may change credit terms)

g: rapid se can drain cash (very common)

Step qu

Ma quality

slow los business to competitors (HMV v online)

poor customer service over a long period of time (online reviews)

. repeated business failures (IT systems)

Step 5: efficiency

Achieving high levels of efficiency

. slow loss of business to competitors (HMV v online)

. poor customer service over a long period of time (online reviews)

. repeated business failures (IT systems)

D. Resource management

37. Production, productivity & efficiency

Methods of production

Methods of production
- **Job production:** one-off item for a one-off customer (tailo[illegible]de)
- **Batch production:** set number, different parts done by diffe[illegible]eople
- **Flow production:** continuous production of single it[illegible]utoma[illegible]
- **Cell production:** small production line produced to[illegible]

Productivity

What is productivity?
- Labour: amount produced over a time period eg. number of items made or customers served

$$\text{productivity} = \frac{\text{outputs}}{\text{inputs per period of time}}$$

W[illegible]ucti[illegible]mportant?
- [illegible]utput pe[illegible]hows [illegible]oductivity - costs p[illegible] unit
- mo[illegible]oductivity = lower costs = lower pri[illegible] same [illegible]ice higher profit margin

Factors influencing productivity

Investment in technology
- machines (automation) increases productivity

[illegible]eopl[illegible]
- [illegible]re skille[illegible]yees
- [illegible]r production

Employee motivation
- motivation increases productivity
- **job enrichment**

Difficulties in increasing production

Role of m[illegible]geme[illegible]
- UK look[illegible] production [illegible]n pro[illegible]ity

[illegible]roductivity & being competitive

Link between productivity & being competitive
- lower productivity = less competitive
- some products less price sensitive

Produc[illegible] eff[illegible]cy

E[illegible] & productivity not th[illegible]thing
- high productivity can produce waste or poor quality

Productivity at minimum cost

Factors influencing efficiency
- level of waste
- use of right technology
- balance between all factors

Capital & labour intensity

Labour & capital
- 'hand-made' low productivity but high price

Labour intensive
- labour costs high
- cheap to start (low tech)
- low cost labour (Asia)

Capital intensive
- high machine costs
- expensive to start
- can locate anywhere

D. Resource management

38. Capacity utilisation

Capacity

Importance

. need to maximise production but demand van be variable

. need flexibility

Why & how to change ca... y

. changing capacity can be ex... ive and takes time

. need to try to pre... nd

Measuring capacity utilisation

Measure

capacity utilisation is:

$$\frac{\text{current output}}{\text{maximum possible output}} \times 100$$

. maxim... utput = buildings, machinery + labour

. serv... usine... ss easy to define

. use p... temp... ur during busy times

Under capacity

Implications

. fixed costs the same whate... e capacity

. fixed costs & hig... acity = c... er unit reduced

Over capacity

Implica... f ... mum ... city

. demands ris... you... t meet

. ... y servic... k staff training

. cre... ong term problems

. in service industry can mean over crowded stores/queues

. ideal is 80/90% capacity

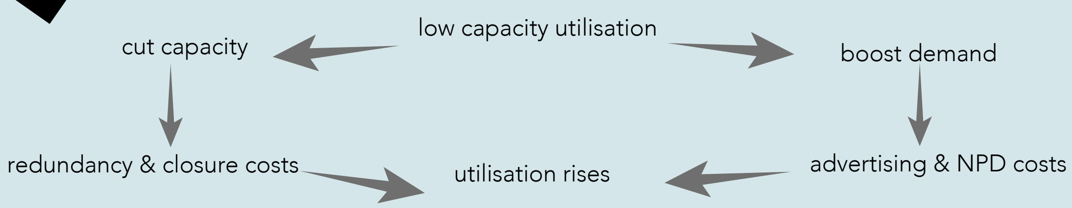
Impr... g cap... utilisati...

