

## Section 3.7

# ANALYSING THE STRATEGIC POSITION OF A BUSINESS

### THIS SECTION OF THE SPECIFICATION COVERS:

- ❑ Mission, corporate objectives and strategy
- ❑ Analysing the existing internal position of a business to assess strengths and weaknesses: financial ratio analysis
- ❑ Analysing the existing internal position of a business to assess strengths and weaknesses: overall performance
- ❑ Analysing the external environment to assess opportunities and threats: political and legal change; economic change; social and technological; the competitive environment
- ❑ Analysing strategic options: investment appraisal

### 0 1 GIVE ME THREE...

Influences on the mission of a business:

<b>1</b>	The legal structure of the organisation
<b>2</b>	The market the business operates within
<b>3</b>	The values of the founders of the business

Internal and external influences on the corporate objectives of a business:

	INTERNAL INFLUENCES	EXTERNAL INFLUENCES
<b>1</b>	Ethical stance	Changes in legislation
<b>2</b>	Corporate culture	Action of competitors
<b>3</b>	Financial/human resource constraints	Demographic trends

### 0 2 WHAT'S THE DIFFERENCE?

What's the difference between:

#### MISSION AND CORPORATE OBJECTIVES

- Mission: refers to the organisation's long-term intentions and details its overall purpose
- Corporate objectives: goals of the overall organisation; they are set to direct, co-ordinate and guide the business as a whole

## STRATEGY AND TACTICS

- Strategy: a medium to long-term plan devised and used to achieve the business's objectives
- Tactics: short-term decisions that are used to implement a strategy

### 0 3 TELL ME

The value to a business of:

#### SWOT ANALYSIS (PROVIDE TWO)

##### Advantages:

- ☑ Straight-forward and low cost technique
- ☑ Can be combined with other management techniques, such as PEST, to assist in devising a business's strategy

##### Disadvantages:

- ☒ To be of use, the technique is dependent on accurate and up-to-date information
- ☒ Large amount of information can be provided which needs to be interpreted correctly

#### FINANCIAL RATIOS WHEN ASSESSING PERFORMANCE (PROVIDE TWO)

##### Advantages:

- ☑ Different types of ratios can provide a variety of information about the financial performance of a business
- ☑ Allows quick and easy comparisons on a business's financial performance, against last year, targets and/or rivals, which aids decision-making

##### Disadvantages:

- ☒ Based on historical data; there is no guarantee that past performance will be replicated in the future
- ☒ Ratios focus on quantitative data; as well as financial information, a review of a firm's performance needs to be based on other factors, such as looking at the market the business operates within

### 0 4 WHAT'S THE FORMULA?

Write the formula for calculating:

#### RETURN ON CAPITAL EMPLOYED

$$\frac{\text{Operating profit}}{\text{Total equity + non-current liabilities}} \times 100$$

(where total equity + non-current liabilities = capital employed)

#### CURRENT RATIO

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$

<b>GEARING</b>	$\frac{\text{Non-current liabilities}}{\text{Total equity + non-current liabilities}} \times 100$ <i>(where total equity + non-current liabilities = capital employed)</i>
<b>PAYABLES DAYS</b>	$\frac{\text{Payables}}{\text{Cost of sales}} \times 365$ <i>(where payables = creditors)</i>
<b>RECEIVABLES DAYS</b>	$\frac{\text{Receivables}}{\text{Sales revenue}} \times 365$ <i>(where receivables = debtors)</i>
<b>INVENTORY TURNOVER</b>	$\frac{\text{Cost of goods sold}}{\text{Average inventories held}}$

## 0 5 WHAT'S THE DIFFERENCE?

What's the difference between:

### BALANCE SHEET AND INCOME STATEMENT

- Balance sheet: records the assets, liabilities and shareholders' equity of a business at a particular moment in time
- Income statement: shows the profit or loss a business has generated over a particular period of time, usually a year

### NON-CURRENT ASSETS AND CURRENT ASSETS

- Non-current assets: are items of value that the business expects to have for more than a year
- Current assets: are items of value that the business intends to hold for less than a year and can easily be turned into cash

### NON-CURRENT LIABILITIES AND CURRENT LIABILITIES

- Non-current liabilities: are debts that the business does not expect to repay within a year
- Current liabilities: are debts that the business intends to pay within a year

