

UNIT 1

Exploring business activity

This unit covers:

- Types of business activity and ownership
- How the type of business influences the setting of strategic aims and objectives
- Functional activities and organisational structure
- How external factors in the business environment impact on organisations

This unit looks at what UK businesses do, who owns them, and the reasons why they exist; the various goals that UK businesses set themselves and how these differ between the public, private and voluntary sectors; how businesses organise their different activities so as to best achieve their targets; the factors from the outside world that affect business performance and how organisations respond to these.

grading criteria

To achieve a Pass grade the evidence must show that the learner is able to:	To achieve a Merit grade the evidence must show that the learner is able to:	To achieve a Distinction grade the evidence must show that the learner is able to:
<p>P1</p> <p>describe the type of business, purpose and ownership of two contrasting organisations Pg 00</p>	<p>M1</p> <p>explain the points of view from different stakeholders seeking to influence the strategic aims and objectives of two contrasting organisations Pg 00</p>	<p>D1</p> <p>evaluate how external factors, over a specified future period, may impact on the business activities, strategy, internal structures, functional activities and stakeholders of a specified organisation Pg 00</p>
<p>P2</p> <p>describe the different stakeholders who influence the purpose of two contrasting organisations Pg 00</p>	<p>M2</p> <p>compare the factors which influence the development of the internal structures and functional activities of two contrasting organisations Pg 00</p>	
<p>P3</p> <p>outline the rationale of the strategic aims and objectives of two contrasting organisations Pg 00</p>	<p>M3</p> <p>analyse how external factors have impacted on the two contrasting organisations Pg 00</p>	
<p>P4</p> <p>describe the functional activities, and their interdependencies in two contrasting organisations Pg 00</p>		

To achieve a Pass grade the evidence must show that the learner is able to:	To achieve a Merit grade the evidence must show that the learner is able to:	To achieve a Distinction grade the evidence must show that the learner is able to:
<p>P5</p> <p>describe how three external factors are impacting upon the business activities of the selected organisations and their stakeholders Pg 00</p>		

Types of business activity and ownership

Types of business activity

We can categorise **businesses** according to:

- **industrial sector** – the type of production carried out
- geographical scale of their operations – whether they are **local, national, international** or **global**
- form of ownership – whether they are in the **public, private** or **voluntary/not-for-profit** sectors.

The industrial sectors

Businesses are engaged in three distinct types of **production** with each type belonging to a different industrial sector.

- Primary sector activities involve taking goods directly from nature. These 'extractive industries' include farming, fishing, forestry and mining.
- Secondary sector activities comprise manufacturing and construction. These create semi-finished and finished products by using materials extracted by the primary sector or materials manufactured from these.

The tertiary sector consists of the service industries. These may produce either commercial services for businesses or direct services for the benefit of individuals and households.

Table 1.1 Business activities in the industrial sectors

Goods (the production industries)		Services	
Primary sector	Secondary sector		Tertiary sector
<i>Extractive industries:</i> agriculture; forestry; fishing; mining; oil extraction; quarrying	<i>Manufacturing industries:</i> metals; chemicals; man-made fibres; engineering; food, drink and tobacco; textiles; footwear; clothing	<i>Construction industries:</i> building; civil engineering	<i>Commercial services:</i> wholesale and retail distribution; hotels and catering; transport; post and telecommunications; banking, insurance and finance; public administration
			<i>Direct services:</i> education; health services; entertainment; police; veterinary services

Trends in the industrial sectors

Over recent decades, all industrialised countries have experienced growing employment in the tertiary sector whilst the number of employees in the primary and secondary sectors has fallen, as shown in Figure 1.1. In the UK, this trend is the result of:

- the use of new technology in manufacturing
- the decline of heavy industries such as ship-building, coal and steel – increasingly these goods are imported more cheaply from abroad

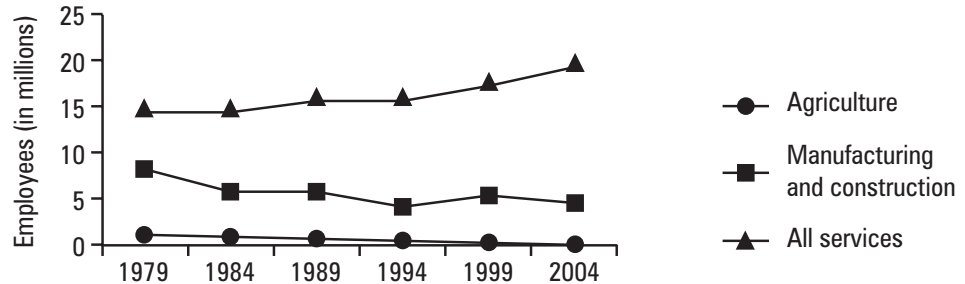
Types of business activity and ownership

- the **outsourcing** of UK manufacturing to overseas producers often in China and the Far East where costs are lower
- a growing demand for services such as leisure and tourism paid for by an increase in our disposable income.

For example, the Eden Project in Cornwall, once a china clay quarry, is now a tourist attraction – a move from primary to tertiary sector.

Figure 1.1 Employment in the industrial sectors, 1979–2004

Source: Office for National Statistics



On page 000 we look at how the construction company Alfred McAlpine has turned itself into a service business – a move from secondary to tertiary sector.

remember Do not confuse local businesses with the local branches of national chains, e.g. the local Kwik Fit is part of a national organisation.

Local, national, international and global business

The scale of business activity varies from local to worldwide.

- Local businesses serve the surrounding area and so tend to be relatively small. The independent corner shop is one example. *Yellow Pages* or *Thomson's Directory* will list others, such as plumbers, garages, hairdressers and restaurants.
- National businesses have sales outlets and distribution systems reaching across the country. National Express, as the name suggests, runs coaches nationwide.
- International businesses operate in more than one country. Arriva, for example, has expanded into a European operator. In addition to its UK operations, it also runs coach and rail services in the Netherlands, Scandinavia, Iberia and Italy.
- Global businesses operate in markets throughout the world. Household names such as Shell, Toyota, Avis, McDonald's and Levi Strauss are all global brands. Tesco, now with branches in Europe and Asia, is aiming for a global presence. HSBC calls itself 'the world's local bank'. What does this mean?



Go to the HSBC Group website (www.hsbc.com) to find out in which countries in the world it has offices.

Gaining a wider market

Traditionally retailers have increased their scale of operations by setting up branches over a wider geographical area. Marks & Spencer, Tesco and Sainsbury all began as small local businesses and then expanded, first by establishing regional branches, then national and finally international branches.

Similarly manufacturers may gain access to new markets by setting up factories overseas. For example, the following now produce within the UK:

- Japanese car-makers Nissan near Sunderland and Toyota near Derby
- Daewoo electronics from Taiwan in Northern Ireland
- USA computer firms IBM and Compaq in Scotland
- Bosch electronics of Germany in Wales.

Buying into existing businesses through **mergers** or **take-overs** provides a more rapid means of expansion. Morrisons, for example, strengthened its position as a national grocery brand by buying Safeway, Wal-Mart of the USA gained access to the UK market when it bought into Asda and for a similar reason Banco Santander of Spain took over Abbey National.

‘From bricks to clicks’

In recent years the growth of **e-commerce** (internet selling) has enabled some businesses to operate across international boundaries without the traditional need to have a physical presence in these countries. Amazon is one successful example of this trend.



On page 000, we look further at business growth.

The public, private, voluntary/not-for-profit sectors

The UK has a **mixed economy** with some businesses operating in the public sector and controlled by the state and some in the private sector owned by individuals. Not-for-profit/voluntary businesses form a third sector seen as increasingly important to the regeneration of the country.

Table 1.2 The public, private, voluntary/not-for-profit sectors

Public sector	Private sector	Voluntary/not-for-profit
<p>Businesses funded and run by the state provide public services.</p> <p>National government at Westminster</p> <ul style="list-style-type: none"> ■ government departments, e.g. Home Office, DTI, Treasury ■ government agencies, e.g. Highways Agency ■ businesses such as BBC, Royal Mail. <p>Local government at the town hall provides public services at a local level, e.g. roads, libraries, leisure centres.</p>	<p>Businesses owned by individuals and run for profit to reward the owner(s):</p> <ul style="list-style-type: none"> ■ sole trader – one owner ■ partnership – two–20 owners ■ private limited (Ltd) company – 2+ owners ■ public limited company (plc) – 2+ owners ■ franchises. 	<p>Run to provide a service to their members or to a group in society:</p> <ul style="list-style-type: none"> ■ mutuals ■ charities ■ trusts ■ co-operatives ■ clubs and societies. <p>May receive funding from government, the public or private businesses.</p>

Public sector businesses are funded and run either by **central government** at Westminster or by **local government** at the town hall. Today the public sector tends to concentrate on services that are necessary or desirable, such as defence, law and order, education and health. In the past the state also took ownership of manufacturing industries such as ship-building, extractive industries such as coal mining, the railways and utilities such as electricity and gas. Local governments are responsible for essential services such as education, libraries and roads at a local level.

We will see that ideas about the extent to which the state should be involved in providing goods and services has changed over time.

Private sector businesses are owned by individuals, or groups of individuals. These are profit-making organisations whose owners (either sole traders, partners or company shareholders) risk their savings and other possessions in the hope of making personal gains.

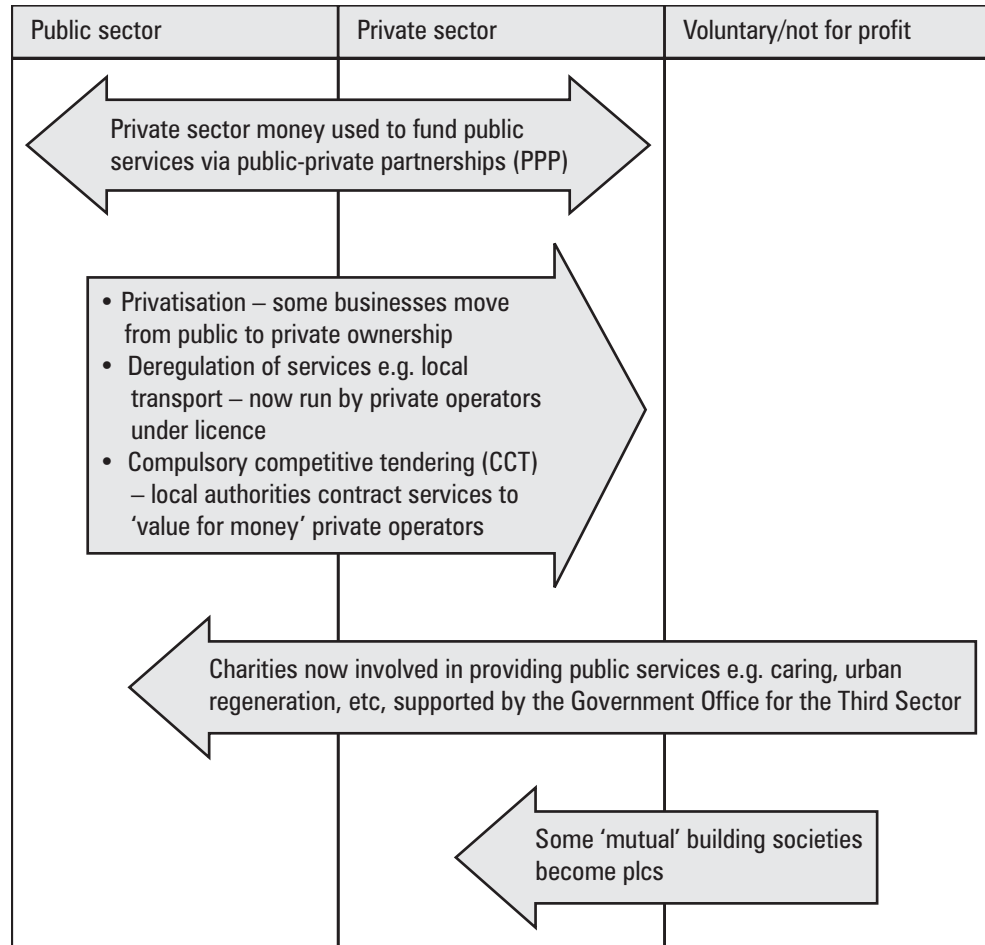
Not-for-profit/voluntary organisations are becoming increasingly important and the government believes that they can play a central role in the future of the UK. They are run by private individuals but their ownership and aims are different from those of the profit-making private sector.

- Not-for-profit organisations seek to provide a service for their members or for a group in society. They are not run for financial gain and any profit they achieve (usually called a surplus) is ploughed back to improve services in the future. Clubs, societies, unions, charitable trusts and workers’ co-operatives are all examples. Well-known national examples of the not-for profit sector are the ‘mutuals’ including the building societies and some insurance providers.
- The voluntary sector comprises those not-for-profit organisations relying to some extent on the work of volunteers who agree with their aims. Local voluntary organisations might be the tennis club or history society; national examples are RSPCA and RNIB, international examples include Amnesty International, Greenpeace and Oxfam. Often voluntary organisations perform a service that the public and private sectors do not perform adequately – perhaps because the state has insufficient funds, or perhaps because it is not a profitable activity and so is not attractive to the private sector.

Recent changes within the public, private and voluntary sectors

The three sectors of business ownership evolved to satisfy the wide range of needs within society. In a changing world the relationship between them has altered; some businesses have moved sector whilst businesses in different sectors have begun to work together in partnership.

Figure 1.2 Some recent changes in business ownership

**Public sector changes**

The role of the public sector has been the subject of much debate over recent years.

In the past central government controlled businesses that they believed to be:

- necessary for the security of the nation – steel-making, coal-mining and ship-building, for example, should not be allowed to close
- essential services – transport and gas, electricity and water should be run for public benefit and not primarily for profit.

The National Health Service was provided free to all at the point of use Organisations such as the BBC and Royal Mail provide public services – public service broadcasting, reliable mail delivery and access to government information and services.

More recently governments have become concerned about the cost to the taxpayer of supporting these services and sheltering them from competition. Today private sector businesses are encouraged to help fund these activities or, in some cases, to run them altogether. Recent trends have included:

- **privatisation** – since 1979 many central government-owned businesses such as BT, the water, electricity and gas companies, British Airways, BP and British Rail have been sold off. These now operate in the private sector as profit-making plcs. There is a view that these businesses run more efficiently if they are made to compete in the marketplace.
- **deregulation of public services** – restrictions have been removed to allow private businesses to run services that were previously operated by the state. Firms such as

Exploring business activity

Stagecoach and Arriva now run local bus services under contract. Under CCT (compulsory competitive tendering), local authorities engage the providers who give best value for money. This enables private contractors such as Cleanaway and Accord to provide local authority refuse collection

- **public-private partnerships (PPPs)** – here private sector businesses help fund public projects such as London Underground, Crossrail, NHS hospitals and HM prisons. This is part of the Private Finance Initiative (PFI) designed to fund the New Labour government's public service reforms.

Figure 1.3 The deregulation of local transport provided an opportunity for Stagecoach to expand



case study
1.1

Public to private: rail privatisation

In 1996 John Major's Conservative government controversially broke up and sold off British Rail which until then was owned by the state. The track and stations went to a new company Railtrack plc, whilst private operators such as Midland Mainline, Virgin and Connex ran the trains under contract.

Railtrack charged the rail companies for its services and was also subsidised by the government. However, it was in a difficult position. On the one hand, as a plc, it had to make profits to reward its shareholders and to attract new investors; on the other hand, it needed to spend huge sums to provide a safe and efficient railway network.

When the Paddington rail crash in October 1999 led to the deaths of more than 30 passengers, Railtrack was accused of cutting back on safety standards in order to pay shareholders. In 2002 Tony Blair's New Labour government replaced Railtrack with Network Rail, a not-for-profit organisation.

activity

- 1 British Rail used to be state-owned. Why was this?
- 2 Which companies now operate the trains in your area?
- 3 Why did Railtrack plc find it difficult to maintain the railways effectively?
- 4 Write a brief argument either for or against selling off British Rail to private shareholders.

Voluntary sector changes

Building societies are 'mutual organisations' owned by their members – the savers and borrowers. They now operate in a similar way to banks but remain not-for profit organisations with all surpluses ploughed back to improve services in future.

Since the early 1990s, a number of building societies have converted into profit-making banks with plc status in order to raise more funds. The first to change was Abbey National, followed by others including Northern Rock, Woolwich and Halifax.

The Nationwide is the largest remaining building society. It claims that, since it does not have to pay a dividend to shareholders, it is able to provide a better deal for its customers in the form of higher savings rates and lower charges for loans and mortgages.



Check an independent personal finance website (e.g. www.moneyfacts.co.uk) or a weekend newspaper to find out the 'best buys' on savings and borrowing rates. How true is it that building societies provide some of the best offers?

As part of its deregulation programme, the government is encouraging the not-for-profit sector to run services for the national and local government. For example, in May 2006 the government created an Office for the Third Sector to support not-for-profit businesses founded for social purposes, referred to as 'social enterprise'. They believe that these organisations will be vital to the future of the UK.

Bulky Bob's is one success story. The business won a contract from Liverpool City Council to collect unwanted ('pre-loved') furniture in its fleet of purple vans. Forty per cent is sold to people on low incomes, as much as possible of the remainder is recycled. Everything that Bob collects would previously have been dumped in landfill sites. Under the agreement the council saves money, the environment and local people benefit. Bob's also gives work to the long-term unemployed and other excluded groups. By 2006 Bob's had 49 employees and turnover of £809,000 a year.

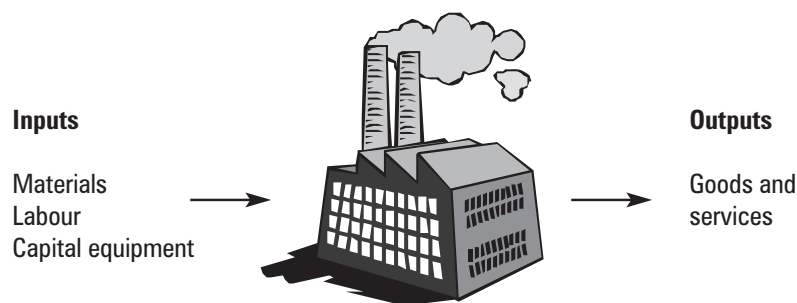
The Minister Ed Milliband said, 'social enterprise is not an excuse for the government abandoning its responsibilities for funding public services.'