Ways of ... oving capacity utilisation

. **Increase demand**: promotions, price cutting etc.
develop new products

. **Cut capacity**: cut number of employees (can increase if demand returns)
smaller premises (can't increase if demand returns)

Logic chain



D. Resource management

39. Stock control

Types of stock

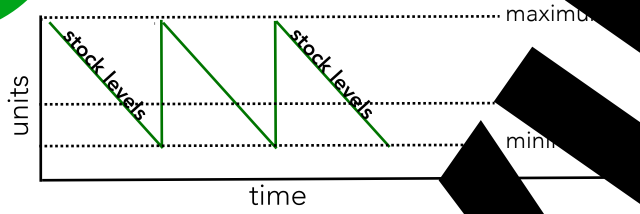
Raw materials
. stock from suppliers

Work in progress
. supplies being manufactured but unfinished

Finis[illegible] goods
. prod[illegible]ished but not sold[illegible] of a batch, [illegible]sonal [illegible]etc.

Stock control charts

Stock levels
. stock levels vary over time
. delivery = high
. sales = low



Maximum st[illegible]
. maximum [illegible]mount [illegible]eld

[illegible]eord[illegible] level
. 'tri[illegible] level [illegible]en stock needs [illegible]ng. A[illegible] time for delivery.

Mi[illegible]k level
. 'buffer [illegible]ck' minimum level before a [illegible]der is needed

Implications of poor stock control

Implications: too [illegible]h or too l[illegible]an be expensive
. **Opportunity c[illegible]** [illegible]tock . **Cash flow**: stock rather than cash
. **Storage co[illegible]** [illegible]pace, insuranc[illegible] . **Finance:** borrowing costs for stock
. **Waste st[illegible]** risk o[illegible]tock going out of date

boos[illegible] → [illegible] cut stocks → cut orders to suppliers → cash outflows decrease → net cash flow increases ← ca[illegible]es

Just-i[illegible]e

J[illegible]ime: minimum stock = more efficient
Phase [illegible] order **Phase 2:** suppliers deliver less more often
[illegible]hase 3: stock levels at low levels **Phase 4: orders more often, less stock**
Phase 5: little or no stock, frequent deliveries

Waste minimisation

Just-in-time:
. **JIT reduces waste** but dependent on on-time supplies & quality supplies

Competitive advantage of lean production

Lean production (Toyota)
. maximise staff input
. quality of supplies & production
. minimal stock, max competitiveness

D. Resource management

40. Quality management

Importance of quality

Importance

. 'Quality is defined by the customer'

. link between price & quality - but always fit for pu[illegible]

. quality make difference in terms of competition

Methods of improving quality

Quality control

. QC inspectors check products - often one in every few

Quality a[illegible]nce

. quality c[illegible]ry stage of pro[illegible] raw ma[illegible] to end p[illegible]

Total quality management

. [illegible]y worker involved in [illegible]ality checks from design [illegible]o sales

Other quality initiatives

Quality circles

. workers meet r[illegible]tif[illegible] problems in th[illegible] process o[illegible] product

Zero defects

. aim to produce faultless products

. aim for some, matter of life or death for others (safety products)

Continuous improvement

[illegible] improve[illegible]t (Kaizen - Japanese term)

. [illegible]uality [illegible] through workers' ideas & observations

. [illegible]ttle [illegible]es = big improvements - culture of continuous improvement

. Im[illegible]nt through teamwork or 'cell' - worker involvement

Competiti[illegible] advantage from quality management

Over-engineered

. Belief that too much [illegible]ality was expensive

Right first time (Cosby)

. Getting it 'right first time' saves money

Quality matters

. premier pricing for a quality product

. brand loyalty when product seen as being quality

. repeat purchase

. retailers support quality products

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E. External influences

41. Economic influences

What is the 'economy'

Economy

. buying and selling of goods & services

. all do well & all can suffer

Current economic climate

Econ[illegible] climate

. busine[illegible]ves on confidence & suffers [illegible]ow in [illegible]fidence

Business cycle

Business cycle

. periods of boom & bust - average over [illegible]ears is 2.5 pa

. during recession businesses have cas[illegible] prob[illegible] & can fail - causing unemployment, fall in incomes with l[illegible]fid[illegible] in the [illegible]nomy

Inflation

Inflation: annual rise in the [illegible]ge pr[illegible] measure monthly in %

. Consumer Price Index meas[illegible]flation (b[illegible]on 700 items) base in 100