### PAYABLES DAYS AND RECEIVABLES DAYS

- Payables days: represents the time taken by a business to pay its suppliers and other creditors
- Receivable days: represents the time taken by an organisation to collect the debts owed by its customers that have been given trade credit when purchasing goods/services

## 0 6 STATE

State two ratios that can be used to assess the:

	EFFICIENCY OF A BUSINESS	PROFITABILITY OF A BUSINESS
<b>1</b>	Inventory turnover	Return on capital employed
<b>2</b>	Payable days	Profit for the year margin

## 0 7 GIVE ME THREE...

Types of data other than financial that can be used to assess business performance:

<b>1</b>	Operations
<b>2</b>	Human resources
<b>3</b>	Marketing

Examples of core competencies:

<b>1</b>	Apple: Integrated ecosystem of software and devices/design built around the user
<b>2</b>	John Lewis: Quality customer service/valued own trusted brand
<b>3</b>	Dominos: Profitable franchise model/integration of multi-channel systems

Elements of Kaplan and Norton's Balanced Scorecard Model:

<b>1</b>	Customer perspective
<b>2</b>	Internal business process perspective
<b>3</b>	Learning and growth perspective

Elements of Elkington's Triple Bottom Line:

<b>1</b>	People
<b>2</b>	Planet
<b>3</b>	Profit

## 0 8 TELL ME

The value of using methods such as the Balanced Scorecard and Elkington's Triple Bottom Line in assessing the performance of a business:

### BALANCED SCORECARD

#### Advantages:

- ☑ Highly flexible – KPIs chosen by the business
- ☑ Links performance measurement to long-term (mission & vision)

#### Disadvantages:

- ☒ Danger of too many KPIs
- ☒ Needs to be updated regularly to be useful

### ELKINGTON'S TRIPLE BOTTOM LINE

#### Advantages:

- ☑ Encourages businesses to think beyond profit when assessing the impact of their actions
- ☑ Supports measurement of environmental impact and extent of sustainability

#### Disadvantages:

- ☒ Hard to reliably and consistently measure People & Planet bottom-lines
- ☒ No legal requirement to report it – so take-up has been poor

## 0 9 OUTLINE

How the following areas of legislation can impact on a business:

### COMPETITION LEGISLATION

- Designed to protect firms and consumers from anti-competitive practices
- Free and fair competition encourages businesses to become more efficient and innovative allowing consumers to potentially get a better deal
- Prohibits cartels and abuses of businesses possessing dominant market positions i.e. businesses that agree not to compete with each other on factors such as price
- Monitor the behaviour of businesses that have a dominant market position to ensure that they do not abuse that power e.g. imposing unfair purchase prices to suppliers
- Ensures mergers and takeover will not lead to a substantial reduction in competition
- The government can refer mergers/takeovers that may have a negative effect on consumers to the Competition and Markets Authority

### LABOUR MARKET LEGISLATION

- Designed to prevent the exploitation of workers by businesses
- Increases red tape and costs within a business to ensure compliance
- Increases in national minimum wage and workers' rights may result in some businesses reducing their reliance on the UK workforce e.g. replace workers with automation, outsource production abroad

#### Labour law affecting individuals:

- **Working Time Regulations, 1998** – sets a limit to the number of hours that employees can be required to work each week to 48

- **National Minimum Wage, 1998** and **National Living Wage, introduced in April 2016**, outlines the minimum wage rates that employees should be paid based on age and whether the employee is an apprentice
- Legislation that **prevents discrimination** in the workplace based on factors such as age, gender, ethnicity and ensures that men and women are paid the same amount for work of equal value

#### **Collective labour law:**

- Law relates to operation of industrial relations, collective bargaining and the activities of trade unions
- Legislation in recent years has reduced the power of trade unions
- Employee/employer negotiations may focus on wage rates, working conditions, sick pay etc
- Impact of industrial action may result in negative publicity, loss of customer loyalty, reduction in sales

## **ENVIRONMENTAL LEGISLATION**

- Legislation to reduce the negative impacts of business activity on the natural environment
- A variety of legislation has been passed centred around pollution, packaging, disposal of waste/recycling
- Increased costs for the business in terms of compliance
- If a business is seen to be acting illegally in this area, it can impact extremely negatively on the brand and can result in fines being imposed by the government

## **1 0 IDENTIFY**

The impact of EU & UK government policy relating to:

### **ENTERPRISE**

- The UK government seeks to establish an enterprise friendly business environment that encourages people/organisations to develop their ideas and establish/expand their businesses
- Aim of government support is to promote enterprise and to reduce the degree of risk when setting up a business
- Many schemes exist that provide financial support
- Other support exists which encourages innovation, information is readily and freely available e.g. government websites to support business start-ups

### **ROLE OF REGULATORS**

- Regulation relates to the enforcement of principles or rules that result from the passing of laws
  - Controls and limits business actions e.g. restricts business ability to charge high/unfair prices
  - Regulation can provide stability for the future helping organisations plan and make long-term strategic decisions
- Many different types of regulation:
- Regulation with the aim of creating free and fair competition between businesses to ensure consumers are protected

	<ul style="list-style-type: none"> <li>➤ Regulation of certain industries such as banking, due to their potential to act against the interests of consumers/damage the economy</li> <li>➤ Regulation of privatised utilities e.g. water, electricity and gas providers; regulators, such as Ofwat, Ofgem, have been created to ensure that consumers are not being treated unfairly or paying too high prices</li> <li>➤ Self-regulation in some industries through the development of a code of conduct that all businesses within the industry abide to e.g. Advertising Standards Authority</li> </ul>
<b>INFRASTRUCTURE</b>	<ul style="list-style-type: none"> <li>➤ Examples of infrastructure are road, communications network, provision of education and medical facilities</li> <li>➤ A strong national infrastructure can help to improve the competitiveness of businesses - if the infrastructure is efficient e.g. less delays are experienced in transportation of goods, the education provision is of high quality, this can help to reduce costs, increase innovation and help increase productivity</li> <li>➤ Large scale investment in the UK infrastructure; a key example is the HS2 – rail connection between London – Birmingham and then Manchester and Leeds</li> </ul>
<b>THE ENVIRONMENT</b>	<ul style="list-style-type: none"> <li>➤ Government protects the environment in a number of ways, through: green taxes, subsidies, laws and regulations</li> <li>➤ The government is working to protect the environment by reducing pollution, reducing the amount of waste sent to landfill, protecting areas of parkland, wildlife reserves and marine biodiversity and enforcing regulations that keep water and air clean</li> <li>➤ The Government also helps communities avoid or recover from flooding and other weather-related hazards</li> </ul>
<b>INTERNATIONAL TRADE</b>	<ul style="list-style-type: none"> <li>➤ The UK government is a strong supporter of international trade, as it helps to create business efficiencies, choice for consumers and employment</li> <li>➤ Globalisation has resulted in increased trade amongst nations</li> <li>➤ BREXIT will impact on UK business and its ability to trade freely with other EU member states</li> </ul>

## 1 1 WHAT IS MEANT BY?

Write down a definition for the following terms:

<b>GROSS DOMESTIC PRODUCT (GDP)</b>	<b>TAXATION</b>
<ul style="list-style-type: none"> <li>➤ Measures the value of a country's total output of goods and services over a period of time, normally one year</li> </ul>	<ul style="list-style-type: none"> <li>➤ The system a government uses to fund its expenditure, e.g. on education and the NHS, through enforcing charges on consumers and businesses/organisations</li> </ul>
<b>EXCHANGE RATES</b>	<b>INFLATION</b>

- The price of one currency expressed in terms of another

- The sustained rise in price levels i.e. on average, the prices of products in an economy will increase over time; as the price level rises each pound buys fewer products
- This means the value or purchasing power of money falls

## 1 2 TELL ME

How a UK business, which exports products to the US, may be affected by the following changes in the £ against the \$:

### APPRECIATION OF THE POUND AGAINST THE DOLLAR

- An appreciation of the £ against the dollar will make exports more expensive, if the UK exporting firm wishes to maintain the UK revenue and profit generated per unit sold
- This could lead to lower demand for UK exports and a reduction in the UK exporting firm's competitiveness
- Alternatively, the exporting business will need to be prepared to take a lower profit margin on each unit sold in order to maintain demand and remain competitive

### DEPRECIATION OF THE POUND AGAINST THE DOLLAR

- A depreciation of the £ against the dollar means that the prices of UK exports to American consumers will be less expensive, if the costs of producing the products stay the same
- This could increase demand, sales volume, revenue and profits