Business purposes**Why do businesses exist?**

Businesses exist to provide the **goods** and **services** that people and other businesses need, want and are prepared to pay for. Walk along any high street and you will see signs of business activity – shops, buses, delivery vans, street cleaners and builders are all involved.

All businesses are engaged in production. They use inputs such as materials, labour and capital equipment (such as machinery) to produce outputs in the form of the **products** that customers demand. These products may be either goods or services.

Figure 1.4 Inputs and outputs in production



Goods are tangible objects that we can see and touch.

- Consumer goods are produced for use by individuals and households. They include food, clothes and consumer durables (long-lasting goods) such as cars, refrigerators and DVD players.
- Industrial goods are produced for use by other businesses. These include raw materials, nuts and bolts, machinery, lorries and chemicals.

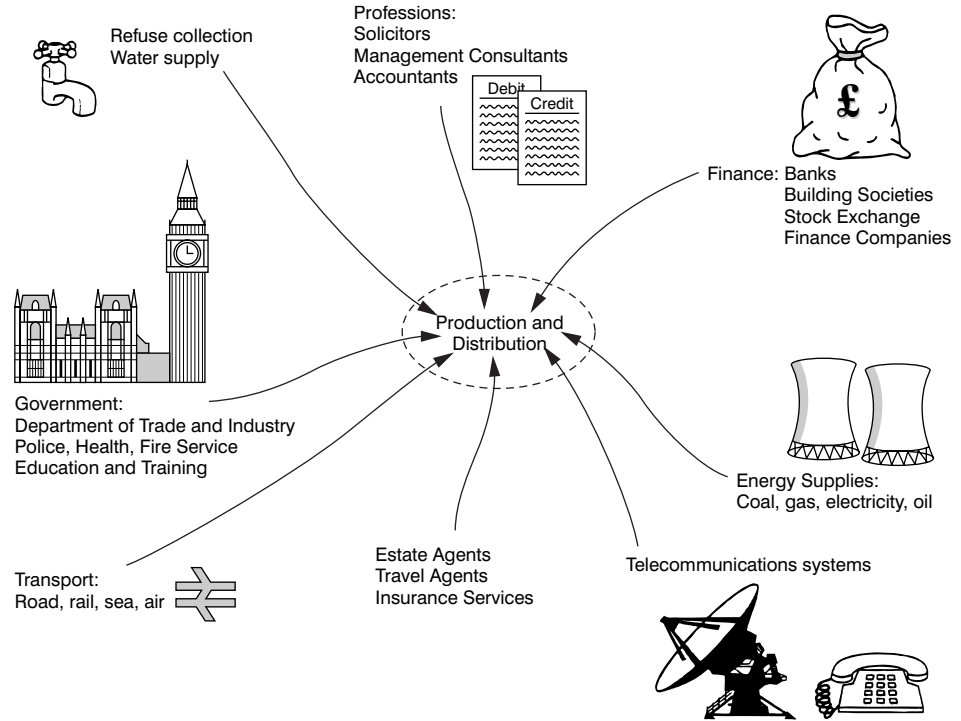
Exploring business activity

Services are activities that provide a benefit to individuals, to businesses or to both. Unlike goods services are intangible.

- Direct (or personal) services are provided for the benefit of individuals and households. They include the services of bank managers, doctors and entertainers.
- Commercial services are provided for the benefit of businesses. These include transporting, warehousing, finance, business banking, insurance and telecommunications.

Figure 1.5 shows the commercial services that provide the **infrastructures** needed by businesses.

Figure 1.5 Infrastructures that support business

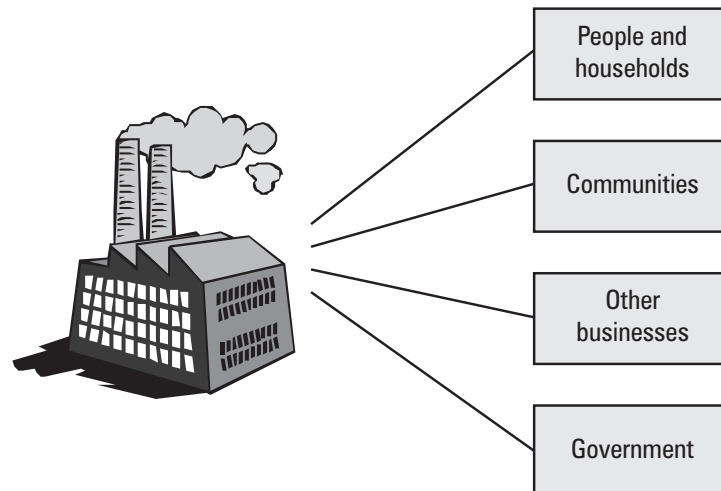


Businesses in all sectors exist to supply the goods and services that customers demand. Remember that this demand comes from individuals, households and communities, from other businesses and from central and local government via public spending. Demand becomes effective where customers are willing and able to buy.

Figure 1.6 Supply and demand

Supply of goods and services from public, private and voluntary sector business

Demand from customers' needs and wants



Types of business activity and ownership

The way in which an organisation meets customer demand and the prices it charges for its products varies with:

- the particular business activity and the nature and scale of its market
- whether it is a public, private or not-for-profit business.

Supplying goods and services at profit, at cost and below cost

remember If you complete Unit 37, Starting a small business, you will need to identify a gap in the market for a product and plan to supply this profitably.

Private sector business

The main motivation for private sector businesses is to make profits for their owners, so that ultimately they must generate more money from selling their products than they spend on producing them.

Case study 1.2 shows how Tesco, the UK's most successful retailer, generates and uses its profits. Notice how the profits are used:

- A percentage of profit is paid to the government's department of Revenue and Customs as corporation tax.
- From the profits that remain, the directors will pay dividends to reward the company shareholders who own the business.
- The remaining profit is retained and ploughed back into the business to fund future expansion.

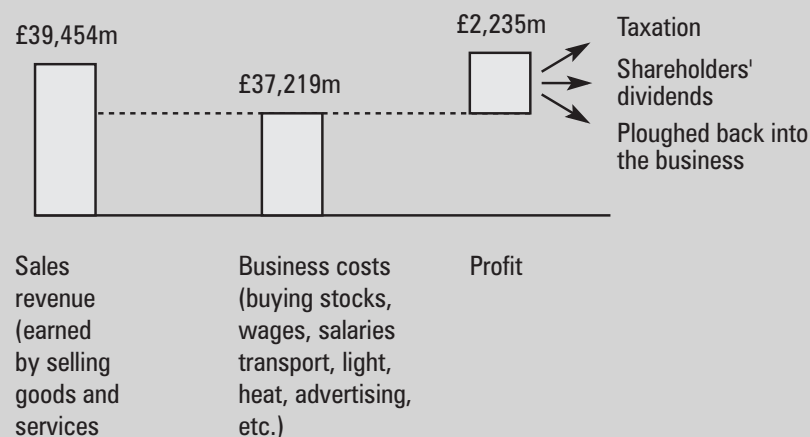
case study
1.2

Tesco plc: 'Every little helps'

In February 2006 Tesco announced record profits of over £2.2 billion. These were achieved not only through supplying customers with quality, variety and value in its core food business, but also through impressive growth in non-food items such as clothes and electrical goods, combined with expansion overseas. The company has also diversified into financial services, gas and electricity supplies, is an internet service provider (ISP) and an estate agent. The next plan is to challenge Marks & Spencer for leadership of the high street clothing market.

Tesco originally achieved success through fast turnover of stock at low prices – a small profit on a lot of items equals a lot of profit. Tesco's recent growth now means that it can now benefit from economies of scale by placing huge orders. This enables it to buy direct from producers (such as farmers) on very favourable terms. Tesco can then pass on these low prices to the customer.

Figure 1.7 Tesco plc – profit for 2006



Source: Tesco Annual Report, February 2006

Despite the need to make profits there may be occasions when a profit-seeking business is prepared to sell at, or even below cost. In March 2006, for example, 3 per cent of sales by the 'big four' supermarkets were below cost. There are a number of reasons why businesses

activity

Log on to the Tesco website: www.tesco.com.

- 1 Look at the home page and make a list of the different types of operation in which Tesco is now involved.
- 2 In which countries does Tesco now have stores? What is its scale of business?
- 3 Click 'Investor relations' at the bottom of the home page to access the Corporate Affairs website. Clicking on 'Inside Tesco' brings up 'core purpose' and 'strategy' sections. What are Tesco's main aims?

may do this:

- introductory offers – 'buy at this special low price for a limited period only'. This is a marketing tactic to encourage customers to try a new product in the hope that they will continue to buy when the price is later raised to a profitable level
- in a price war or as a marketing ploy designed to steal customers from rivals. Ryanair's offers have included Dublin 1p and Malaga £2.98
- as a 'loss leader', where one item is sold cheaply to attract customers who then buy further goods at full price, e.g. a supermarket may advertise below-cost turkeys at Christmas with this in mind
- where there is no better alternative, e.g. late on a Saturday afternoon market traders may sell off fruit and vegetables below cost to cut their losses – the alternative is to throw them away
- end-of-season sale items where the aim is to clear outdated, slow-selling stock and make way for new products
- where the revenue is generated from sources other than the customer, e.g. newspapers or independent television companies subsidise their products from advertising revenue so that customers pay less than the cost of production
- to enhance the service and thereby to boost corporate (or company) image, e.g. pharmaceutical companies may be persuaded to provide below-cost medication to developing countries, local shops may provide telephone top-up cards, stamps and electricity key-charging services for no, or minimal, profit
- where contracts or the demands of regulators specify a given level of service, e.g. rail and bus operators may be required to run an off-peak service even though this part of the service is not profitable.

Large projects with high start-up costs may take time to build up a profitable customer base. BSkyB (now Sky), Eurodisney and Eurotunnel all took some years to achieve profitability. Any loss making business is technically selling below cost. For example, the phenomenal growth of the Google search engine has made it one of the world's most visible brands. Tony Blair's reference to 'the Google generation' showed the extent to which it has become part of everyday language. In October 2006 it paid £885 million for the website Youtube. Yet Google does not charge us for searching the web – Youtube is also free.

Public sector business

Public sector operations exist to provide necessary or desirable services to the community.

assignment focus

- 1 How does Google make its money? How will it make money from Youtube?
- 2 In November 2006 First Direct bank announced that it would charge £10 for customers to use its current account. Most current accounts are free – why?

They will need to generate sufficient funds to run these services but will not operate for financial gain. In general these services are provided to the user at less than cost. Successive governments decide which services should be provided by the state and each year raise

Types of business activity and ownership

the taxes needed to pay for these. The government uses a progressive taxation system (the 'Robin Hood' principle) to tax highest earners more in order to provide subsidised services for those in most need.

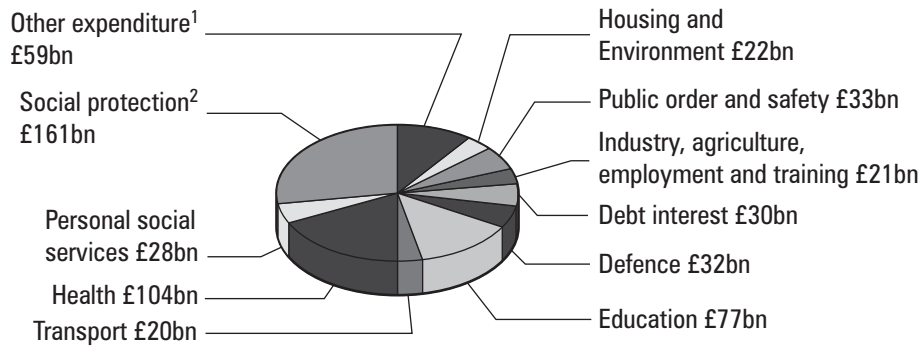
Central government spends around £8,000 a year for every man, woman and child in the UK.

Local authority library and education services, public transport for pensioners and the National Health Service provided by central government are all subsidised by public funds.

Figure 1.8 Central government spending

Source: Budget 2007 Summary, HM Treasury

Where taxpayers' money is spent



Total managed expenditure – £587 billion

¹ Other expenditure includes spending on general public services; recreation, culture, media and sport, international co-operation and development; public service pensions; plus spending yet to be allocated and some accounting adjustments.

² Social protection includes tax credit payments in excess of an individual's tax liability

Here users do not pay the full cost at the point of use; compare this situation with the fees paid by patients at private hospitals and by students at private schools.

'No such thing as a free lunch' – Milton Friedman

Governments are concerned to limit the cost of state services to taxpayers and to provide 'value for money spent'. Measures used in recent years include:

- privatisation and deregulation to enable private operators to take over some state services (e.g. DHL on page 000), CCT to compel local authorities to contract out to efficient providers (e.g. Bulky Bob's on page 000)
- charges for services where possible, e.g. proposed charges for the ambulance service or asking students to pay their own university fees
- means testing in order to subsidise only the most needy
- closure of inefficient operations such as loss-making post offices (see page 000)
- use of private funds for public services via public-private partnerships (PPPs).

Not-for-profit/voluntary sector business

Businesses in the voluntary sector raise money purely to pay the costs involved in carrying out their chosen activity. Oxfam, for example, funds humanitarian aid to developing countries in the form of food, clothing and education. On a local level, Mudchute City Farm in East London provides educational visits to inner city children. In meeting the demand from groups in the community, such organisations frequently provide a free service to the beneficiary.

The voluntary sector has a total income of over £15 billion, £4 billion of which comes from voluntary donations. The balance comes from corporate support (does the business you have chosen to study donate to charity?), state assets made available by the government's Office of the Third Sector and commercial operations, e.g. Oxfam runs shops and sells on eBay, the National Trust rents out properties, and local sports and community clubs operate bars and social clubs.

Many not-for profit businesses are viable commercial enterprises able to generate their own

case study
1.3

Greenpeace

Table 1.3 shows how Greenpeace generates and spends its funds.

Table 1.3 Greenpeace's income and expenditure, 2003

Income	£000s	Expenditure	£000s
Subscriptions and donations	8,403	Expenditure expenses	4,458
Profit on merchandising, publishing and commercial events	152	Campaign information costs	688
Raised by campaign groups	64	Cost of collecting subscriptions and donations	625
Interest from investing surplus funds	19	Cost of recruiting new supporters	1,035
		Marketing costs	567
		Administration and management costs	405
		Surplus retained	860
Total income	8,638	Total expenditure	8,638

Source: Greenpeace Annual Review, 2003

activity

- 1 Why would a company form of organisation not be suitable for Greenpeace?
- 2 Give an example of a 'greener' method of production.
- 3 How do you think businesses themselves might benefit from using sustainable sources (and being seen to use these)?
- 4 Find examples of companies that adopt environmentally friendly policies. (They are usually proud of this and may use it in their promotional materials as well as in the annual report.)

revenues by charging above cost. They differ from private sector organisations in that they plough back surpluses, as for example the building societies or, like the retail co-operative societies, return profits to their customers.

In 2006 social enterprises in the UK generated £27bn in turnover. These are commercial operations but with a social mission. They aim to benefit the community whilst financing themselves from ethical commercial ventures. There is a mix here of provision below cost, at cost and above cost. For example:

- Café Direct provides quality coffee to retailers whilst paying a fair price to growers. It is now the sixth largest coffee supplier in the UK.
- Green Estate employs 42 people in Sheffield where it earns cash from regenerating run-down urban areas. It began with state funding but in 2006 generated £1.4 million from landscaping services and sales of recycled compost.

Supplying products in response to demand

assignment focus

Consider using a not-for profit business for your unit assignment. The annual reports of national charities are freely available and details of activities and links appear on their websites.

Think about the following questions:

- 1 Should the government provide the services provided by charities such as the RNIB and RSPCA?
- 2 What do Amnesty International, Greenpeace and Oxfam do? Could private sector business provide these services adequately?

Types of business activity and ownership

Remember that customers include all of those who buy goods and services. They may be:

- consumers – you and I, individuals and households wanting consumer goods and direct services for our own use
- other businesses demanding industrial goods and commercial services to help them carry on production
- central and local governments using taxpayers' money (public spending) to build roads and hospitals, equip the police, armed forces, and so on.

We can therefore identify:

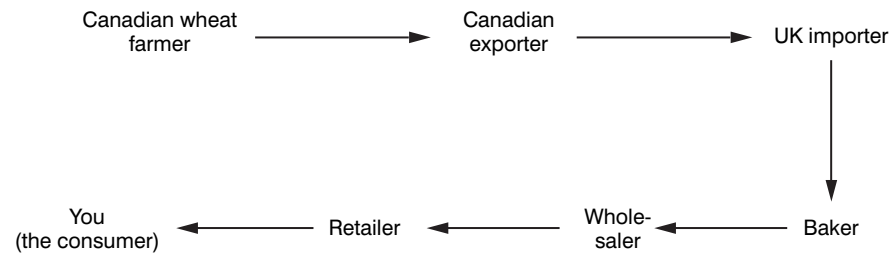
- **B2C** businesses selling to the consumer, the end-user. These are usually retailers such as Sainsbury and NatWest, but could also be manufacturers or wholesalers selling direct
- **B2B** businesses supplying industrial goods to other businesses, e.g. Rolls-Royce sells engines to aeroplane manufacturers, the London Brick Company supplies construction firms.

The supply chain for goods – supplying customer demand

A whole network of organisations and processes may be needed to supply a good to the end-user. Value will be added at each stage so that each business involved can sell the product on at a higher price.