. Effects: benefit if have loan; ba[illegible]ave a fixed price contract; less competitive with countries with l[illegible] inflation

Interest rates

Interest r[illegible] the [illegible] charged per year for lending money or providing credit

. central ba[illegible]ate th[illegible]uences bank rates (aim to keep inflation at 2% pa)

. cons[illegible]er dema[illegible]hen interest rates lower & vice versa

. [illegible]ts rise & [illegible]stment low with higher interest rates & vice versa

Exchan[illegible] rat[illegible]

Exc[illegible]tes: measures the value of currencies in relation to each other

[illegible]ppreci[illegible] value of £ increases Depreciation - value falls

[illegible]npact: companies with large exports want a low £ pound exchange rate

companies importing raw materials/goods want a strong £ pound

Taxation & govt. spending

T[illegible]xation: to reduce inflation govt might increase taxes (less spending), but some businesses might suffer

Govt spending: to reduce inflation cut govt. spending (about 40% of economy)

Economic uncertainty for businesses

Economic forecasting: very difficult to do

. exchange rates

. economic growth

. price of oil

E. External influences

42. Legislation

Legislation

Legislation

. British & European laws effect businesses

. Conservative govts: laissez-faire approach to business

. Labour govts: are more pro-customer

Consumer protection

Consumer protection

. laws to protect the customer

. set standards for all businesses

Sales of Go[illegible]ds Act

. 'goods f[illegible] purpose for whi[illegible]ey are [illegible]d'

[illegible]escriptions Act

. eve[illegible] claim a company says about a product must be true

Employee protection

Employee protection

. employees want laws to protect them, businesses want less laws & more freedom

[illegible]imum [illegible]ease labour costs / motivated workers

[illegible]to employ[illegible]ract: lack of flexibility / job security

S[illegible]ternity & pate[illegible]ity pay: increases costs / valued employees

Redu[illegible]y: expensive for business / gives employees something

[illegible]hts: deal with trade unions / deal with one

Environmental protection

Environme[illegible] prote[illegible]n

. increasin[illegible] laws about protect[illegible]onm[illegible]

. im[illegible]vironme[illegible]

Landfill Tax

. business has to pay to use landfill sites for its rubbish

Enviro. Protection Act

. do own risk assessments for damage to eviron.

. time consuming & expensive but good

Compet[illegible] po[illegible]

C[illegible]tion policy

. laws t[illegible]rage [illegible]ompetitio[illegible] - good for [illegible]usiness & customers

Competition & Markets Authority

. investigate: takeovers & mergers; possible anti-competition practices & cartels

. prosecute companies & individuals who break the law

Health & safety

Health & Safety

. laws to ensure employees are safe at work e.g. clothes, fire equipment, hygiene, noise levels, rest breaks etc.

Health & Safety Act

. each business has to have a H & S policy

. information, training to all employees

. prosecute businesses who not comply with H & S

. benefit with safe place to work

E. External influences

43. The competitive environment

Competitive market

Competition

. different companies selling same goods & services

Advantages

. encourages businesses to be efficient, innovati (USP)

. good for custom

Disa ages

. prices fits lower

ting

sts

Competition within a market

Monopoly

. dominate market (25% +)

. govt. regulate to stop monopolies - bad for customers

Oligop

. often simi oms, av price wa

co e marke

c. (sup ts)

ompetition

. lots of businesses selling the same thing

. lower margins so try to be different

Competition and market size

Large markets

. lots of busin s selling the same th

. lower m so be differen

ts

. few businesses in the market

ficult to start in siness in this market

Changes in markets

. businesses come & go

. new markets attract lots of new businesses e.g. online

Changing competi enviro

ompetitive

. cha o keep market share in a competitive environment

ce reduction

. reduce prices to attract w customers

. increase in sales not always = increase in profit, but may keep market share

. can lead to 'price war'

Product differentiation

. being different from the competition:

.design: looks and/or works better

. unique: features that others do not have

Collusion

. work with competitors to fix prices to avoid a price war

. can be illegal - often done without anything 'official' being done