How a UK business, which imports raw materials from the US, may be affected by the following changes in the £ against the \$:

### APPRECIATION OF THE POUND AGAINST THE DOLLAR

- An increase in the value of the £ means that more dollars can be bought for a given number of £s
- This means that, even if there is no price change in the USA, a UK importer can buy more raw materials with the same sum of money
- This means that the UK importer's costs will fall which can lead to lower prices, which may increase sales volume
- If prices are kept the same, it will mean the business can enjoy higher profit margins

### DEPRECIATION OF THE POUND AGAINST THE DOLLAR

- A decrease in the value of the £ means that less dollars can be bought for a given number of £s
- This means that, with no price change in the USA, a UK importer can buy less raw materials with the same sum of money
- This means that the UK importer's costs will increase, as buying the required amount of raw materials will be more expensive, which can lead to higher prices to maintain the profit margin and may reduce sales volume
- Alternatively, the UK importer may choose to keep selling prices the same which would result in the business receiving lower profit margins



### 1 3 WHAT'S THE DIFFERENCE?

What's the difference between:

#### FISCAL AND MONETARY POLICY

- Fiscal policy: government policy focused on taxation and public spending to manage the level of activity in the economy
- Monetary policy: controlling the amount of money and the interest rate in order to influence the level of spending and demand in the economy

#### OPEN (FREE) TRADE AND PROTECTIONISM

- Open trade: where trade can occur freely and fairly between countries; trade barriers, such as quotas and tariffs, are not enforced
- Protectionism: government policy designed to protect domestic industry from competition from abroad

### 1 4 WHAT IS MEANT BY?

Write down a definition for the following terms:

#### GLOBALISATION

- The increased integration and interdependence of national economies

#### EMERGING ECONOMY

- A country with low incomes per head but has high rates of economic growth

### 1 5 TELL ME

Why globalisation is important for business:

- Increased competition from firms located abroad resulting in businesses seeking increased efficiencies in order to compete successfully and survive
- Potential to increase the sales volume, revenue and profits
- Access to cheaper labour and raw materials
- Opportunity to produce more to satisfy increased demand resulting in businesses realising the benefits from economies of scale

Why emerging economies are important for business:

- Higher rates of economic growth compared to western economies
- Consumers have rising levels of disposable income
- Large populations – cheap labour supply/large number of consumers to target

## 1 6 WHAT IS MEANT BY

Write down a definition for the following terms:

### URBANISATION

- An increase in the number of people living in cities or towns compared to the countryside

### MIGRATION

- The permanent movement of people between different regions or countries

## 1 7 IDENTIFY

Identify three impacts on businesses of changes in:

### CONSUMER LIFESTYLE AND BUYING BEHAVIOUR

1

Demand for “fast fashion” impacts lead times/supplier choice, visual merchandising/layout choices for fashion retailers

2

Demand for convenience goods impacts the product portfolio offered by supermarkets and the space allocated to different ranges e.g. ready meals, takeaway sandwiches; has led to the rise of businesses that deliver ingredients and recipe ideas straight to people’s home

3

Rise of health conscious consumers has led to the growth/demand for organic foods, low cost/lifestyle gyms, activity trackers, such as Fitbits

### GROWTH OF ONLINE BUSINESSES

1

Convenience demanded requires significant investment by larger retailers to offer a seamless shopping experience to customers

2

The internet offers opportunities for entrepreneurs to set up in business and target a wider market

3

High street retailers face intense competition from online retailers or pure plays that do not have to pay expensive rents and have higher in store labour costs

## 1 8 BENEFITS AND DRAWBACKS

Identify two benefits and two drawbacks of:

### CORPORATE SOCIAL RESPONSIBILITY

#### BENEFITS

- Enhanced brand image and reputation which increases sales and customer loyalty
- Increases ability to attract and retain a higher calibre workforce, leading to increased efficiencies through lower recruitment and selection costs
- Potentially increased access to capital from investors that are socially and ethically conscious

#### DRAWBACKS

- Increased costs which can lead to higher prices
- Stakeholder groups have different objectives; it is very difficult to successfully meet the needs of all stakeholder groups
- May be one of the first areas to be cut back upon during a recession

## 1 9 WHAT'S THE DIFFERENCE?

What's the difference between:

### THE STAKEHOLDER AND SHAREHOLDER CONCEPT

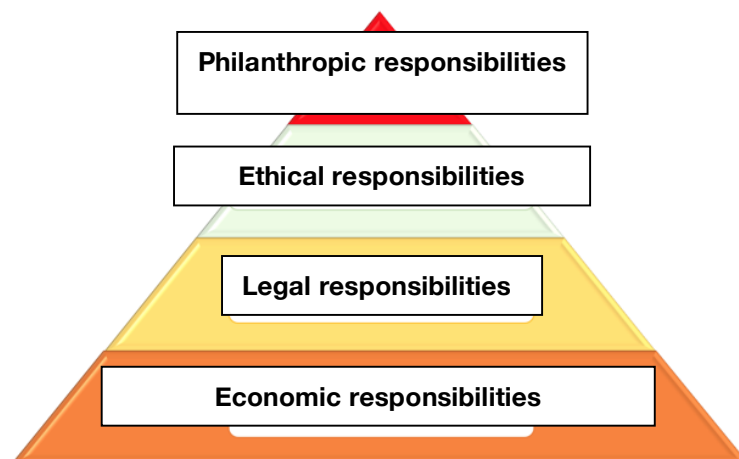
**Stakeholder concept:** management take into account the views of different stakeholder groups when making decisions

**Shareholder concept:** the view that management teams should only aim to meet their responsibilities to shareholders i.e. everything that they do should be in the best interests of the shareholders; encourages a short-termist approach

## 2 0 LABEL THE DIAGRAM

Complete the diagram for:

### CARROLL'S CSR PYRAMID



## 2 1 TELL ME

How technological change might impact on the functional areas and strategy of a business:

- Marketing: ability to analyse marketing data more accurately; has opened up more choice in terms of distribution channels/promotional options
- Finance: financial information can be stored, analysed and shared easily; aids decision-making with large scale investments
- Human resources: technology has replaced jobs in certain sectors; impact on training/e-learning; need to recruit staff that possess the correct technical skills to operate successfully in today's society; increase in volume of teleworking
- Operations: impact on how goods are produced and services are provided; ability to share information with suppliers on inventory levels, new product development

Why businesses might be under pressure to act more socially responsible:

- Consumers in today's society are more interested in the actions of organisations and how they operate; the way a business acts can affect buyer behaviour
- Developments in technology/social media means that news about a business acting in a socially irresponsible way can be communicated very quickly to thousands of potential consumers, damaging an organisation's reputation
- Demand for socially responsible goods is growing; businesses can target specific markets successfully through the production of socially responsible goods e.g. Toms shoes was founded on the premise that for every pair of shoes sold, one pair would be donated to a child in need
- Can lower staff turnover and increase staff retention through a generally happier and more motivated workforce increasing labour productivity

## 2 2 IDENTIFY

Identify the five elements of Porter's Five Forces model of industry competition:

<b>1</b>	The power of suppliers
<b>2</b>	The power of buyers
<b>3</b>	The threat of substitutes
<b>4</b>	The threat of new entrants
<b>5</b>	Competitive rivalry

## 2 3 BENEFITS AND DRAWBACKS

Identify two benefits and two drawbacks of the following investment appraisal methods:

### PAYBACK

#### BENEFITS

- Easy to calculate/simple to understand
- Takes into account the timing of cash flows

#### DRAWBACKS

- Ignores what happens after the payback period
- May encourage a short-termist attitude

### AVERAGE RATE OF RETURN

#### BENEFITS

- Uses all the cash flows over the projects life
- Focuses on profitability

#### DRAWBACKS

- Later years are included, the results will not prove as accurate as payback
- Ignores the timing of cash flows

### NET PRESENT VALUE

#### BENEFITS

- Takes the opportunity cost of money into account
- A single measure which takes the amount and timing of cash flows into account

#### DRAWBACKS

- Choosing the discount factor is difficult – especially for long term projects
- Complex to calculate and communicate; the meaning is often misunderstood

## 2 4 TELL ME

Two non-financial factors that influence investment decisions:

**1** Corporate aims/objectives

**2** Corporate image

The value of sensitivity analysis:

#### Advantages:

- ☑ Helps assess risk and prepare for a less-than-favourable scenario
- ☑ Helps make the process of business forecasting more robust

#### Disadvantages:

- ☒ Only as good as the data on which forecasts are based
- ☒ Only tests one assumption at a time (many assumptions may be linked)