Alternative supply chains for goods may be:

Figure 1.9 A typical supply chain for a cereal



assignment focus

Procurers (buyers), producers, distributors, wholesalers, retailers and **e-tailers** (online retailers) all play vital roles within the supply chain. What are their functions? Which are B2B and which B2C businesses?

- Manufacturer → Wholesaler → Consumer

Here the wholesaler also performs the retail function as, for example, when consumers buy from a carpet warehouse.

- Manufacturer → Retailer → Consumer

Large retailers such as the major supermarkets buy direct from the manufacturers and growers and so perform their own wholesaling function. In the motor trade car manufacturers sell through franchised dealers

- Manufacturer → Consumer

At a local level, farmers markets allow growers to sell directly to the consumer. E-tailing (online retailing) enables direct selling by manufacturers such as Dell.

Missing out the specialist wholesaler and retailer should give a cost advantage that can be passed on to customers in the form of lower prices. This partly explains why online prices tend to be lower than those on the high street.

Notice that the supply chain ends with the consumer. Ultimately demand for B2B businesses is derived from consumer demand.

Supplying customers more efficiently

Efficiencies in the supply chain will improve business performance:

- **Vertical integration** Here a business grows into other activities along the supply chain (as when a manufacturer such as Thorntons opens shops) to gain the value added at each stage for itself.
- **JIT (just in time)** Stock is bought in just as it is needed. This avoids the costs of storage,

wastage and tying up money in advance. Computer technology such as EPOS till systems (electronic point-of-sale) read bar code data, update stock records and automatically re-order supplies.

Case study 1.4

The government as customer – will DHL deliver supply chain savings?

The NHS Purchasing and Supply Agency spends more than £4 billion a year on buying supplies for the National Health Service – everything from beds to bandages, medication to syringes, pacemakers to hip implants. These are delivered to hospitals by the 1,400 employees in the NHS Logistics Authority.

In July 2006 it was announced that US firm DHL/Novation will take over the responsibility for buying NHS supplies and is also likely to take over distribution. The company will be paid on the basis of the money it saves the NHS. Since DHL/Novation is large, it can save money by striking harder bargains with suppliers and the government hopes that these savings can then be used to provide more NHS services. By contracting out procurement (buying) and logistics (distribution), the NHS can cut also wages and pension costs.

Unison, the public sector trades union, is opposed to this 'further privatisation' and has threatened strike action. However, PM Tony Blair believes that the test of keeping the health service public is whether services are free to the user.

Smaller British healthcare suppliers are also worried that they may be forced into bankruptcy if prices are too low. These smaller companies are vital because they are the ones with new ideas and innovative treatments. They argue that since savings, not quality, is the target, jobs are at risk and patients may miss out on the latest care

A government spokesperson said: 'We recognise the concerns of staff and are looking closely at the proposals before making a final decision.'

Source: Adapted from *The Times*, 26 July 2006

activity

- 1 Write a brief case for and against contracting DHL to work for the National Health Service.
- 2 Look at the McAlpine case study on page 000. Give examples of how the company supplies demand from central government.
- 3 Select two other areas of government spending apart from health. (Use the government spending figures on page 000.) For each area, name five items that the government will buy and identify five major suppliers.
- 4 Log onto the Rolls-Royce website and look at the Sourcerer site. This enables business customers to order Roll-Royce parts. What advantages do you think online buying provides for supplier and for customer?

Business owners

Link

The legal structures of ownership to be found within the public, private and voluntary/not-for-profit sectors are illustrated in Table 1.2.

Private sector businesses

Sole trader businesses are owned by one person who may keep all of the profits but has **unlimited liability** i.e. the owner is personally liable (or responsible) for all business debts.

Partnerships (sometimes called firms) are owned and run by between two and 20 partners who may share the profits. They are 'jointly and severally' liable for all business debts, i.e. each partner has unlimited liability (unless stated in the partnership agreement) and a decision made by one partner becomes the legal responsibility of all other partners.

Limited liability companies are owned by their shareholders and there is no legal limit to the number of shareholders a company may have. They differ from sole traders and partnerships in a number of ways:

- A limited company exists in law and is separate from its owners. If you wished to take a sole trader or a partnership to court, you would be suing the owners of these businesses. In the case of a company, it is the company itself that is sued. It is, however, now possible to sue individual company directors where this is thought appropriate. An example is the (unsuccessful) case of 'corporate manslaughter' brought against the directors of the maintenance contractors Balfour Beatty following the Hatfield rail crash.
- All limited companies must be registered with the Registrar of Companies at Companies House to whom financial information must be sent each year. This information is available for inspection by any member of the public.
- Whereas sole traders and partners own and control their businesses, company shareholders elect a board of directors to run the company on their behalf. (In small companies, the shareholders may also be the directors.)
- Unlike sole traders and partners, company shareholders are protected by limited liability. Should the business fail, their losses will be limited to the amount they have invested in the business; they cannot be called upon to forfeit their personal assets to repay business debts.
- Those dealing with a company, therefore risk not being paid. For this reason a **private limited company** must display the word 'Limited' or 'Ltd' in its name, whilst a public limited company must display the letters 'plc'.

The differences between private and public limited companies are shown in Table 1.4.

Table 1.4 The differences between private and public limited companies

Private limited companies (Ltd)	Public limited companies (plc)
<p>These may not offer their shares for sale to the general public and they therefore tend to be smaller than plcs. Examples include local and regional businesses, such as a garage, a farm, a builder, a coach company.</p> <p>Some companies start as private limited companies and become plcs when they need to raise further capital for expansion. This was the route taken by Manchester United in 1991. At the time of writing the new owner has enough shares to turn it back into a private company</p>	<p>These may offer their shares to the general public, through the Stock Exchange – it is plc share prices that are displayed in the daily press. Plcs have the potential to raise huge amounts of capital and most of the larger companies have this form of ownership. They include household names such as Tesco, Marks & Spencer, ICI, the high street banks, as well as the privatised businesses such as British Airways and BT.</p>

Franchises are sole traders, partnerships or companies that take on the brand and products of another business under licence. The franchiser (who owns the brand) uses this as a means of increasing its outlets and market, whilst the franchisee (who has permission to use the brand) gets a ready-made business with proven products, an established reputation and brand image. Examples of franchises include The Bodyshop, BSM (British School of Motoring), McDonald's and Domino's Pizzas.

The public sector

The public sector is ultimately owned by the people of the UK and run for their benefit. Central government policy is decided by the elected government of the day. Once this policy passes into law it is put into effect by government departments and government agencies.

Central government departments are funded by Parliament and staffed by impartial civil servants. Departments include:

- Treasury
- Home Office
- Foreign and Commonwealth Office
- Defence
- Trade and Industry (DTI)

Exploring business activity

- Health (DoH)
- International Development
- Transport
- Education and Skills (DfES)
- Work and Pensions (DWP)
- Culture, Media and Sport (DCMS)
- Social Exclusion
- Environment, Food and Rural Affairs (Defra)
- Communities and Local Government
- Constitutional Affairs
- Northern Ireland, Scotland and Wales.

Government agencies deliver the various government services for the UK government, Scottish Executive, Welsh Assembly or Northern Ireland Executive. A chief executive is responsible for day-to-day operations. Examples include the Highways Agency responsible for managing the road system and the Countryside Agency.

Local government policy is decided by elected councillors of the majority party. Local services are run from the town hall for the benefit of local people. For example, the major services listed by Islington Council in order of expenditure are: education, social services, environment and conservation, housing and leisure (including parks, leisure centres and libraries). Funding is from business rates, council tax and central government grants, with additional revenue raised via council rents, car parking charges and leisure centres.



To find information about the services provided by your local council and its spending, go to their website.

Voluntary/not-for-profit sector

These organisations are run on behalf of their members, their employees or the community. Paid employees or volunteers operate these on a not-for-profit basis with any surplus reinvested in the business.

The sector has a variety of forms of ownership:

- Mutual organisations such as building societies and insurance companies provide services for the benefit of their members, the savers, investors and policy holders. Profits (or surpluses) are reinvested – see page 000.
- Charitable trust status allows an organisation to escape tax liability so that more of their funds can be devoted to their chosen projects. For this reason many voluntary/not-for-profit organisations become registered charities. Trusts exist where appointed trustees hold and manage assets on behalf of a group of people. The National Trust, one of the UK's largest landowners, manages buildings and land for the benefit and enjoyment of the general public.
- Co-operatives operate in all sectors of the community, and they carry out a wide range of activities. They are owned by members who may be their employees or their consumers. Whilst some co-operatives have only two or three members, others have hundreds.
 - Retail co-operatives (the Co-op) for example are owned by their customers who receive a dividend each year based on their purchases. In 2006 they underwent a rebranding exercise to update their image.
 - Workers' co-operatives are owned and controlled by their employees who share responsibilities, decision-making and profits according to a set of internationally agreed principles. Worker co-operatives are growing in the UK with support from the Local Co-operative Development Agencies (CDA).
- Community Interest Companies (CICs) were introduced in 2005 as a means of business start-up for social enterprise businesses providing services to the community. There were 500 CICs registered by the end of 2006 and this is likely to grow.
- Social enterprises (such as Bob's, see page 000) are a growing sector with 55,000 businesses in 2006. These generate revenues from public services often under contract from local or central government

case study
1.5

The National Trust

The National Trust was formed in 1895 to protect coastline, countryside and buildings in England, Wales and Northern Ireland from uncontrolled development so that it is available for future generations to enjoy.

The property that the Trust owns is either donated, left as legacies or bought using the Trust's own funds.

The Trust is a charity and is completely independent of government funding, relying for income on membership fees, donations, legacies, and also upon revenue raised from commercial operations such as shops and holiday properties.

There are 3.4 million members and 43,000 volunteers. More than 12 million people paid for entry to properties in 2004, and 50 million visited the free open air properties.

In 2004 the Trust owned assets of £700 million consisting of: historic houses and gardens, industrial monuments, woods, beaches, farmland, moorland, islands, castles and nature reserves.

Source: The National Trust

activity

- 1 What is the advantage for the National Trust in being independent of government funding?
- 2 Give one major advantage for the Trust of having charitable status.
- 3 Why is a trust a suitable form of legal status for an organisation of this sort?

assignment focus

For this unit you will need to select two contrasting organisations to study; one should be a profit-seeking business and one a not-for-profit organisation.

Be careful to choose organisations that will provide sufficient detail to enable you to meet the grading criteria. If you already have a link with a business, perhaps as an employee, through work experience or through family or friends, then take advantage of this.

To achieve P1, for each business you have chosen:

- provide the business name and head office address
- describe the type of business, i.e. the products (goods/services) that it provides, the industrial sector to which it belongs, whether it is public, private, not-for-profit/voluntary sector
- describe the business purpose, i.e. its aims, the customers it supplies (is it B2B or B2C?), how these are supplied and whether products are supplied at cost, below cost or at a profit. You could provide evidence of this by showing a summary of the final accounts (as in the Greenpeace and Tesco examples).

Key stakeholders

Stakeholders are those people and communities who have an interest (or stake) in a particular business because they are affected by its activities. We can distinguish between:

- internal stakeholders, those who work within the business, including: owners (sole traders, partners and those shareholders who participate in management), directors, managers and other employees
- external stakeholders, including customers, suppliers, financial institutions, shareholders who invest but take no part in the running of the business, pressure groups, trades unions, employer associations, governments, commercial partners, local and national communities.

In practice, different stakeholder groups may have different, and sometimes conflicting, demands on a business.

Owners

Sole traders, partners or company shareholders own private sector businesses. These owners risk their own funds when they invest in a business and may be rewarded in a number of ways:

- income – sole traders and partners receive a share of profits in the form of drawings, whilst shareholders receive dividends
- capital growth – if the value of the business grows, the owners may be able to sell their stake in the business at a profit. A rising share price, for example, will benefit shareholders
- power and influence – shareholders can vote at the company AGM (annual general meeting) and influence policy decisions – environmental pressure groups buy energy company shares for this reason. A majority stakeholder can take over a company – this is how Wal-Mart gained control of Asda and how the Glazer family gained control of Manchester United.

Owners are a powerful stakeholder group and companies often state ‘adding **shareholder value**’ as one of their main objectives.

Employees

These work at various levels in the organisation. They include directors, managers and operatives.

Directors

Directors are employees whose job is to run the company on behalf of the shareholders. They set the **business objectives** and take strategic decisions about the ‘direction’ the business will take. In a small company, such as a family business, the shareholders may also be the directors, whilst in a large plc the shareholders will elect a board of directors to run the business.

If directors run a profitable business, they achieve a good salary, job satisfaction and prestige. There has been recent concern about ‘fat cat’ salaries paid to reward some company directors. (In July 2004 Sir Peter Davis left Sainsbury with a £2.3 million performance bonus – the company reported its first-ever loss four months later.)

Managers

Managers are employees responsible for deciding on the tactics for achieving the organisation’s objectives within a particular area, section or department. For example, a retailer such as Boots will appoint a branch manager to run each shop, while a college will appoint a manager to run the business studies and science departments.

Although managers have similar needs to other employees as mentioned below, they have more responsibility and are more highly paid.

Other employees

Operatives and clerical staff work under a manager or supervisor and are engaged either directly, or indirectly, in the production of the goods and services supplied by business. They want secure jobs, good working conditions, satisfactory pay and pensions, good career prospects and a safe and healthy workplace.

The demands of employees will cost the business money and may put them into conflict with owners and their senior managers (the ‘us and them’ syndrome).

Customers

Customers buy the goods and services that a business produces and without them the business would not exist. Customers want a reliable supply of quality products at a reasonable price on suitable payment terms. In a competitive environment, businesses must be sure to keep their customers satisfied. Remember that customers may be consumers, other businesses or government departments.

Suppliers

Suppliers provide either stocks of goods or commercial services such as accounting, banking, electricity, water, security or maintenance. Those who supply on credit terms will want secure contracts with guaranteed and prompt payment. In 2005, the suppliers of MG Rover, knowing the company was in difficulties, refused to deliver parts unless cash was paid on delivery. The company ran out of components and ceased production.

Financial institutions

Banks and other financial institutions provide various forms of funding. They want the business to generate a profit so that any loans and overdrafts can be repaid and to gain a satisfactory return on these investments.

Pressure groups

These are concerned about specific issues ranging from the rights of motorists (the AA and RAC) to the abolition of foxhunting (League Against Cruel Sports). The TUC (Trades Union Congress) and CBI (Confederation of British Industry) act as pressure groups for employees and employers respectively, whilst charities such as Amnesty International (the plight of political prisoners) and Friends of the Earth (the environment) press their own concerns.

Local pressure groups may be set up to campaign on single issues such as opposition to a road development or a new superstore.


 Link

We look at the Highbury Community Association and Arsenal FC on page 000.

Trades unions

Trades unions are concerned about the pay and conditions of employment of their members, the employees in a particular industry or workplace. Most trades unions are affiliated to the TUC, a body representing the views of trades unions as a whole in the UK.


 Link

On page 000 we see how Unison represents NHS employees.

Employer associations

These represent the employers in a particular industry. They pass on information and set up agreements concerning matters of mutual interest such as rates of pay, conditions of work and procedures for resolving disputes. The Confederation of British Industry (CBI) represents the interests of employers at national level.

The CBI and TUC both act as pressure groups in working for their members' interests

Commercial partners

Businesses frequently carry out their operations in partnership with other companies:

- Virgin's bank operates in partnership with Royal Bank of Scotland plc.
- Waitrose works with the delivery firm Ocado.
- In 2008 Liverpool will be the European Capital of Culture. The city is linking with public and private sectors organisations, such as: Hill Dickinson, United Utilities, Enterprise plc, Radiocity 96.7 and Northwest Regional Development Agency.

Central and local governments

Central and local governments have the power to block, promote and regulate business activity. They are concerned with the impact of business on the local and national economy, on people and on the environment.

- Local authorities can exercise control through local planning restrictions (Darlington Council rejected Tesco's plans) and the enforcement of public health and trades descriptions legislation. In turn they benefit from business rates.
- Central government receives revenue from businesses. HM Revenue & Customs taxes business profits and collects VAT, as well as PAYE (income tax) and NIC (National Insurance contributions) deducted from employees.


 Link

See pages 000–00.

Governments regulate employment, health and safety, consumer protection, competition and taxation. Business information, advice and grants are provided by the Department of Trade and Industry (DTI).

Local and national communities

Local residents and local businesses are concerned about the social costs and benefits of business activity. Costs include noise, light, atmospheric and water pollution, over-crowding and traffic congestion. Communities may benefit from better job prospects, regeneration of the locality and tourism.

Some issues affect people across the country particularly where there are social costs (costs borne by society as a whole rather than by the business that cause them). The growth of air traffic (one of the fastest growing sources of carbon emissions) is one such issue and social responsibility is a growing challenge for businesses:

- Silverjet airline now charges a 'green levy' used to offset damage it causes to the environment.
- In 2006 top band the Scissor Sisters took part in 'Global Cool' a carbon-neutral music event leading to the planting of 600 trees.

Links and interdependencies between stakeholders

Where stakeholder interests coincide they will work together. For example:

- Employer associations support business owners, trades unions support employees.
- The government's Department of Trade and Industry (DTI) will support:
 - business owners and managers by providing advice, information and financial help. The government wants successful businesses to boost national prosperity
 - employees via employment legislation
 - the consumer by promoting competition in the marketplace to keep down prices and drive up quality.

Link

The Competition Commission investigation into the power of supermarkets (page 000) is an example.

The importance of stakeholders in influencing business activity

Some stakeholders are more influential than others. Workers in developing countries making clothes for fashionable brands can exert little power over their employers. Unionised workers such as those in the fire service, London Underground or Unison will have more power.

Pressure groups forced Shell to re-examine its corporate image when they publicised environmental abuses, whilst major shareholders have the power to remove company directors and influence strategic decisions.

The government is able to use the law to change behaviour by, for example, imposing environmental levies or health and safety regulations.

