Business enterprise

Enterprise:

Identifying a gap in the market & filling it by creating a new business or product

Purposes of businesses:

Providing a good (physical thing e.g. a book) or a service (a non-tangible thing e.g. Spotify as a streaming service)
Meeting customer needs
Adding value to existing goods to differentiate them via: convenience, logos (brand image), quality or adding a USP

Dynamic markets:

Markets (thus products) change due to:
Technology: goods can be innovated
Customer needs: new trends
Obsolete: product is outdated e.g. DVDs due to the rise of Netflix

Entrepreneurship:

Entrepreneurs take risks by filling a gap in the market by establishing a new business
Roles: organising resources (procurement of raw materials, hiring new staff, merging ect), taking risks (having no income security but doing market research & creating a business plan = taking calculated risks), making decisions (delegation, aims)

Risks:
Start-ups finance themselves or take out loans/ seek investments so business failure = debt if insufficient repayments
Lack of job security = no £££ to pay mortgages
Failure entails loosing capital & time

Rewards:
Success
Profit increases owner's income
Independence to take holidays & organise the business to satisfy personal objectives (e.g. sustainability = ethical business objective)

SWOT analysis:
Identifying: strengths, weaknesses, opportunities & threats of a business

Internal:
Strengths: skilled employees, good brand image, high capital
Weaknesses: bad management, poor finances

External:
Threats: competitors, recessions, takeovers, saturated markets, legislation, pressure groups
Opportunity: boom, merger, new markets

Competition:

Competitors sell products in the same market so compete for customers

To differentiate themselves, businesses employ USPs:
Price: low price targets low income segments, high prices are indicative of good quality
Customer service: knowledgeable staff & warranties build loyalty by inspiring customer confidence
Quality: can charge premium prices (compensating for higher production costs incurred) & promote/situate themselves close to high income markets
Product range: variety appeals to more customer needs = greater customer satisfaction & new products + innovation = monopolies
Location: high streets sell goods close to target markets (need transport links + good staffing) and e-tailers offer convenience with fast shipping

Market research:

Identifies target market's needs & competitors

It helps businesses:
Make informed decisions about the marketing mix
Reduce risk by analysing the market mix to avoid financial loss
Spotting market gaps to meet customer needs (developing new goods/altering the marketing mix)

Types of market research:

Primary research: directly obtaining data about customers
Methods: questionaries, surveys, focus groups & observation
Pros: specific, relevant = can implement direct findings to meet customer needs
Cons: costly, time consuming, only small sample size = not representative

Secondary research: external reports
Methods: government reports, market reports
Pros: instant via the internet, lens on the whole market & reliable (reproducible), minimises investment risk as trustworthy
Cons: out dated, not relevant to specific needs

Social media: businesses can create polls/stories/dms/comments/likes to obtain data from customers (new trends)
Pros: utilise analytics, segment markets, instant & global reach

Using market research:

Quantitative data: numerical so quick to analyse but not thorough
Qualitative data: opinions so relevant but very time consuming & costly

Market segmentation:

Dividing the market by demographics to identify your target market (+employ a targeted marketing strategy)
Demographics: age, income, culture, location, lifestyle
Relies on stereotypes

Market mapping:

Identifies gaps in the market relative to competitors
Have 2 variables on each axis
Market research confirms a demand for market gaps so businesses exploit the gap to differentiate themselves
But no guarantee of success if no demand & only as reliable as the market research is

Market types:
Monopoly: a business with no competition
Oligopoly: a market with only a few competitors
Monopolistic: many competing firms whose products differ only slightly

Putting a business idea into practise

Aims & objectives:

Aims = goal
Objective = how to achieve the goal

Financial aims:
Survival: having enough £££ to pay fixed & variable costs to avoid failure
Increasing market share: capturing a high share of the market by stealing customers from competitors
Maximising sales: increases market share & means fixed costs can be covered
Maximising profit: High profit margins = money can be invested into innovating new goods
Financial security: reaching break-even by being financially self-sufficient (no need for external loans)

Non-financial aims:
Personal satisfaction: catering the business around your own interests e.g. the environment through sustainability
Independence & control: taking holidays (flexible working hours) & organising resources yourself
Social aims: having a net benefit on society e.g. creating jobs, having 0 net carbon emissions, no animal testing