Conflicts between stakeholders

Different stakeholders have different, and often conflicting, needs. For example, traditionally businesses have suffered from an 'us and them' **culture** between employees supported by their trades unions on the one hand and top management representing shareholders on the other. Employee demands for better pay and conditions may conflict with the desire for higher profits so that industrial disputes, perhaps leading to strike action, may result. It is the task of the human resources function to resolve such problems.

One argument against privatisation of business (see page 000) was that it would create conflict between the needs of customers for effective, affordable services and the needs of shareholders to make profits. The take-over of Manchester United by the Glazer family in 2005 was supported by the shareholders who wanted to sell but opposed by fans who set up a pressure group to oppose the sale. Which stakeholder conflicts can you see in the DHL case study 1.4 on page 000?

case study
1.6

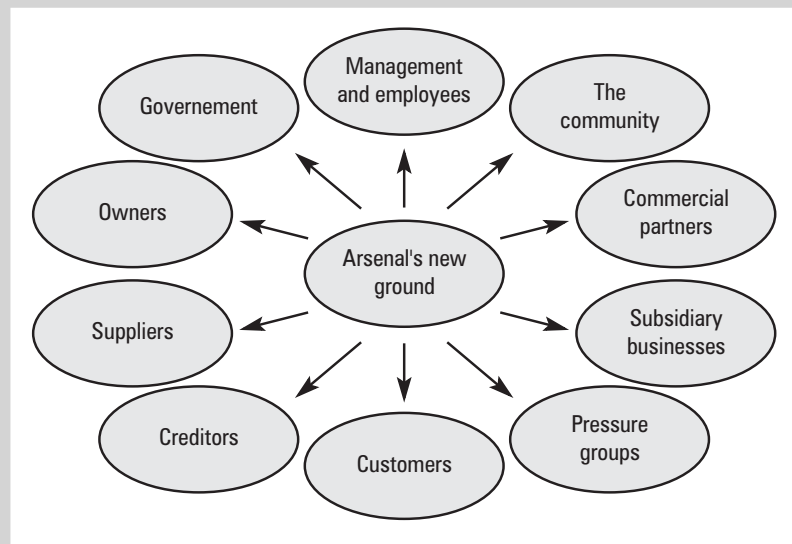
What a load of rubbish!

In August 2006 Arsenal FC closed their ground in Highbury, North London, and moved to their new ground half a mile away, built on the old Ashburton Grove refuse tip. The old ground with 38,000 seats was too small. The new 60,000-seater stadium will also generate revenue from its corporate, sports and gambling activities.

The development was only approved after lengthy discussions with a variety of stakeholders. It involved the relocation of 50 local businesses and the council waste recycling centre, the compulsory purchase and demolition of an industrial site and the construction of the new stadium together with 2,500 new homes (including 1,000 'affordable' dwellings.). Business and health facilities will be built in the surrounding area and overall 1,000 construction workers will be employed and 1,800 long-term jobs created.

By 2010 the existing ground will be converted into apartments and other amenities including a health centre and a public garden.

Figure 1.10 Stakeholder groups in Arsenal FC



Source: www.arsenalregen.co.uk

activity

- 1 a) Here are some stakeholders of Arsenal FC. Fit them under the correct headings on the diagram above:
 players, team manager, coaching staff, the Highbury Community Association, Robert McAlpine (the construction company), administrative staff, the fans, banks and other financial institutions, shareholders, local residents, local retailers, stadium and shirt sponsors Emirates, Newlon Housing Trust, Islington Council, the shirt manufacturers Nike, Sky, the department of Revenue & Customs, local shops
- b) Can you suggest others?
- c) Identify interdependencies and any possible conflicts between different stakeholder groups over the relocation of the club.
- 2 Re-read the Railtrack case study on page 000.
 - a) Which stakeholder groups had conflicting interests? Briefly explain the different demands of these groups. Which stakeholder groups had power to influence the planning decision.
 - b) Name other Railtrack stakeholders and explain why they had an interest in the business.

assignment focus

You may continue to study the two businesses that you used to complete P1 (on page 000) or choose two different contrasting organisations.

To achieve P2, you should identify and describe the various stakeholders of each business you have chosen.

To achieve M1, you must also explain the interest that each stakeholder group has in the business. Explain how each group tries to influence the way the business operates and the strategic aims and objectives that the business pursues. Give examples to illustrate this influence.

How the type of business influences the setting of strategic aims and objectives

Business **strategy** concerns the big decisions about where the business is going. Some organisations draw up a 'mission statement' as a summary of the standards, qualities and purpose of their business. Arriva's vision, for example, is 'to be recognised as the leading transport services organisation in Europe'.

We can distinguish between:

- strategic aims – broad statements of intent showing in general terms what the business wishes to achieve
- strategic objectives – more precise, quantified, plans of action which enable progress to be measured.

Strategic planning process

This process is carried out by businesses in all sectors.

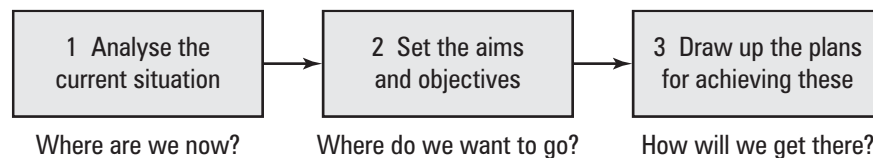
In setting out the **strategic plan**, the directors will aim to move the business from where it is now to where it hopes to be at some specified future date. For example, your school or college will may have a five-year strategic plan covering aims for quality of teaching and learning, links with industry, etc.



Case study 1.9 looks at Blacks five-point plan.

The strategic planning process has three main stages, as shown in Figure 1.11. Three levels of management will be involved in this process (Figure 1.12).

Figure 1.11 The strategic planning process



For an explanation of PESTLE, see page 000.

Stage 1: analyse the present situation

The directors assess the current position and performance of the organisation.

Quantitative analysis uses 'hard' measurable data to consider aspects of performance. This could measure volumes or quantities (eight new stores opened) or financial values (£100,000 profit). Such data may be further processed to provide valuable comparative information:

- over time, e.g. 10 per cent increase in profits since last year
- against competitors, e.g. **market share** is down 5 per cent
- against industry benchmarks, e.g. measures up to best practice.

Figure 1.12 Planning, level of management and monitoring

Planning	Level of management		Monitoring
Long-term corporate direction, mission Organisation-wide objectives, e.g. entering new markets, developing new products, buying new business Corporate business plan	<i>Strategic</i> top-level managers/owner, long term, non-routine decisions involving risk		Benchmarking against best practice, competitor analysis, changes in the external environment/market place, PESTLE strategic assessment of customers surveys, continuous improvement
Financial budgets, personal targets on recruitment/training, sales targets by region/product group, etc.	<i>Tactical</i> Middle management decisions at departmental or functional level		Comparison of actual performance with plans, e.g. quality, wastage and customer satisfaction, sales targets, store or branch appraisal
Daily work allocation, staffing rota, breaks, work place health and safety, arranging cover for absent staff, stock display, etc.	<i>Operational</i> Day-to-day decision, usually routine with less risk		Staff punctuality and absenteeism, stock movement and replacement, staff behaviour, customer service, team/individual appraisal



Ratio analysis (page 000) and variance analysis (page 000) are aspects of this.

Qualitative analysis judges business performance through ‘soft’ data based on attitudes, interests and opinions. It could measure satisfied customers, standards of service or staff morale. Where such data is captured via closed questions it may be quantified. For example when first direct, the online bank, claim the best customer satisfaction among the retail banks it presented figures to support this. (Of course the validity depends upon the sample surveyed and the questions asked.)

Stage 2: set aims and objectives

Once it is clear where the business currently stands, aims and objectives will be set to move it forward.

The precise aims and objectives will depend upon the nature of the business activities, its ownership and scale. Profit, for example, will be a high priority for BA but irrelevant for Oxfam. Powerful stakeholder groups may also determine objectives. Many mission statements put ‘adding shareholder value’ as a priority (see Blacks page 000). In a competitive market, the customers will have power, which is why first direct is concerned about customer satisfaction. For a rail company the government regulator can influence policy.

Cyert and March, in *A Behavioural Theory of the Firm*, also suggest that different management teams will have their own agendas, such as trying to gain the biggest salary or most power through ‘empire-building’ (building up their own sections).



Richard Cyert and James March (1992) *A Behavioural Theory of the Firm*, 2nd edition, Blackwell



We examine the strategic aims for public, private and voluntary sector organisations on pages 000–00.

Stage 3: Planning strategies

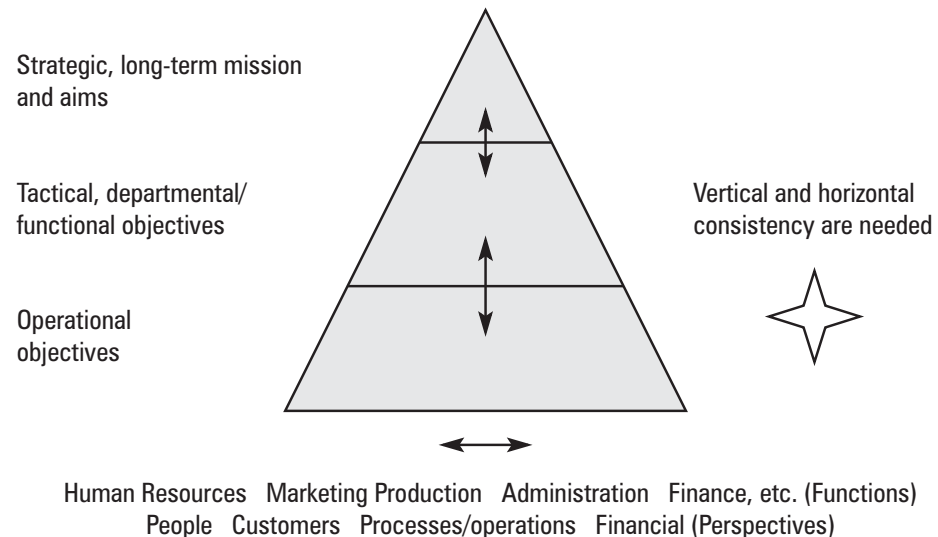
Once the aims have been agreed, the organisation will need to create a plan – a series of objectives through which aims can become reality. These objectives become a working guide throughout the organisation. They should be quantified and ideally should be SMART:

- **Specific** – they should clearly identify a product, activity, region, etc., e.g. ‘We will increase sales of organic vegetables in the north-east’
- **Measurable** – it should be possible to determine when the objective has been met, e.g. ‘We will increase sales of organic vegetables by 5 per cent’
- **Achievable** – the target must be one that employees can hit, i.e. it must be possible to increase sales by 5 per cent, otherwise employees are being set up to fail
- **Realistic** – the target must not put unreasonable demands on employees or equipment. Sometimes the R stands for Relevant, meaning that the objective should be an appropriate one for the business to pursue and not a distraction
- **Time-related** – the objective has a set time period or deadline, e.g. ‘by the end of December’.

In drawing up the plan it is important to make sure that all activities are co-ordinated across the organisation. There must be:

- horizontal consistency – targets for each functional area should complement each other and not conflict, e.g. the production department must be able to satisfy sales targets
- vertical consistency – the SMART objectives for each functional area – finance (monthly cash **budgets**), sales (monthly turnover), human resources (recruiting and training staff), etc. – will need to be communicated (or cascaded) down from top level to supervisors so that all employees work towards them. Figure 1.13 shows the process.

Figure 1.13 Horizontal and vertical consistency



remember You will need to produce a financial plan if you study Unit 37, Starting a small business, as part of your course.

If all SMART targets are met, then the corporate objectives should be achieved.

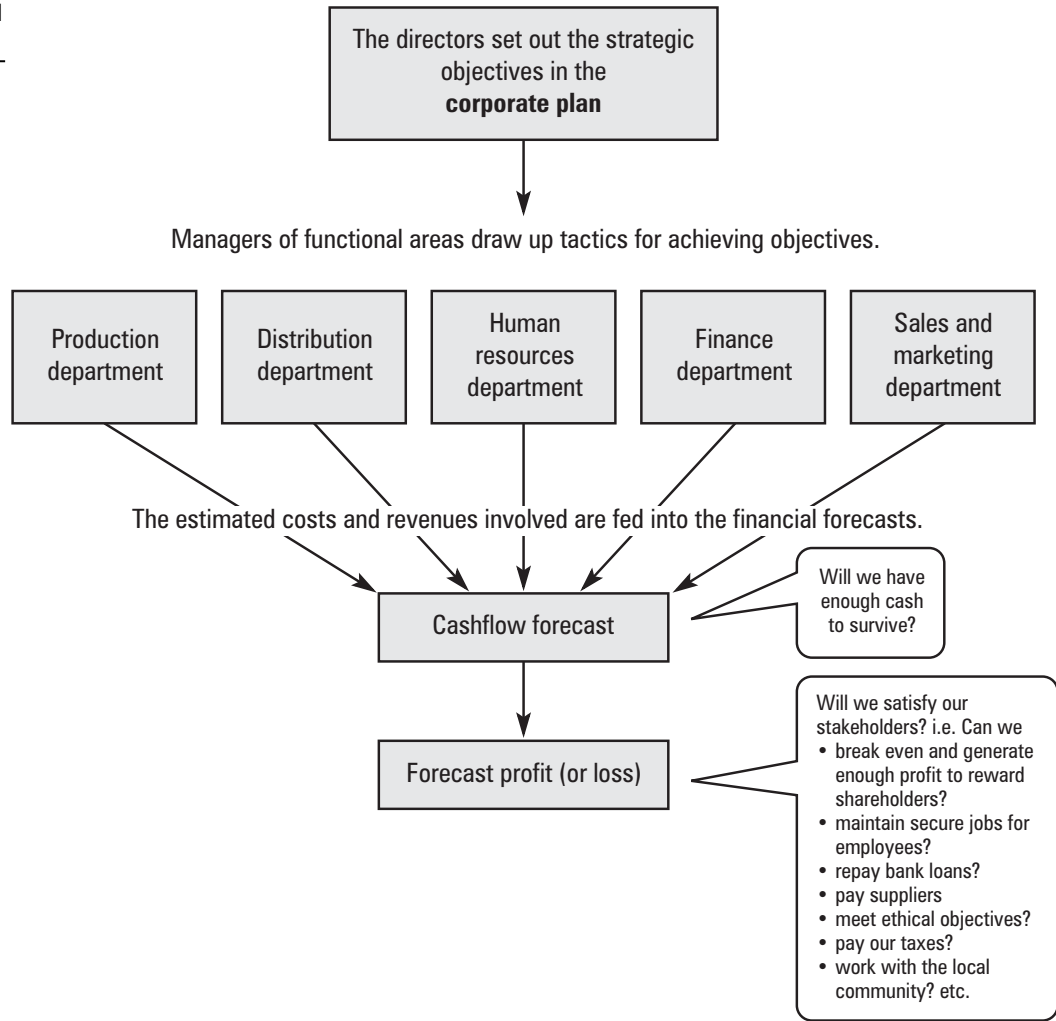
Figure 1.14 illustrates how a one year financial plan will be drawn up to ensure horizontal co-ordination. The revenues and costs from the different departments must result in sufficient cash for the business to survive and sufficient profit to satisfy the shareholders.

Public sector planning strategies

Service provision

The plans of public and voluntary sector organisations will be concerned with the effective provision of a quality service to the community. They are encouraged to operate efficiently to give the national or local tax payer value for money. This might mean:

Figure 1.14 The financial planning process



- taking opportunities to generate revenue – the police charge for security at sports and entertainment events, the library service rents out DVDs, local authorities charge for local car parking, schools hire out buildings
- relocating to save money or create work. Many jobs in the north-east of England are now in the public sector.

Figure 1.15 English Heritage, which is responsible for Stonehenge, relocated from London to Swindon in June 2006 as a cost-cutting exercise

Quality assurance

Government departments and government agencies will set targets for the quality of state services. Published school league tables, inspector's reports and citizen's charters are ways of making public services accountable.

Privatised utilities, even though no longer state-owned, must still respond to government 'watchdogs' – regulators who review the services and prices charged for gas, water, electricity and rail services.



You can obtain citizens' charters for all local or national public services such as the post office, hospital trusts or transport operators. Obtain some and decide whether the targets are being met. Are their objectives SMART?

Service-level agreements

When private organisations (both profit-making and not-for-profit) win contracts to deliver public services, they agree to meet performance targets. In gaining the franchise to run South-West region trains in September 2006, Stagecoach agreed on the fares that it would charge and the level of service it would provide. The company must, for example, use profits from peak periods to subsidise loss-making off-peak services. This agreement protects the travelling public and Stagecoach will lose the contract if it does not deliver.

case study
1.7

Two public concerns

The government is still responsible for the Royal Mail and the BBC. Nevertheless, both of these organisations are now competing with private sector providers.

Royal Mail

Royal Mail plc is wholly owned by the government. It consists of three separate businesses:

- Royal Mail – the UK letter collection and delivery service deals with 84 million items each working day. In January 2006 the Royal Mail lost its 350-year monopoly when the UK's postal market became fully open to competition.
- Parcelforce – the UK parcel delivery service. Parcelforce is now in competition with carriers such as DHL and White Arrow.
- Post Office Limited – managing the nationwide network of 14,376 post offices and post office branches. At the time of writing there is a possibility that many unprofitable small post offices will close (many of the services are available online).

Revenue for the year ended 26 March 2006 was £9,056 billion, with £312 million profit before tax.

Source: Royal Mail Annual Report, 2006

Quality assurance

The three organisations publish citizens' charters. The postal regulator, Postcomm must approve all increases in the prices of stamps and the Consumer Council for Postal Services (usually called Postwatch), looks at consumers' concerns with the level of service.

BBC

The BBC is a public corporation. The content of programmes is independent of government but the governors are government approved. The Department of Culture Media and Sport (DCMS) sets the BBC's strategic aims which are:

- sustaining citizenship and civil society
- promoting education and learning
- stimulating creativity and cultural excellence – including film
- reflecting the UK's nations, regions and communities
- bringing the world to the UK and the UK to the world
- building Digital Britain.

The governors will work with the heads of the various services to plan how these aims will be achieved.

Source: www.wikipedia.org

Funding

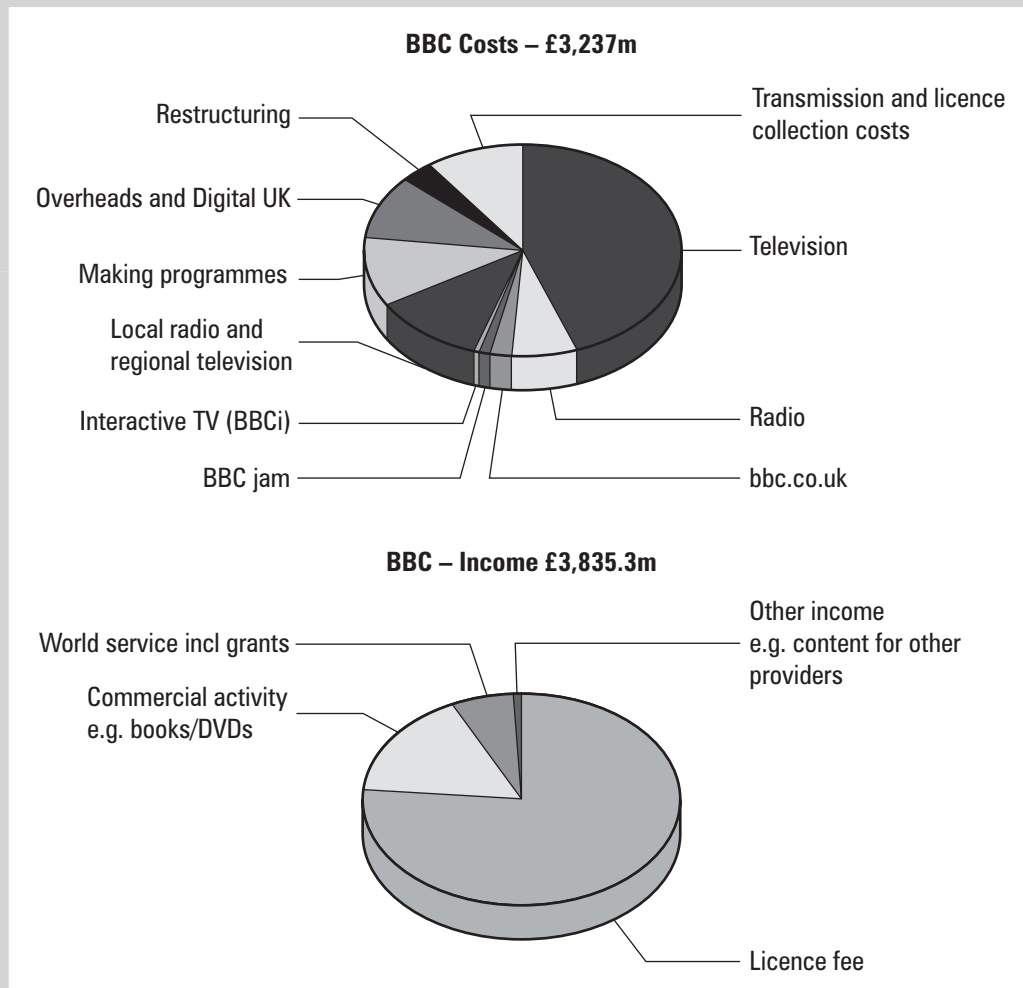
No commercial advertising is allowed. An annual licence fee must be paid for each property with a TV set (not needed for a radio). Unlike terrestrial ITV, which is funded by advertising, the BBC is not free to the public.

The justification for the licence fee is similar to the justification for taxation. It enables the BBC to provide public service broadcasting that is of benefit to all sections of the community. Programme makers do not need to chase ratings to keep advertisers happy and this enables them to suit a variety of tastes.

Quality assurance

The BBC is regulated partly by Ofcom, the telecommunications regulator, and partly by its Trust.

Figure 1.16 The BBC's income and costs, 2005-6



activity

- 1 Look at the aims of the Post Office and the BBC. Why do you think they are in the public sector? Would their aims change if they were privatised?
- 2 Local post offices provide a public service. Should the government pay to keep them open even if they make a loss?
- 3 The level of the BBC licence fee is a matter of debate. What are the arguments for and against the fee, e.g. what is the alternative?



The BBC website, www.bbc.co.uk, is an excellent resource for your BTEC course.

Strategic planning and the voluntary sector

Voluntary sector organisations generally exist to provide services that are not adequately provided by the public or private sectors. The Woodland Trust is an illustration.

case study 1.8

The Woodland Trust

Only 8 per cent of England is under woodland. The Woodland Trust's mission is to change that.

The trust aims to:

- buy and manage native woodland in the UK with the aim of conserving this and its wildlife for the benefit of people
- use volunteers to plant 12 million new trees between 2004 and 2009 – the 'Tree for All' campaign
- gain publicity and donations via the website (www.treeforall.org.uk) and via association with celebrities such as Clive Anderson, the Trust president
- make partnerships with industry to gain funding. Links include: Barclaycard, National Grid Transco and Ecover
- spread funding so as to benefit people around the country.

The Trust's woods are free for the public to visit and enjoy.

Source: Woodland Trust Annual Review, 2004



Go to the Woodland Trust website (www.woodland-trust.org.uk) and find their most recent annual review which can be viewed by following the link on the Publications page. Here you can find out what the Woodland Trust does with its funds.

activity

Why is the voluntary sector suitable for the Woodland Trust? (Think of the difficulties of operating in the private sector, or the reasons why the public sector might be unsuitable.)

Private sector strategies

Private sector businesses are found across the primary, secondary and tertiary sectors of the economy. Their owners (either sole traders, partners, or company shareholders) are primarily interested in gaining a financial reward from their investment in the business. The strategic plan will therefore concentrate on activities that will help to generate a profit, although this will frequently be balanced against the needs of other stakeholders (see page 000).

Private sector strategic aims include the following.

Quality goods and services

Satisfying customer demand is the main purpose of business.

Link

When we look at PESTLE analysis on page 000, we will see that markets change over time so that different products are demanded.

Profit maximisation

Traditionally it has been assumed that private sector businesses attempt to maximise their profits, i.e. to make the most profit possible by increasing sales revenue whilst minimising costs.

Businesses use a number of tactics for increasing sales revenue:

- providing products that people will buy in preference to competing products. This may involve branding to create identity and loyalty ('the real thing', 'the only flame-grilled burger'), innovation (new and more advanced products such as WAP mobile phones), affordable quality (John Lewis - 'never knowingly undersold') or lower prices. These attract extra revenue where demand is inelastic (i.e. where the price reduction brings a significant increase in sales)
- gaining control of a market to reduce the number of competitors; this enables higher prices to be charged. Tactics may involve setting up 'barriers' that make it difficult for new firms to enter the market (perhaps by making exclusive agreements with suppliers who then cannot supply new businesses), buying up existing firms (e.g. in the grocery market Morrison has taken over Safeway, whilst Tesco is buying up local convenience stores), putting firms out of business by taking their customers (local shops are hit when a new superstore locates nearby).

Costs can be minimised by:

- use of new technology to replace staff – the decline of employment in manufacturing over recent years is partly due to this
- introducing flexible working where staff are paid only when they are productive. This may take the form of part-time working, flexible hours, fixed-term contracts, home working or outsourcing. The idea is to convert staff wages into variable costs (costs directly proportional to production levels) rather than fixed costs related to time
- locating to economies where wage rates are low, e.g. India, China or Korea. Increasing globalisation makes this possible
- expanding the business in order to gain economies of scale – cost reductions that become available to large organisations, e.g. buying in bulk to gain lower unit costs (lower cost for each item)
- outsourcing – it may be cheaper to buy-in services run by specialist providers (e.g. cleaning, security, maintenance, delivery) rather than directly employing staff to run these in-house
- economy measures – achieved by monitoring costs and cutting back on unnecessary expenses ('belt tightening')
- delayering – flattening the organisational hierarchy by cutting out a layer of management. Middle managers are often the ones to go since their work may be carried out by computer technology or delegated (passed down) to staff lower in the organisation.

Link

We look at organisational hierarchies on page 000.

There are ethical dangers in seeking ever lower costs. In December 2006 it was reported that Bangladeshi workers were paid only 5p an hour to make goods sold by Tesco and Primark.

The importance of profit

The Tesco diagram on page 000 shows that businesses need profits in order to 'add shareholder value' – to reward their owners, reinvest in the business and attract future investment. However, there is evidence that in practice businesses aim for secure rather than maximum profits. Laura Tennison, CEO of JoJo Maman Bebe, is happy with a 6 per cent margin as opposed to the normal 12 per cent in the clothing industry. This allows her to build better relationships with suppliers by paying them fairly.

Sales growth

A business may attempt to increase sales in order to increase profits, to increase revenue or to gain a greater share of the market. The sales strategy will differ according to the market focus of the business.

A mass-market organisation will need to push sales volume and may use cost-cutting to tempt customers from rivals, or advertising to create awareness (in 2005 Magners did this with spectacular success).

A **niche market** business may focus on quality and be content with selling low volumes of high price goods. Aston Martin (currently owned by Ford) produces 450 cars a year.

Both high price and high volume can only be sustained by a monopoly (a business with little competition).

Break-even

Unless it is being subsidised (see Chelsea FC below), a business will ultimately need to cover its costs. The **break-even point** is reached when the sales revenue (or sales income) generated during a trading period exactly covers the costs so that there is neither a profit nor a loss. Sales beyond break-even will bring a profit, whereas failure to break even results in a loss.

The break-even forecast is a vital component in business planning and may help secure finance from investors.

Link

We look at the break-even calculation in Unit 37, page 000.

Sky, EuroDisney and Eurotunnel all took some years to break even. They survived because they were able to raise sufficient funds either from share issues or by borrowing against their assets (the land, buildings and equipment they own).

Some loss-making businesses have rich benefactors to support them. In the 2004/5 season, Chelsea FC achieved a £140m loss, after investing heavily in highly paid players. The club survived because its owner, oil billionaire Roman Abramovitch, ensured the bills were paid.

assignment focus

- 1 How do you think the aims of Roman Abramovitch, owner of Chelsea FC, might compare with those of the major shareholders of Eurotunnel?
- 2 Why is it important for a small business to break even relatively quickly?

Survival

Whilst BT and BP think in £billions, other businesses think only of surviving. ('Success would be still being in business next year,' says Barry Fry, Chairman of Peterborough United.) Most new businesses begin with survival as a main aim because two-thirds will fail within three years of start-up. Having cash to pay the bills is the key.

Ethical or social responsibility

Some private sector businesses combine social principle with profits – Body Shop, Innocent Drinks and JoJo Maman Bebe are examples. Many find that a responsible corporate image can help sales. Recently oil companies have rebranded as energy companies with Shell producing its 'Sustainability Report' and BP using 'Beyond Petroleum' as its **strapline**.

Notice that business aims will need to be modified over time to take account of changes in the external environment, in internal policies and in stakeholder demands.

Growth

Businesses can grow internally or externally.

- Internal or organic growth takes place when a business ploughs back (or reinvests) its profits. This is steady sustainable growth but may take many years.
- External growth is achieved by either merging with, or taking over, other businesses. This provides a faster route to becoming a 'big business'.

Tactics for achieving growth may include:

- **horizontal integration** – occurs when a business expands its present operations, as when Morrisons took over Safeway and when Lloyds and TSB merged into a single, larger bank. Such tactics provide increased market share and economies of scale

case study
1.9

Black's Leisure Group plc – more than an outside chance

Black's is leader in the growing outdoor leisure market. Forecasts show continued growth of 5 per cent per year for the next five years.

In 2005 after reviewing their progress, the board strengthened their management team and set out their plan to take the company forward.

Their aims

Black's aims 'to create value for our customers, inspire them to enjoy the "great outdoors" and earn their lifetime loyalty, thereby generating attractive, sustainable shareholder returns.'

Their five point plan

- Product development – a range of exclusive brands including Technicals for men, Freespirit for women and the ALS travel range
- Format development – new Black's Out of Town stores – they give a sense of 'the great outdoors – indoors'; upgrade of Millets stores
- Brand communication – new Millets advertising, truck advertising paid for by suppliers, new catalogues
- Operational efficiency – improved recruitment, training and tills; control of store and distribution costs
- New business development – two new e-commerce websites launched in 2006: www.blacks.co.uk and: www.millets.co.uk. A Freespirit website is proposed.

Monitoring and review

The 2006 annual report shows that the business is on course to achieve its objectives.

activity

- 1 Suggest examples of quantitative and qualitative analysis that Black's could use to assess their progress.
- 2 Identify strategic, tactical and operational aspects of the plan (the diagram on page 000 will help).

- **lateral integration** – takes place when a business diversifies its product range to gain access to different markets. Philip Morris, owner of the Marlborough cigarette brand, has diversified into food products to counter the threat of legislation and compensation claims driven by anti-smoking pressure groups. Supermarkets have diversified from food into electrical goods, clothes, financial services, gas, electricity and even property
- **vertical integration** – occurs when a business moves into other activities along the supply chain. A retailer may expand into wholesaling or manufacturing. The holiday company My Travel (formerly Airtours) operates all along the holiday supply chain by selling tickets to holiday-makers, operating ships and planes and running its own hotels.

How is growth measured?

Table 1.5 shows a number of ways in which growth at Tesco can be measured

Table 1.5 Ways in which growth at Tesco can be measured

Year ended February	2002	2003	2004	2005	2006
Group sales, £m	25,401	28,280	33,557	37,070	43,137
Group operating profit, £m	1,322	1,492	1,778	2,064	2,280
Number of stores	979	2,291	2,318	2,334	2,672

Source: Tesco Five-year Summary

case study
1.10

Arriva

Arriva began as a motorcycle shop, moved into motor retailing and in 1980 bought the Grey-Green bus company. Like Stagecoach, Arriva benefited from the deregulation of local bus services. Today it is one of largest transport operators in Europe.

In 2003 Arriva stated that 'our business will grow through acquisition, better service delivery, innovation and marketing'. In other words, they will take over other businesses when this is appropriate and will also expand organically.

activity

- 1 What sort of integration occurs if:
 - a) a bus company such as National Express takes over other bus companies?
 - b) a bus company such as Stagecoach also runs rail operations?
 - c) an airline such as easyJet has set up a call centre to sell its own tickets?
- 2 How exactly did deregulation benefit Arriva? (You may need to re-read page 000.)

Level of profit

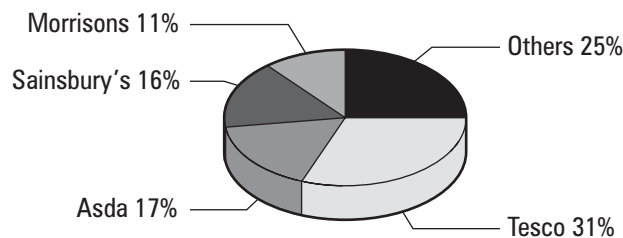
Investors expect businesses to increase profits from year to year. This can be difficult to achieve in a competitive environment. Tesco, however, has been highly successful in this respect; in 2005 they became the first UK company to make an annual profit of £2 million.

Sales and market share

Figure 1.19 shows that Tesco gained a larger share of the market than its rivals. In 2004, Tesco and Sainsbury could have grown by buying their rival Safeway. However, the government's Competition Commission prevented this. The Commission will usually stop take-overs leading to a market share greater than 25 per cent if they feel that this will reduce competition and customer choice. What was the result of their 2006 investigation into UK supermarkets?

Figure 1.17 Tesco's market share

Source: TNS



Number of outlets

A retailer might wish to grow by opening more stores, both nationally and internationally. Similarly a manufacturer might open factories in other countries. This should also lead to a growth in market share. Domino's Pizza plc has announced, 'Quality growth is a vision ... our ambitious plans were realised with the opening of 50 new stores.'

Business value

The worth of a business can be measured in two ways:

- by the bottom line on the balance sheet. This is the 'asset value' once debts have been paid. Asset value increases when a company ploughs back profits
- by the total value of the company's shares on the stock market (Figure 1.18 shows Tesco's share price). This is called 'market capitalisation' and it will change as the share price rises and falls.



The prices of plc shares can be found in the media. **FTSE-100** (footsie) charts the rise and fall of the prices of the UK's 100 most valuable companies.

Figure 1.18 Tesco's share price, January to December 2006

Source: London Stock Exchange



If market capitalisation falls below asset value, the company is under-valued, the shares are cheap and the company might be ripe for a take-over. This is one reason why company directors are concerned about a falling share price.

Company directors aim to increase both asset value by reinvesting profits and the share price by all-round performance.

assignment focus

- 1 If one of your chosen businesses is a plc, plot its share price each week and look out for news items that may explain why its price rises and falls. Alternatively a website such as www.londonstockexchange.co.uk will provide a ready made chart for you
- 2 Have the businesses that you have chosen to study grown? Take each of the measures of growth in turn and look at trends over the last two years. Some annual reports show a five-year trend.
- 3 Look for the FTSE-100 each day on the news or look it up in a newspaper or on the internet. What are the commentators saying about it?

Risks associated with growth

Overtrading

Expanding a business requires cash (more stock, equipment and staff). Expansion that is too rapid can leave a business with debts it cannot pay.

Diseconomies of scale

Sometimes a business grows too large to operate efficiently. Scale makes communication and decision-making more difficult. Where businesses have combined through merger or take-over, there may also be a lack of synergy, i.e. they may not fit well because of different cultures. Morrisons, for example, has experienced problems after taking over Safeway.

Solutions may include:

- 'down-size' by selling off some of the operations and concentrating on the core businesses, e.g. Boots reduced its services to refocus on healthcare
- decentralise by setting up smaller divisions for different geographical areas or products
- delayer by cutting out levels in the organisational hierarchy.

assignment focus

You may choose two of the business that you used to complete P1 and P2. Alternatively, you may choose two new businesses for this task.