Objectives: SMART (specific, measurable, achievable, relevant, time-bound) steps to achieving aims
E.g. to maximise profits, businesses can vow to increase income from sales by 30% over 2 years
Depend on the SCORE of the business:
Size: established firms will grow (via merger/takeover), start-ups will survive
Ownership: LTDs & PLCs have aims dictated by shareholders, sole traders have personal (e.g social) aims
Market: to be competitive in a saturated market, maximise sales

Sources of finance:

Why?
Need start-up capital to set-up the business
To cover fixed costs (with a poor initial cash flow)
Cover customer shortfalls (payment delays)
To expand e.g. buying new premises

Start-up finance:

Short-term:

Overdraft: borrowing more money from the bank than is paid into an account
Pros: short term debt
Cons: loans withdrawn & assets seized if no repayment (VERY high interest rates)

Trade credit: supplier gives 1-2 months to pay for raw materials after delivery
Pros: have time 2 repay debt
Cons: costly if not repaid & poor cash flow (poor supply chain in procurement)

Long-term:

Loans: borrow bank
Pros: easy, low interests rates maybe
Cons: pay back in monthly instalments increasing fixed costs, assets seized if late payments

Personal savings: owner puts money in (in case of cash flow problems)
Pros: quick 4 start up
Cons: failure = loss of personal £££

Share capital: investors buy shares
Pros: limited liability
Cons: partial ownership, limits diversification

Venture capitalist: high risk investment e.g. dragons den
Pros: quick & business advice offered from specialists
Cons: HIGH risk & investor owns a stake in the business (expecting a quick return)

Retained profit: money reinvested after owner takes a dividend
Pros: full control maintained
Cons: hard to save, might miss opportunity

Crowd funding: via social media asking the public for £££
Pros: simultaneously employing a targeted marketing strategy, stakeholders don't always have an expectation of a return on the investment
Cons: idea theft

Making the business effective

Ownership structures:

Sole trader: 1 owner e.g. a plumber
Pros: keep all profit, complete control, ease of set up
Cons: unlimited liability (lose assets if business fails as not legally separate from the business), hard to get start-up loans (no trust), you're unincorporated so get sued on behalf of the business, long hours & stressful organising all resources & making all decisions

Partnership: >1 owner (partners have an equal share of profits, compliant with their 'deed of partnership') e.g. accountancy & law firm
Pros: shared skill set + workload, more capital invested for growth
Cons: mutual legal responsibility, unlimited liability, disagreements, profits are shared

PLC: public buys shares on the stock exchange
Pros: business is incorporated (separate legal identity from owners) so limited liability (owners only lose investments if business fails), quick growth as lots of share capital investment potential
Cons: takeover risk (shareholder buys a 51% stake), aims effected by shareholders to quicken a return on their investments, records are made public (to competitors too)

LTD: invite-only to buy shares
Pros: limited liability as incorporated, easier to get a start-up loan
Cons: legal paperwork & have to publish accounts annually so costly

Franchising:

Franchisees buy the trademark of an already established firm from a franchisor & set up franchises, trading (selling goods) under them (franchisors take a cut of the profits)
E.g. fast food chains like Subway

Pros: loyal customer base as established brand so quick growth, less risk as easier to get start-up loans, franchisor provides: products, advertising, training so they deal with procurement

Cons: limits franchisees' freedom (franchisor dictates products & ads), high costs e.g. the lump sum & % of profits go to the franchisor from the franchisee

Marketing mix: the 4p's

Product: have to spot a gap in the market & satisfy customer needs
Price: reflective of value e.g. quality could be a USP for wine, a premium pricing strategy is reflective of high production cost
Promotion: targeted advertising for brand awareness
Place: method of distribution, has to be close to target market (retailer or e-tailer or m-commerce)

Factors effecting the 4ps:

Changes in technology: e-commerce & social media = promoting/selling digitally
Customer needs: e.g. innovation to update technology
Market climate: saturated market = need to utilise one of the 4ps as a USP to differentiate from competitors for a higher market share

Marketing mix for small businesses:

Price: no economies of scale so higher prices (to cover start-up machinery costs)
Products: small ranges so use job production to maintain quality
Promotion: targets locals via flyers, newspapers & social media (cheap) to establish the firm
Place: sell directly to customers (lack credibility to sell in big retailers) so have to situate near target market (need transport links)

Business location depends on:

Proximity to:
Suppliers: close to preserve freshness of perishable goods & to reduce transport costs
Staff: transport access for skilled staff or near area of high unemployment (can pay lower wages so lowers costs)
Competitors: near competitors = resources, skilled staff & transport links are already there and a potential to steal existing customers from competitors
Target market: near transport links, location reflective of price (charge premium prices in high income areas), near passing trade or competitors (for promotion & a hub for potential customers)
Internet: offers flexibility through e-commerce & m-commerce (cuts costs as no costly high street rent & can buy factory land cheaply near raw materials for smoother supply chain), remote working popularised (skilled staff globally can be hired)
Footfall: passing trade can be enticed by on site promotion e.g. billboards

Business plans:

Helps make informed decisions (aims & objectives), organise resources (sales forecasts give insight into stock needed to meet demand), minimises risk (risks are calculated) & inspires confidence in investors (can show banks cash flow forecasts for start-up loans)

Features:

Idea: product & USP
Aims & objectives: have to be SMART
Target market: application of market research
Marking mix: outline the 4ps
Location: near target market & suppliers
Finance: cash flow forecasts & ratios displaying potential returns on investments

Understanding external influences on businesses

Stakeholders:
People with a vested interest in a business

Owners: focus on maximising profits to satisfy shareholders who want high dividends + high share prices
Staff: focus on their own job security & promotional prospects + want high pay with decent working conditions so benefit off of ethics & profit based company aims
Suppliers: benefit when firms are growing as receive bulk orders
Government: profit off of income tax, businesses create jobs which increase GDP/capita
Customers: demand high quality & low prices so benefit from customer satisfaction orientated aims
Local community: benefit from jobs & retail which enhance the local economy & enjoy infrastructure investment but condemn visual, noise + air pollution so benefit most from ethical & profitability aims
Pressure groups: create bad publicity in condemning a company's policies which reduce sales, they benefit from environmental & ethics based aims e.g. net 0 carbon emissions, no animal testing ect

Stakeholders have conflicting ideals so businesses make a compromise, they listen to groups who will promote growth, profitability & good press
E.g. businesses need shareholder investment for survival when starting up but they don't need to benefit the local community as they can sell goods elsewhere & will always have cheaper labour abroad

The impact of technology:

E-commerce: buying/selling goods online
Pros: reach global markets as no language or time zone barriers, convenient via next-day delivery, cheaper to own a website than to pay high street rent
Cons: inaccessible for older populations, scams, technical issues, hackers (need cyber security)

Digital communication:

Websites: provide customer service (automated, livechats, F&Qs) + can publish reports for stakeholders
Email: to advertise promotions, large scale employee announcements
Apps: customer service, displays products, express checkout
Live chats: instant messaging
Video calls: meetings with stakeholders abroad

Pros: efficient, cheap, instant, interactive
Cons: spam, only as efficient as the technology is, stressful being contacted during out of work hours

Utilising social media:

Customer service: DMs & comments
Market research: polls, stories, likes, shares
Advertising: posts, stories, reviews, demos

Pros: instant, wide reach, interactive
Cons: bad press (poor reviews), constant managing of accounts, hackers

Digital payment systems:

Express checkout: entering card details or using 3rd parties e.g. PayPal for security
Chip & PIN: 2 factor authentication as need to insert card & enter PIN number
Contactless: scan debit cards/ digital wallet apps (ApplePay) against card readers

Pros: customer convenience, safer, builds credit score
Cons: security issues, spending caps, bank confirmations

Technology's impact on business operations:

Firms need to innovate to stay competitive
Can cut costs with automated customer service & using social media as a hub for free advertising
Increases sales due to convenience of digital payment systems
E-commerce has given rise to globalisation = firms have a wider customer reach (but have to adapt to lifestyles, income & culture of new markets)
But technology has high maintenance costs, firms need to train staff/ hire specialist staff (investing in cybersecurity)

Employment law:

18-24 = national minimum wage (NMW)
25< = national living wage (NLW)

Prevents businesses cutting costs to exploit cheap labour, failure to comply = bad publicity & fines
Compliance increases costs, prices & sales can drop so firms have to make staff redundant to survive but it can increase staff motivation & productivity

Recruitment laws:

Are non-discriminatory against: gender, race, religion, sexual orientation under the 2010 Equality clause
Recruits have their documents checked to determine their legal right to work in the UK, illegal recruitment = fines

In the office, employers have to offer equal pay for the same roles or they are sued + made to pay compensation to the victim
Employers are held liable if employees are accused of discrimination so staff training & policies are enforced to create a non-discriminatory workplace

Health & safety legislation:

Risk assessments ensure accident books & first-aiders are on site & PPE is compulsory under the appropriate environments
Less injuries = less time off of work & no lawsuits claiming compensation = more productive workforce = higher output of goods = profit
Safety training & PPE is costly but not abiding by safety laws subjects businesses to fines & closures

Consumer law:

2015 consumer rights act ensures:

1. Product is fit for purpose: it's usable
2. Product matches its description: false trade descriptions & false endorsement claims by external bodies are illegal
3. Product is of a satisfactory quality: well-made

The economy: £££ in circulation
If employment rises, income rises so sales rise, thus production rises (in a cycle)

Effect on businesses:

Cost & inconvenience of refunding/replacing faulty goods
Law suits harm public perception = reduced sales
Have to abide by changing legislation e.g. by rewriting terms & conditions or retraining staff (so they sell products accurately & deal with violations of consumer law appropriately)

Unemployment & Government taxes:

Unemployment lowers GDP/capita (less output of goods) & more people rely on the Welfare state
Businesses can lower wages (lots of job demand) & claim gov grants/ be offered tax breaks
But
Businesses suffer when the economy is weak; no disposable income = no demand = output is reduced & staff are made redundant + hiring new staff means costly retraining programs

UK taxes: income tax (on wages), cooperation tax (on profits of LTDs/PLCs, national insurance tax (for NHS & infrastructure),VAT (on goods when a business earns more than £80k)

Tax rates:

Income tax falls = consumers have more disposable income = businesses have more revenue
Increased corporation tax = less £££ to reinvest into firms = slows growth so some firms offset their carbon emissions to reduce environmental tax
But businesses use loopholes to avoid paying huge taxes e.g. relocating to countries with informal economies (less regulation)
Low cooperation tax = firms from abroad set up in the UK = domestic markets are threatened as there's more competition & money leaves the UK economy

Inflation & consumer income:

Inflation: increase in the prices of goods relative to the depreciating value of currency
Plunges businesses & consumers into a state of instability; businesses won't take risks & invest and consumer cost of living rises

Rate of inflation is measured by monitoring the price of common UK household goods

Effects on businesses:

Consumer spending: inflation rises = consumer spending increases in the SHORT term before prices are hiked even more = extra revenue & higher profits but if wages don't increase in proportion to inflation, the demand for products falls

Cost of labour: high inflation = higher prices = staff demand higher wages so higher costs are incurred for the business

Global competition: high inflation rate = UK exports are expensive (as higher production costs) so they have less of a global competitive edge

Income changes:

Over time, income increases but not proportionally to the rate of inflation

Income rises slower than inflation:
Less disposable income, people buy necessities so the demand for luxury goods & leisure decreases (lowering prices will only increase costs too for businesses)
Discount stores e.g. Aldi see an increase in sales due to major demand for cheap goods in a recession

Income rises higher than inflation:
More disposable income so demand for luxury goods increases so profits increase but discount scores see a decline in sales as consumer focus is diverted from cheap goods to higher quality ones in a boom

Interest rates:

Interest = money due on top of borrowings/ earned by investments

Money is earned with savings
Money is lost with loans

Bank of England sets the base rate & it fluctuates in line with the economy

Low interest rates: cheaper to borrow money but return on savings decreases
Consumers borrow more money + economic activity increases (with a high demand for goods) = businesses maximise sales & profits
Businesses that borrow £££ to finance their spending (loans & overdrafts) have smaller monthly repayments (lower fixed costs) so invest money into their marketing mix

High interest rates: expensive to borrow money but a good return on savings
Consumers will be paying higher rates on money borrowed so have less disposable income + save more (to get a high return) = demand for goods reduces = less profit for businesses = no £££ to pay staff = redundancy

Exchange rates:

The price at which one currency is traded for another
They fluctuate e.g. the night of Brexit (UK left the EU in 2016) the value of £ dropped ($1.48 vs $1.36)

Imports are paid for by the currency the products were made in e.g. UK imports from the USA, paying in $$$

Weak pound:
Good for exports: lower prices = more sales abroad & costly for foreign firms to sell goods to the UK, protecting the domestic market (removes competition)
Bad for imports: foreign raw materials are more expensive = higher costs for UK businesses (have to increase prices which reduces sales)
UK will have more exports & less imports

Strong pound:
Bad for exports: products are more expensive so people abroad won't buy them = less profit (so firms move their operating facilities abroad to trade with the currency they sell their products in)
Good for imports: foreign raw materials are cheaper, maximising profits for businesses (benefit from lower costs)