To achieve P3 you should:

- explain the terms 'strategic aims' and 'objectives'
- identify the strategic aims and objectives of each of your chosen businesses. Provide the source of this information
- give reasons that explain why each aim and objective is pursued by that particular business. (Remember that the form of ownership, other stakeholders, size, and industrial sector will be influential.)

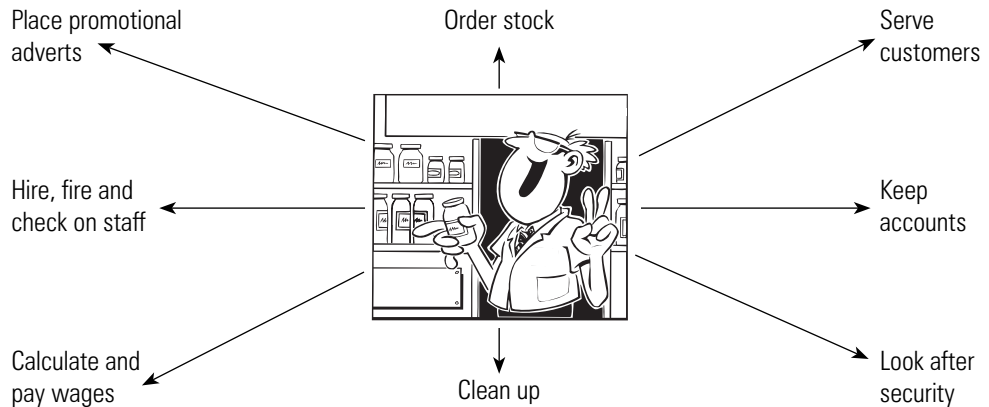
Understand functional activities and organisational structure

Organisation structures

In order for a business to achieve its organisational aims and objectives, it will need to carry out a range of **functions**.

In a small business (perhaps a sole trader or partnership), the owner(s) will be directly involved in carrying out most or all of the organisational functions. A sole trader running a small corner shop, for example, is likely to undertake the tasks shown in Figure 1.19.

Figure 1.19 Functions of small businesses



Division of work into functional areas

In a larger business, division of labour becomes necessary and the work of the business is divided into separate functions, such as operations, finance, marketing, human resources and administration. Specialist staff are recruited to perform these different activities and separate departments, or functional areas, will be set up. The business will begin to take on a formal organisational structure.

The way in which different functions are organised is determined both by the size of the organisation and by the activities needed to achieve its goals.



On page 000 we look at the range of functions found across organisations and on page 000 at how these may work together to achieve organisational aims and objectives.

Purpose of an organisational structure

It now becomes necessary to identify how these employees will communicate. The purpose of the structure is to clearly identify the roles, levels of authority and lines of communication between employees, i.e. to show what the important functions are, who is in charge, who gives orders and who carries them out.

An organisational structure that is appropriate for one business will not suit another. For example, a manufacturer will need a production department whereas a retailer will not. Within a single business the structure will change over time in line with changing organisational needs.

An ideal structure is one that will help the staff to perform in the most effective way, whereas an unsuitable structure will hold them back.

The organisation chart

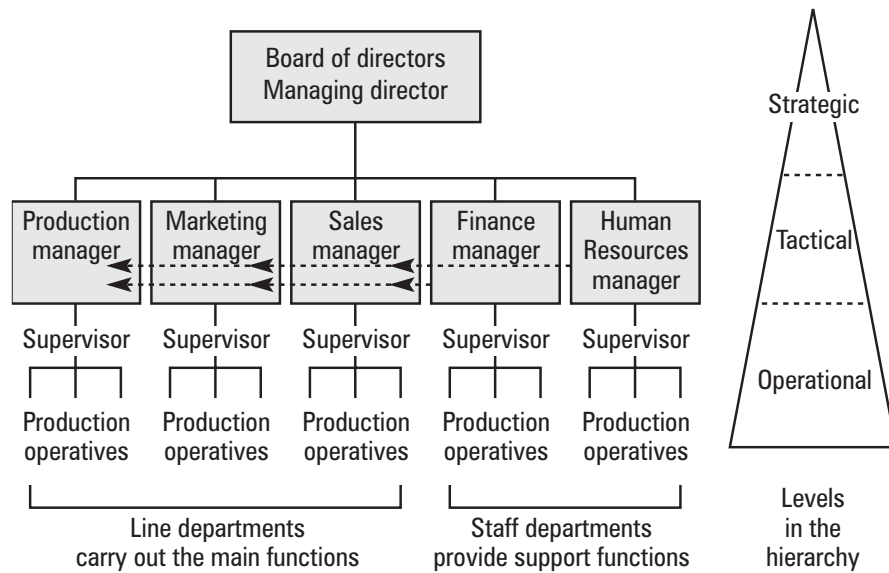
An organisation chart is a visual picture of the organisational structure. It shows the staff positions, their levels within an organisation and who they report to.

The horizontal lines show how the business of the organisation is allocated, for example, by functional area (VHF Radios, Figure 1.20), by geographical area (Arriva on page 000) or by specialism (McAlpine on page 000).

The vertical lines show the lines along which communication flows up and down the organisation.

Understand functional activities

Figure 1.20 The organisation chart of VHF Ltd, a manufacturer of radios



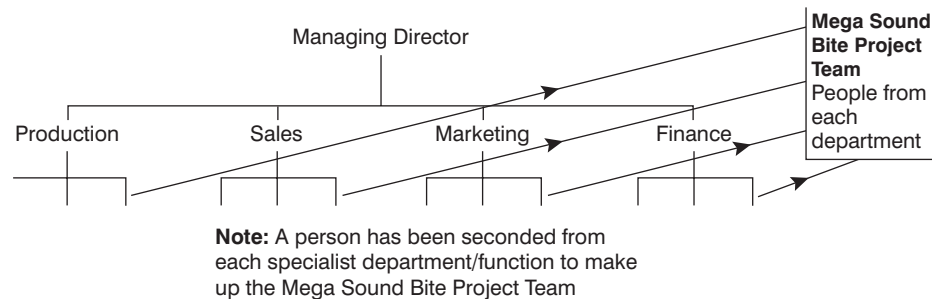
In VHF Ltd, five functional areas work together to achieve the business objectives.

- The ‘line functions’ of production, marketing and sales all help to achieve the main business objectives of making and selling radios.
- The staff functions support these main functions – the finance department ensures that there are sufficient funds, human resources makes sure that the business has the appropriate workforce.

Hierarchies and the line of command

Most organisational structures form a **hierarchy** (a structure with different levels of authority) similar to that shown in Figure 1.21.

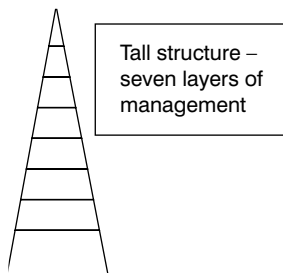
Figure 1.21 Hierarchy and line of command



A chain of command (the scalar chain) runs from the top of the hierarchy down through each line department to the shop floor. Instructions flow from the top of the organisation downwards; employees at each level are managed by the line manager directly above them in their organisational function.

Hierarchies may be tall, with many levels of responsibility, or flat, with few levels.

Figure 1.22 Tall organisational structure



Tall hierarchies

A tall organisation has many levels of management and supervision relative to the number of employees. Here there is a long chain of command from the top to the bottom of the organisation although, even in very large organisations, it is rare to find more than seven or eight levels of authority (Tesco has six). The presence of many managers/supervisors means that the **span of control** at each level is fairly narrow.

Tall structures tend to be formal and bureaucratic (necessary because of the generally large size) with many highly specialised functional areas.

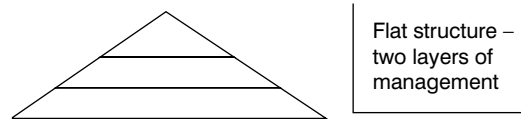
Flat hierarchies

Flat organisations tend to be smaller and so less complex. The chain of command from top to bottom is short and this should simplify communication between employees at different levels.

Smaller organisations such as partnerships, co-operatives and some private limited companies have a flat structure whilst large organisations also increasingly seek to keep layers of management to a minimum (see Tesco on page 000).

In some cases, flattening an organisation may simply be a means of cost-cutting in disguise. Making an organisation 'leaner and fitter', 'slimming down' or 'right-sizing' are some of the euphemisms used.

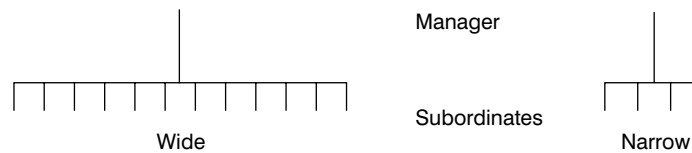
Figure 1.23 Flat organisational structure



Span of control

The span of control is the number of employees over whom a manager or supervisor has authority.

Figure 1.24 Span of control



Traditionally, the optimum span was considered to be between three and six people; thought to be the maximum someone could effectively manage. Narrow spans tend to create tall organisations, whereas wide spans are likely to be found in flat organisations.

When a large organisation delayers (flattens its structure by cutting out levels of middle management), the span of control for remaining managers will tend to widen giving them a greater workload. Some of these extra jobs are likely to be delegated – responsibility will be passed down to employees at lower levels.

remember The various functional areas can only achieve organisational goals by working together as part of an effective system.

Functional activities

The range of functional areas

The line functions to be found across a range of businesses include those listed in Table 1.6. The staff functions listed in Table 1.7 give support to the line departments.

Table 1.6 Functional areas and activities

Functional area	Activity
R&D (Research and Development) <i>Link with other functions</i>	Research and development can involve: <ul style="list-style-type: none"> ■ invention – discovering new techniques and products. Both large and small businesses can come up with good ideas ■ innovation – ways of applying these ideas to make a product. This can be highly expensive and generally only very large organisations have R&D sections. The largest spenders are companies dealing in: pharmaceuticals, chemicals, transport and new technology. R&D is about developing new goods. Service providers tend to carry out product development (e.g. the Halifax developed Intelligent Finance, a new bank account) as part of the marketing process. R&D will work with design to achieve higher sales and market share through 'cutting edge' products. Ethical objectives may be achieved through environmentally-friendly products such as components that can be recycled.

Functional area	Activity
Design <i>Link with other functions</i>	Design translates the new idea from R&D into a product that can be marketed. It concentrates on appearance, safety, performance, cost and quality. Design will work with R&D as shown above.
Purchasing, sourcing or procurement <i>Link with other functions</i>	This section locates and buys in supplies of the right quality, in the right quantities, at the right time and at the right price. Goods must be purchased ready for production or for sale. These goods must then be delivered on time. Purchasing therefore links with production, or operations, and with distribution.
Production (or Operations) <i>Link with other functions</i>	In this context, production means manufacturing goods or assembling them from components in the factory or workshop. Notice that retailers selling own brand goods usually contract other manufacturers to make them to order. Tesco-branded mobile phones, for example, are produced by mmO2. Retailers and other service providers tend to carry out their core activity through an operations function (rather than a production function) since they do not actually manufacture. The production department of a manufacturer will produce goods to design specifications. It must purchase appropriate supplies and take delivery on time (often just-in-time). Production schedules are geared to satisfy marketing and sales targets – Dell, for example, manufactures computers to demand. The operations section of a service provider, such as a retailer, will similarly work with purchasing, distribution, marketing and sales to make supplies available to meet customer demand.
Marketing <i>Link with other functions</i>	Market research identifies customer needs and matches products with markets to achieve: higher sales and market share through clear targeting of the market, effective promotion and competitive pricing. Marketing activity is carried out through the 4 Ps to ensure: the right <i>product</i> , at the right <i>price</i> , in the right <i>place</i> . <i>Promotion</i> ensures that customers are informed about the product and are persuaded to buy it. Marketing should work with production, or operations, to ensure that goods sold can be produced on time and at the correct price.
Sales <i>Link with other functions</i>	The sales function involves taking and satisfying customer orders and dealing with customer accounts. Sales may be part of marketing or work closely alongside. As with marketing, sales must work closely with production (or operations) and with distribution if goods are delivered to customers.
Distribution (or Logistics) <i>Link with other functions</i>	The distribution function links the organisation with the supply chain by moving stocks of raw materials, components or finished goods into the business from suppliers. Where a business has its own warehouses, it will also move goods to factories or retail outlets within the business. Many organisations also distribute goods to customers after sale. The distribution section works closely with: <ul style="list-style-type: none"> ■ the production department of a manufacturer (the factory) where components are needed to meet schedules ■ the retail section of a chain of stores where the shop shelves need to be filled ■ the sales section might also need to arrange for delivery of goods to customers. Increasingly new technology and more responsive distribution systems allow businesses to save on storage costs by ordering goods for delivery just-in-time (JIT) for use. The importance of distribution can be seen when it goes wrong. In 2005, car production at MG-Rover finally stopped when the company ran out of components; suppliers had refused to leave stocks without payment. In 2004, Sainsbury's new £3bn logistics system was scrapped after it 'lost' large amounts of stock and shelves remained empty Effective distribution, on the other hand, may improve customer satisfaction through efficient delivery times. The use of cleaner fuel, more effective journey planning and night-time journeys to avoid traffic congestion may help achieve environmental objectives. Frequently the distribution function is outsourced to specialist logistics firms.

Functional area	Activity
Customer service call centres <i>Link with other functions</i>	<p>These provide the customer with the 24/7 support in the form of advice, information and action upon queries, complaints and sales transactions. To save costs the centres may be located at a distance from the business.</p> <p>Work closely with the marketing and sales functions in providing product information to customers and feeding back customer comments</p>

Table 1.7 Staff functions and activities

Staff function	Activity
Human Resources (HR) <i>Link with other functions</i>	<p>The HR function plans future staffing needs and helps maintain a suitable workforce for all sections within the organisation. HR will keep employee records, recruit and dismiss staff, comply with employment law, deal with health, safety and welfare, industrial relations, discipline and appeals, set up training and staff development and agree systems for monitoring and appraising employees.</p> <p>HR will help all functional areas across the organisation to get the right staff and improve their performance.</p>
Finance <i>Link with other functions</i>	<p>The finance function co-ordinates revenues and spending across all functional areas so that the business will have sufficient funds to survive and generate profits to reward its owners.</p> <p>Financial accountants record and report on the actual results of the business. They record the sales, borrowing and expenditure that take place across the various functional areas. They then draw up reports for the benefit of the shareholders. The yearly profit and loss account and balance sheet (which shows the value of the business) are required by law.</p> <p>Management accounting provides estimates for use by the various functional managers. This information allows managers to plan future action, make informed decisions and control business performance.</p>
Administration <i>Link with other functions</i>	<p>Administration includes the office function and may also be responsible for other areas, such as premises, security, catering and maintenance.</p> <p>This function involves setting up organised systems and routines so that the different areas within the business can operate smoothly. For example, the office in a college may distribute post, direct visitors, keep class registers and arrange for the maintenance of photocopiers.</p>
MIS (Management Information Services) <i>Link with other functions</i>	<p>This section gets appropriate and good quality (accurate and up-to-date) information to managers as and when they need it. The use of ICT enables them to collect and analyse data and produce detailed reports quickly.</p> <p>MIS will gather and process:</p> <ul style="list-style-type: none"> ■ internal information about business resources, staff ■ performance, departmental targets, etc. ■ external information, e.g. industry benchmarks, competitor information, supplier prices, etc <p>This information will keep the various functional managers informed so as to take appropriate decisions in their day-to-day work. For example, MIS in a college will provide departmental heads with details such as class sizes, student attendance figures, success rates, the ethnic and gender mix of staff and students, the hours worked by lecturers, national benchmarks (standards to be achieved), and so on.</p>
IT services <i>Link with other functions</i>	<p>IT services provides technical support by installing, upgrading and maintaining the hardware and software in the business IT network. It may also provide support with design and maintenance of databases, websites and intranets.</p> <p>The section will give support across the organisation but may work particularly closely with MIS and administration.</p>

Managing functions in small and micro businesses

In a sole trader or small partnership, the owners themselves might carry out many or most of the functions themselves, perhaps with the help of one or two employees. Small businesses that have developed an organisational structure will tend to combine a number of functions under one manager, e.g. sales, marketing and customer service are likely to be linked. Look at the structure in your college or school, for example.

Depending upon the business activity and size, it is also likely that specialist functions such as IT services will be outsourced, whilst a function such as R&D (research and development) may not be found at all. This can be expensive and tends to be carried out by larger organisations.

Relationships between functional activities

Interdependency of functional activities

When a gardener at NASA (North American Space Agency) was asked by a visiting president what his job was, he replied, 'Putting a man on the moon'. The point is that each employee should play their part in helping the organisation achieve its goals. It is a team effort with success achieved by the functional areas working together. How well they do this depends upon:

- the organisational structure and whether this promotes effective communication and workflow
- the style of management and their attitude toward employees – successful businesses listen to staff and make them aware of their contribution
- the culture of the organisation – the way in which the management and workforce do things.

Tables 1.6 and 1.7 indicate where functional areas are likely to be interdependent.

case study 1.11

It's a flat world

Tesco is now the world's third largest retailer (after Walmart of the USA and Carrefour of France). A number of factors have contributed to this.

Chief Executive Sir Terry Leahy believes that listening to customers, rewarding staff and encouraging staff loyalty and progression are important; a number of people who began at the bottom have worked up into top management.

However, he also emphasises that the organisational structure plays a vital part. Tesco is a flat organisation with only six layers between the trolley pushers and the chief executive. This means that directors are not remote figures and communication through the organisation becomes easier.

Tesco has decentralised control. Directors recognise that decisions about stores in Thailand are better taken by people on the spot. They know the problems, understand local conditions and so can act more quickly and effectively than head office in England.

Source: Sir Terry Leahy, from his speech to The Institute of Directors, April 2005

activity

- 1 Tesco sells FMCGs (fast moving consumer goods) and so has to keep the shelves continually stacked. Which functional areas work together in achieving this?
- 2 What services do you think Tesco human resources staff may provide for staff in the marketing department?

Flow of work

Getting a job done is likely to involve a number of functional areas and will need an efficient flow of information between them. For example, when a retailer sells by telephone or by mail order, five functional areas may work together in directly meeting customers' needs:

- Marketing arranges advertising. This may be done through newspapers or popular magazines. Catalogues may be sent through the post or distributed via agents. These must provide accurate product and pricing information and the company must be able to deliver.
- Sales takes orders. Orders taken by phone are keyed into the computer. Information about stock availability and advice about deliveries can be given immediately because the computer system is linked with the stock and storage sections.

- Delivery, distribution or logistics. Companies do not normally use their own transport, but instead use specialist external carriers, such as Royal Mail or White Arrow. This avoids the cost of maintaining vehicles and paying drivers. However, some companies use their own couriers to deliver goods. Goods can be returned or exchanged in the same way.
- Finance receives payment. There may be flexible methods of payment, ranging from cash on delivery to 50-weekly instalments. The credit controllers need to control their cash flow and monitor debt repayments very carefully.
- Storage and warehousing. It is important to minimise the costs of storage, to update stock records, and re-order goods as necessary. All information is immediately available to management as part of the management information system.

assignment focus

The objective is to get the right goods (those which have been ordered) to the right customer at the right time. The process involves five functional areas and these must be co-ordinated.

- 1 Draw a diagram to illustrate the information flow between the parts of the system
- 2 Where might things go wrong? Where might delays occur?

Outsourcing/contracting-out business functions

Rather than employing its own staff to fulfil each function, a business may decide that it is more effective or cheaper to outsource (buy-in) the service from an outside business. This is now common practice in a number of functional areas:

- Administration – Specialist firms may be contracted to run security, catering, cleaning, as well as the maintenance of equipment such as photocopiers or computers.
- Finance – Typically small businesses have engaged an accountant to produce their year-end accounts. Larger organisations may outsource their payroll to an external provider.
- IT – Frequently consultants may be brought in to help set up a new MIS system or design a business website. Nick Jenkins of Moonpig.com buys in IT services.
- Delivery – Using Royal Mail, DHL or White Arrow is a long-standing form of outsourcing. The delivery of Waitrose home deliveries by Ocado is a more recent example.
- Production – Increasingly the lower costs available from manufacturers in the Far East are attractive to UK producers. James Dyson ultimately stopped production of his 'bagless' vacuum cleaners in Malmesbury and outsourced to Malaysia. Cost was the reason he gave.
- Supply chain – Specialist firms are able to achieve more efficient sourcing of products. This is the reason the NHS sought to contract DHL to buy-in supplies for its hospitals (see page 000).
- Call centres have been a massive growth area in recent years. Location is unimportant if the service is right. Again it is the lower prices in countries such as India that have attracted UK firms (see Case study 1.12).
- Public sector services – The compulsory competitive tendering (CCT) system compels local authorities to give service contracts to external providers who give best value for money. Accord, for example, collects refuse for Islington Council. The Home Office has outsourced the running of some prison services to the security company, Group 4.

Outsourcing has a number of advantages. An organisation simply pays the agreed rate and the job is done. Human resources issues such as staff training, payroll, providing cover for sickness, recruitment of new staff and redundancy are the responsibility of the contractor.

There are disadvantages too – it has been reported that 1 in 10 employees in Scottish call centres work for organised criminal organisations.

Link

See Case study 2.1, page 000, about call centres and the outsourcing of customer services.

Factors influencing the organisational structure

The ideal organisational structure will enable managers and employees to communicate effectively as they work towards meeting business objectives. However, what is right for one business will not be right for another. Business size, the external business environment and the objectives set out in the strategic plan will all influence the organisational structure.

Business size

The size of the business will influence the height of the hierarchy. We have seen that small businesses tend to have a flatter structure. Business size may also determine whether control is better centralised or decentralised.

- **Centralised control** In smaller businesses, sole traders and partners will provide or directly control most of the functions themselves. Small to medium companies, such as VHF Radios (page 000), will set up specialist functional areas, but the board of directors still retains central control over these. Centralised control allows speedy decision-making as fewer people are involved and less consultation is needed. This can be important when responding to changing business conditions.
- **Decentralised control** As organisations grow over different geographical areas or diversify into different products, it becomes difficult and inefficient to take every decision from the top. Large nationals and multinationals may be conveniently split into separate product or geographical divisions; the directors retain overall control, but responsibility for specific decisions is delegated to lower levels of management. For example, Arriva plc has created three geographical divisions (Figure 1.25).

Large global organisations such as ICI have introduced a still greater degree of decentralised control with a structure based upon product areas. These in turn are split into geographical operations. Figure 1.26 shows how ICI's Polyurethane division is structured. The division's managing director will still work within the guidelines set by the main ICI board, but is largely autonomous and is accountable for divisional costs and profits.

Figure 1.25 Arriva's decentralised control

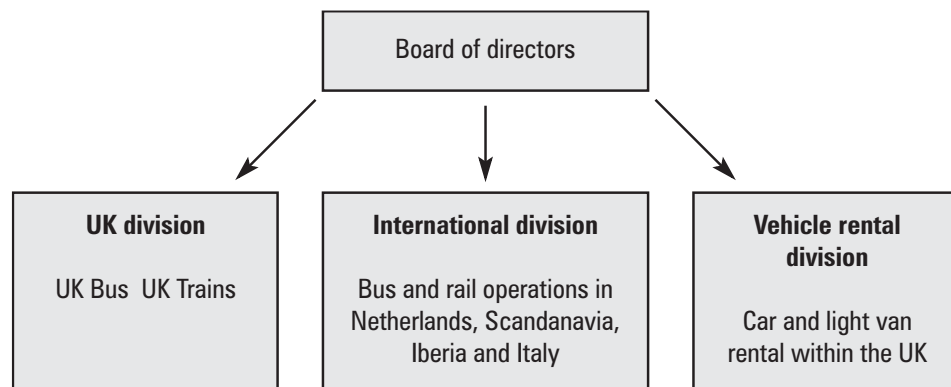
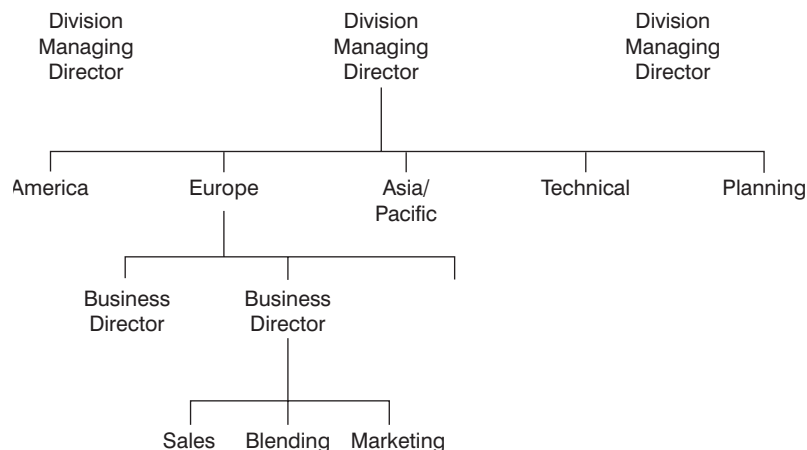


Figure 1.26 ICI's Polyurethane divisional structure



The business environment

Businesses will need to respond to the opportunities and threats from the changing external environment. New challenges may require a change in the organisational structure.

case study
1.12

Alfred McAlpine plc

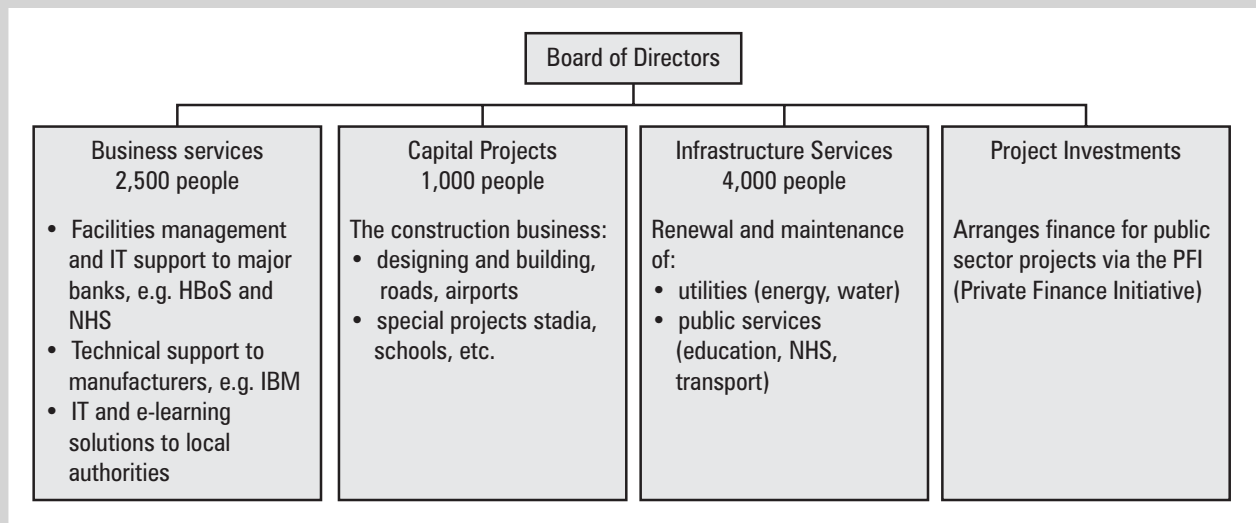
McAlpine made its name as a construction company but since the millennium new business opportunities have been presented by:

- the growing trend for large organisations to outsource their business support services
- the New Labour government’s Private Finance Initiative (PFI) designed to attract private funding and management for public sector projects (see page 000).

As a result, McAlpine is no longer just a construction firm: ‘things have changed. This is now overwhelmingly a service business.’ (McAlpine Business Review)

The senior management team (consisting of seven directors) has been reshaped to provide more effective leadership and control and the business has been restructured with a division for each area of activity (Figure 1.27)

Figure 1.27 Divisional structure of Alfred McAlpine plc



activity

What sort of integration has McAlpine used in order to grow?

assignment focus

You may use two of the business that you used to complete P1, P3 and P3. Alternatively, you may choose two new businesses.

To achieve P4 for each business you have chosen:

- identify the different functional activities carried out and describe what is involved. An organisation chart will help
- describe ways in which they work together to meet the objectives of the organisation.

To achieve M2, explain why each business has developed its particular organisational structure. Compare the influences that determine the structure used by each business.

Strategic plans

The structure of the business must be capable of delivering the business aims. For example, if the aim is to grow into the European market, then it is logical to set up a European division (as Arriva did – page 000). Where there is to be a growth in sales, then a higher level of specialisation may be needed to deal with the extra work.

Alternatively a move to outsource some of the functions may simplify the structure.

How external factors in the business environment impact on organisations

The business environment is dynamic (continuously changing). Businesses can rarely control these changes but must nevertheless respond to any opportunities or threats that arise.

Influences on business from the external environment are sometimes called **PEST** factors because they can be found under the headings: **P**olitical, **E**conomic, **S**ocial and **T**echnological. Where **L**egal and **E**nvironmental factors are identified separately, we speak of **PESTLE** factors. This is how we approach external factors in this book.

Political factors

Political factors relate to the actions and views of the government at Westminster, local authorities, the government of the European Union (EU) in Brussels and governments of trading partners.

- Financial policies might include raising the tax rate, providing grants to encourage regional development or subsidies to enable the rail industry to keep down prices. High taxation threatens business profits by removing spending power from consumers but may create demand through government spending on state services.
- Environmental policies are now high on the political agenda.

Link

See Environmental factors below.

- Development and regeneration is encouraged and approved by government. Spending on new transport links, for example, can create demand for construction companies such as Balfour-Beatty or Hanson (see page 000).
- Foreign affairs can involve making treaties abroad, providing foreign aid or declaring war. Some businesses might suffer through disruption to overseas trade links whilst others benefit from demand for defence products.

Party politics

The policies that governments announce in the Queen's speech each year may be business-friendly or unfriendly so that the result of a general election may be significant for a particular business.

Margaret Thatcher's deregulation and privatisation policies (see page 000) gave opportunities for business growth, while the restrictions placed on the development of out-of-town shopping malls under John Major's government hit the growth of large retailers such as Asda. New Labour's public private partnerships have enabled companies such as McAlpine to finance state projects including hospitals and schools, whilst public health initiatives have resulted in legislation to curb advertising by tobacco firms and fast food chains.

Remember that a threat to one business may be an opportunity to another. Whilst increased security at airports may deter people from flying, it also creates an opportunity for firms such as Ultra Electronics who manufacture surveillance equipment.

Economic factors

Economic factors relate to the wealth of the country and to our ability to buy goods and services. There is a link here with political factors since the government of the day will attempt to create a stable economic situation in which businesses can operate effectively.

Economic factors include the following.

The labour market, employment and unemployment

People in work have the money to buy goods and services. Conversely unemployment will reduce spending power.

Businesses demand suitably skilled workers and are influenced by the level of wages and the skills gap (the shortage of trained workers, such as plumbers, relative to demand). Immigration from the enlarged EU is helping to meet some of these needs.

Pay and personal wealth

The average UK salary was around £23,000 in 2007. As the level of disposable income (income available for spending) grows, so too does demand for consumer goods and services – this is good for business. However the pressure of increased spending may push up prices and create inflation.



You can search the Office of National Statistics website (www.statistics.gov.uk) for the up-to-date statistics on a wide range of subjects linked to your Business course, including employment figures, average earnings and inflation.

Interest rates and the cost of credit

Disposable income is not all about pay – it can be increased by borrowing. Retailers, manufacturers and the banks have all gained from the boost in demand created by cheap credit. However, the level of personal debt has become a major problem in the UK and the Citizens' Advice Bureau dealt with 1.4 million debt problems in 2005.

Inflation: public enemy number one!

Over recent years governments have made the control of inflation a priority. An inflation target – currently 2.4 per cent a year – is set and it is the job of the Bank of England to achieve this.

The Bank's Monetary Policies Committee (MPC) sits each month. If necessary it will put up interest rates to 'damp down' consumer demand – people will buy less as credit becomes more expensive and inflation should fall.

Alternatively, if inflation is low, the MPC may feel able to stimulate demand by reducing interest rates. The policy is effective because the high street and internet banks will respond to bank rate changes by putting their own rates up or down.

Whilst it is necessary to control inflation, high interest rates themselves can present a threat to businesses. They increase the cost of loan repayments, reduce demand from new customers and may reduce employment if staff are laid off. Added to this, customers may find it difficult to repay existing loans or mortgages so that banks may suffer from bad debts (debts that cannot be collected).

Not all of the MPC members will agree with a decision: The 'Hawks' wish to put up interest rates at the merest hint of inflation, whilst 'Doves' prefer to keep rates as low as possible.



Look up the Bank of England website at www.bankofengland.co.uk to see how inflation is changing and to keep up with MPC decisions.

What level is bank rate at present?

What is the present level of inflation?

assignment focus

- 1 In which ways are high interest rates a threat to your chosen businesses?
- 2 Work out the annual repayment on your business' loans (see the balance sheet) based on bank rate. (They will actually pay more.)

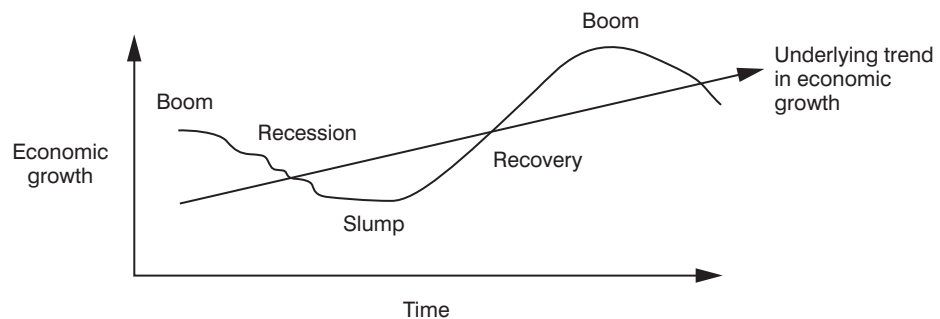
Changes in supply and demand

Consumers will buy goods and services if they have sufficient disposable income as well as confidence in the future.

Changing patterns of supply and demand can lead to fluctuations in activity known as the trade cycle.

- Boom – Here customer demand is high, businesses take on staff as profits rise. If demand rises faster than industry can supply, then the economy ‘overheats’ and prices will rise. A high rate of inflation (rapidly rising prices) is undesirable because:
 - it becomes difficult for businesses to plan
 - the purchasing power of money is reduced, hitting people on fixed incomes
 - UK products become uncompetitive abroad.
- Slump – Rising prices will eventually cause demand to fall and staff to be laid off. The economy slows into recession and eventually into a slump where there is little demand.

Figure 1.28 Trends in economic growth



Competitive pressures at home and abroad

The business world is intensely competitive. Consumers have a range of choices and will constantly move their custom to get the best deals. The ability of customers to shop around and compare prices on the internet makes these choices possible, undermines customer loyalty and increases competition.

Globalisation of markets

The globalisation of markets provides opportunities for suppliers to compete. Cost can be reduced through outsourcing of manufacturing to the Far East and of call-centre services to India. (see page 000). There is a threat to those businesses unable to adapt.

Continuous cost-cutting (the race to the bottom) introduces ethical issues since low cost may mean low pay and poor conditions for suppliers.

Energy prices

The dwindling supply of the world's resources of fossil fuels is struggling to keep up with demand. A rise in oil, gas and electricity prices – up 38 per cent in 2006 – is the result. This in turn threatens businesses via increased transport and production costs, whereas the oil companies and pipeline operators, such as Hunting, gain.

This situation provides an opportunity for the development of alternative fuels (perhaps organic fuel made from sugar cane or maize), electric cars or renewable sources of energy such as wind or wave power. Companies like Shell and BP (see page 000) are exploring these sources whilst continuing to search for new oil supplies.

Social factors

The way that we live – our attitudes, views, beliefs and lifestyles – influences our buying habits. For example: businesses may be affected by fashions, the crime rate, people's aspirations, the growth in the employment of women, the religious and ethnic mix of the population, standards of education, awareness of the environment and healthy eating (e.g. McDonald's now advertises 'free range egg' in its breakfast, Heinz has reduced fat, salt and sugar in its tinned soups).

case study

1.13

The answer is blowing in the wind?

Following the Kyoto Protocol, the UK government introduced measures to reduce greenhouse gas emissions.

The Climate Change Levy (CCL) introduced in April 2001 is a tax added to business energy bills. The aim is to encourage organisations to reduce energy consumption and so cut down on carbon emissions. Exemptions exist for transport fuels, charities and organisations with a small energy requirement.

The EU emissions trading scheme (March 2003 until December 2006) gave businesses a carbon dioxide emissions quota. Those emitting less than their target could sell unused quotas to firms that had exceeded their targets. By 2005, 7 million tonnes of CO₂ had been saved.

Figure 1.29 Windpower is 'carbon-neutral'

Source: Rob Ayres, EgoGen



activity

- 1 Which stakeholders are likely to gain and lose from this measure?
- 2 In what ways is energy used by the businesses that you have chosen? Are they exempt from the Climate Change Levy? Have they published any policies indicating how their carbon footprint will be reduced?

Ageing population

A fall in family size allied to an increase in life expectancy means that the UK population is getting older. This is a problem for the pensions industry and a drain on the tax-payer. B&Q has employed older workers for some time and finds them effective and reliable. The government passed anti-age discrimination legislation in October 2006 to give employees the right to work beyond pension age.



You can find up-to-date figures on the age of the UK population on the Office of National Statistics website (www.statistics.gov.uk).

The colour of money

Businesses see a market opportunity in chasing the 'grey pound' spent by the increasing number of older people in the population. For example, Saga provides services such as holidays and car insurance exclusively for the over-50s, whilst 1960s model Twiggy has boosted clothing sales at Marks & Spencer. There is a growing demand for anti-ageing products ('make the earth move not your teeth!') and a high proportion of city bonuses are

case study
1.14

Pebble-dashing goes to the wall

Richard Duggleby of Yell, publisher of Yellow Pages, says that new headings reflect the services we demand in modern society whilst those removed are 'no longer relevant to the way we live today'. Rising incomes, new technologies and a multi-cultural society have driven the changes.

Table 1.8 Headings in *Yellow Pages*, 2006

New for 2006	What's been left out
Airport transfers	Bellfounders
Colonic Hydrotherapy	Briefcases
Satellite Navigation	Cherished Car Plates
Refrigerated Transport	Electric Shavers
Children's Entertainer	Fish Smokers
Coffee Shops	Football Pools
Oven Cleaning	Gamekeepers
Soundproofng	Lighthouses
Talent Agencies and Management	Meat Smokers
Wood timber and Laminate Flooring	Pebble Dashing
Armenian Restaurants	Typewriter Ribbon Manufacturers
Polish Restaurants	Video Libraries

Source: Adapted from *The Metro*, 27 January 2006

activity

- 1 Say which of the PESTLE factors are responsible for any five of the new entries or omissions.
- 2 Are the goods or services provided by your chosen business listed in *Yellow Pages*? Does your business have an entry?

spent on plastic surgery.

Other colours used to identify market segments in society are:

- The green pound – spent by environmentally aware consumers. In 2005 the Co-op reported that UK spending on ethical products had risen to £29.3 billion.
- The pink pound – spent by gay consumers. With the law now recognising civil partnerships this has become an established segment
- The brown pound – spent by Asian and African-Caribbean consumers. In 2004 the disposable income of ethnic minorities was £32bn. Research shows that Asian consumers have a far higher percentage of pay TVs and personal computers than the UK average, whilst black women are the highest spenders on hair care products. O2 has sponsored Asian community festivals, cheap calls to India and Pakistan and Bollywood ringtones to try to win over this market.

assignment focus

- 1 Which market segments do your chosen businesses target?
- 2 Do they appeal to any of the colour-coded segments above? If so, identify the products concerned.

Culture and immigration

The enlargement of the EU has continued the trend for immigrants to seek a home and employment in the UK. The resulting mix of cultures provides opportunities for businesses to provide a wide variety of goods and services – the *Yellow Pages* listings above reflect these opportunities as does the ‘brown pound’.

A new bank has been set up in Birmingham to cater for Britain’s 1.8 million Muslims. This will operate in line with Islamic Sharia principles, will not invest in products deemed to be unethical and will operate without the use of interest. Rather than lending money, the bank will buy an item and then sell or lease it to the customer. Other branches will open in London and Leicester and telephone, internet and postal accounts will be available.

Hosting of major sporting and cultural events

Sporting world cups, European Championships and the Olympic Games can all provide significant business opportunities within host nations and beyond. The delay in completing London’s new Wembley stadium has benefited Cardiff, with the city’s Millennium Stadium hosting concerts, cup finals and football league play-off games.

Extensive media coverage spreads the benefits of international events beyond the host country. The German economy grew at its fastest rate for five years after it hosted the 2006 football World Cup. However, all of mainland Europe gained with £1.25 billion going into the UK economy from sales of related products (including 6,000 foam wigs sold by Sainsbury’s).

London 2012 – a race against time?

The successful London bid to host the 2012 Olympic games promises carbon-neutral and environmentally sensitive growth to an area of east London that is currently an industrial wasteland.

Transforming the Stratford area by 2012 will add 10 per cent to the output of the UK construction industry, create 30,000 jobs, 100,000 new homes in the ‘Thames Gateway’ area and boost tourism for the country as a whole.

In addition to the Olympic village and new stadiums, there are three major transport projects:

- the high speed Channel Tunnel Rail Link (CTRL) to Europe for 2007
- extensions to the east London rail line
- Crossrail – a rail link from Heathrow airport in the west, through central London into Kent and Essex in the east.

The government hopes that retail opportunities and the prospect of rising land prices will encourage private businesses to invest in the schemes.

assignment focus

- 1 Can you think of any arguments against staging the Olympics in London?
- 2 Is either of your chosen businesses likely to benefit? If so in what way?

Celebrity culture

The use of famous faces in marketing campaigns (see page 000) is a well-trying tactic for selling lifestyle goods and services. Clearly the images and personalities to which we respond will change with our attitudes and lifestyles. The concern over healthy eating, for example, has caused fashion house Prada to move away from ‘stick thin’ models.

The artist Andy Warhol once observed that everyone wants their ‘15 minutes of fame’ and increasingly successful businesses are being built upon the desire of ordinary people to achieve celebrity status. Youtube (show your own movie clips), *Big Brother*, *The X Factor* and quiz shows (get on TV) and radio phone-ins are all based upon getting the audience into the act.

Technological factors

When the Beatles sold a million records they were made of vinyl. Today’s hits are increasingly likely to be digital. Technology constantly changes and business need to adapt in order to survive.

The internet has caused a revolution in how business is done. Businesses must keep up, but being ahead of the game does not always pay. A number of early internet companies (the dot

coms) failed because dial-up connections were too slow and inconvenient for their services. Later entrants to the market have benefited from the development of high-speed broadband. Nick Jenkins of Moonpig.com (design your own cards) believes this factor is critical to his success.


Link

The internet is considered in detail in Unit 29.

Telephony developments

Mobile phones now routinely combine additional functions such as file transfer, whilst new technology is providing customers with ever more ways of getting online:

- Wireless application protocol (WAP) enables users of mobile phones and portable computers to receive e-mail and web-based information whilst on the move.
- 'Hot spots' are areas where wireless (not plugged in) applications, such as notebook computers can access the internet.
- Personal digital assistants (PDAs) are pocket-sized personal organisers, such as the Blackberry, which combine a calendar, diary and address book.

Technological advances also give rise to:

- new materials and processes used in manufacturing and construction – compare the view from a modern sports stadium with sitting behind a pillar at an old one
- new scientific developments such as the growing of GM crops or stem cell technology
- transport developments, e.g. in 2006 Ryanair became the first airline to announce that it was safe for passengers to use mobile phones on its flights
- communications advances – downloaded music is replacing CDs, DVDs are replacing videos. The internet has provided the opportunity for development of download sites such as iTunes and a major threat to record companies who find their products easily copied. A survey in December 2006 found that one in four people admitted to illegal downloads.

Legal factors

Legal factors relate to the law of the land and are therefore related to political decisions.

The effects of national and international law

A raft of UK and EU laws regulate businesses within the UK. Those involved in foreign trade are also bound by international law. Whilst the Institute of Directors (IOD) and the Confederation of British Industry (CBI) are concerned about the cost to industry of complying with legislation, other stakeholders clearly benefit.

- Employment law provides employees with rights and protects them from unfair treatment in the workplace.
- Health and safety law makes the workplace safer for employees, customers and other visitors.
- Environmental law is designed to protect our surroundings against harmful emissions and anti-social disposal of waste.
- Consumer protection law regulates the quality, quantity and safety of the goods and services that we buy.
- Taxation law sets out the requirements to draw up accurate accounts, pay income tax, corporation tax, National Insurance, VAT and customs duties.
- The Data Protection Act regulates the treatment of personal information held by businesses about individuals.
- Competition law promotes fair competition within markets. At the time of writing, BAA seems likely to be investigated for having a monopoly in the ownership of UK airports. It may be compelled to sell an airport to another business.
- Government 'watchdogs' regulate the privatised industries to protect customers against poor service and unreasonable price rises. For example Ofwat regulates the water industry and Ofcom regulates telecommunications.
- Local councils can decide on local building regulations, planning permission and the granting of licences. They can also enforce public health and environmental law.

In Unit 37 (on page 000) we look at specific laws that will affect a small business.

Environmental factors

Environmental factors may relate to energy needs (e.g. in 2005 hurricane Katrina disrupted the US oil supplies and drove up world oil prices), pollution of the environment by industry and the need to recycle waste. Global warming can be seen as a threat or an opportunity; it depends on your point of view. What is your view?

The new awareness about the environment is opening opportunities for new and existing businesses:

- Ecover washing-up liquid
- B&Q's new range of solar panels and wind turbines
- Clearview Stoves – wood is the energy of the future
- farmers' markets for local produce – a niche, but growing, market based on the knowledge that the carbon footprint involved in transport is smaller for local goods.

In response to demands for zero waste, the Eden Project in Cornwall has developed a new biodegradable cricketing box made from hemp. At present this is being tested – it would be interesting to find out how.

As we stated earlier, environmental policies are now high on the political agenda. EU carbon trading schemes, for example, encourage manufacturers to reduce emissions of CO₂. Targets are set for local authorities to work towards zero waste so that less household refuse is dumped in landfill sites. These policies threaten businesses that cannot comply but provide an opportunity for those in the recycling industry.

Defra (the government department responsible for the environment) will plan to combat threats to the farming industry from infections such as foot and mouth disease and avian flu. The Environment Agency will attempt to monitor the effects of climate change upon the growing seasons and the coastline.

The impact of PESTLE factors

In setting out its business plan, an organisation will conduct PESTLE analysis to look at the external opportunities and threats that face it. We have seen that a particular factor may threaten one business but provide an opportunity for a rival.

See the PESTLE analysis for Eclipse Pottery on page 000.

New organisations

New organisations constantly spring up in response to PESTLE opportunities:

- Tyrrell's Potato Chips (thicker than crisps) aims to satisfy the lifestyle demand for quality products. Owner Will Chase believes that the products are price insensitive for two reasons:
 - for health reasons (a social factor) many people now eat crisps only as a treat. This being so they are prepared to pay a premium price for a quality product
 - growth in disposable income (an economic factor) also helps.
- Exclusively online businesses such as Trainline (rail information) or Moneyexpert (comparing financial services) could not exist without cheap PCs and the internet (technological factors).
- Steven Henderson's spur was environmental and economic. He set up his S-Plant company to convert waste cooking oil into bio-diesel after reading about global warming and rising fuel prices produces. The fuel is used in his father's tractors.

Winding up of existing organisations

Those organisations that cannot adapt to will ultimately fail. Burger King blamed a disappointing 2006 in the UK on failing to respond to the desire for healthier food – something that McDonald's had done more successfully.

A number of high street retailers seem likely to struggle as e-commerce continues to grow in popularity. John Lewis has grown by setting up its own on-line operation. Similarly Virgin and HMV Music have developed music download sales.

The recent public interest in quality ethical brands has attracted the attention of larger established companies wanting to get in on the act. Take-overs by larger companies have included:

- Body Shop – now part of French cosmetics giant L’Oreal
- Toms of Maine (toothpaste) – now part of Colgate-Palmolive
- Rachel’s Organic – taken over by Dean Foods of the USA
- Pret A Manger – one-third owned by McDonald’s
- Green and Black’s (chocolate) – sold to Cadbury-Schweppes
- Ben and Jerry’s ice cream – owned by Unilever.

The new owners seek to enhance their corporate image by these acquisitions.

assignment focus

Which of the PESTLE factors have created the demand for these brands?

Revision of strategic plans

With the pressing need to combat global warming, the oil companies (criticised as being members of the ‘carbon club’) have drawn up revised strategic plans to take account of the need to develop renewable energy. Shell has produced its Sustainability Report, whilst BP talks of a time ‘Beyond Petroleum’. Meanwhile both companies still actively search for new sources of fossil fuel.

case study 1.15

Emission impossible?

The Shell Sustainability Report 2005 – Meeting the energy challenge states:

‘We will:

- manage our GHG (greenhouse gas) emissions (target 5 per cent below 1990 levels by 2010)
- help customers reduce their emissions by providing more natural gas and advanced transport fuels
- invest in technology to capture CO₂ from fossil fuels
- work to build at least one large-scale business in alternative energy
- support policies that use markets to encourage GHG reductions.’

activity

- 1 Research Shell’s environmental record in past years, e.g. in Nigeria. This shows why a change in corporate image was needed.
- 2 Shell is a powerful company. Why does it need to change in this way? Which PESTLE factors is it responding to?

Impact on stakeholders

The external factors have the potential to affect the various stakeholders in different ways. For example:

- Employees now find themselves protected by employment laws and with the right to take their employer to an industrial tribunal if a dispute cannot be resolved by other means.
- Customers have the right to question data held by organisations under the Data Protection Act and can expect better products and service as a result of consumer law. The increased competition introduced by the internet meanwhile provides greater choice at lower prices.

Exploring business activity

- Shareholders will benefit from global opportunities as James Dyson did from outsourcing vacuum cleaner production to Malaysia, whilst others (like Hanson below), will suffer if demand for their products fails.
- Employees will benefit when the economy is vibrant – in an extreme case 4,000 employees in the City of London received £1 million bonuses in December 2006. At the same time, workers making HP sauce in Aston, Birmingham, lost their jobs when the competition authorities allowed Heinz to buy the HP brand.
- The community may experience opportunities or threats. Advances in medical technology promise to cure a variety of ailments, whilst global warming has the potential to cause catastrophe – business and industry are responsible for two-thirds of the UK's carbon emissions.

Inconvenient for supermarkets

In real terms, food prices have declined since 2000. However, a number of stakeholders are concerned that supermarkets are too powerful. These include suppliers, small local retailers, communities and environmental pressure groups such as Friends of the Earth.

In May 2006 the government's Competition Commission (part of the Office of Fair Trading) decided to see whether supermarkets are operating in the public interest. The enquiry will take two years and will look at:

- how the 'big four', and especially Tesco, buy up small convenience stores to eliminate local competition. The number of local independent stores is declining rapidly
- the abuse of buying power to drive down suppliers' prices – low shop prices are achieved through low prices to suppliers
- the buying of large amounts of land to stop competitors opening stores
- selling items at below cost so that smaller businesses cannot compete.

Here the external influence is political and social. The government uses its influence to ensure that Tesco and the others are operating in the public interest.



Customers clearly like the supermarkets, so why are there dangers in them becoming too big? You can look on the internet to see the criticisms levelled at Walmart, the huge US retailer and part owner of Asda. Also to see why a number of towns have turned down planning applications from the big four.

assignment focus

If one of your chosen businesses is a supermarket or convenience store, research more about the Competition Commission enquiry.

Functional activity changes

Businesses may respond to changes in external factors by altering their functional activities. For example, firms may need to set up an e-commerce section, or a call centre function. Supermarkets have developed from exclusively self-service to include home delivery operations ('You shop we drop'). Demand has come with the change in working patterns and the growth in the number of working women (both social factors). The service has been made possible by the introduction of e-commerce (a technological factor).

case study
1.16

Hanson in the slow lane

Hanson is a multinational manufacturer of building materials; its aggregates section employs 3,700 staff in the UK.

The company blamed its lower profits in 2006 on the UK government's 'lack of action' on road building; 70 per cent of proposed new roads are still awaiting planning permission.

Other difficulties for Hanson have been an increase in pension costs and a £7.1 million loss on currency movements. The company also faces legal claims over the production of materials containing asbestos, although so far 70 per cent of these have been dismissed.

In response to slow demand for its products, the company aims to review its organisational structure and look at cost-cutting – this likely to involve job losses.

activity

- 1 What are aggregates?
- 2 Identify the various PESTLE factors that have troubled Hanson. Under which heading does each belong?

assignment focus

Choose two of the business that you used earlier in the assignment.

To achieve P5 for each business you have chosen:

- select three external factors that are having an impact upon these organisations
- describe the effect both upon the organisations and upon their stakeholders.

To achieve M3, analyse how in the past various external factors have affected the two businesses.

To achieve D1, you should select one of the organisations and evaluate how external factors may impact upon this business during the next five years. Mention how these are likely to affect: the activities of the business, its strategy, internal structures, functional activities and stakeholders.