



Higher Still Notes

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Higher Business Management

HSN81100
Unit 1
Outcome 1

Contents

Business in Contemporary Society	1
What is Business Activity?	1
Markets	1
Sectors of Activity	2
Private Sector Organisations	2
Voluntary Organisations	7
Public Sector Organisations	7
Business Objectives	9
Stakeholders	9
Entrepreneurs	11
Managers	11
Sources of Finance	12
Sources of Assistance	14
How Can Businesses Grow?	15
The External Business Environment	16

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Business in Contemporary Society

What is Business Activity?

Everyone has wants – some are for things like food or clothes, others are for entertainment, leisure, travel etc. In order to satisfy these wants we have to *consume* goods and services. It is through business activity that goods and services are provided.

Business activity is *any kind of activity that results in goods or services being provided that satisfy consumers' wants*.

Goods are tangible while services are intangible. Goods sold to the public are *consumer goods* – things like cars, sports equipment and games consoles, which are *durable*. Consumer goods can also be *non-durable* – like newspapers, magazines and chocolate. You use durable goods over a long period of time, whereas you use up non-durable goods quickly.

Services are things like facilities to the public – such as hairdressing, window cleaning, and receiving loans from banks.

Business activity creates *wealth* – the more goods that are produced, the greater amount of wealth. Wealth is not simply money, but the *total* of goods and services that can be given a monetary value.

Goods and services are the outputs of business activity. In order to produce an output, the business has to use *resources*, or *inputs* – people, buildings, machinery etc. These resources can also be called factors of production. These factors fall into four categories:

Land

All the natural resources – mineral deposits, the site of the factory, water, timber etc.

Labour

All the human resources – employees.

Capital

Tools, machinery and equipment, finance that the owner invested in the business.

Enterprise

The business ideas the entrepreneur has on how to use the above resources in order to produce a good.

Markets

A market is *any situation where buying and selling takes place*. This definition is important, and should be learned off by heart.

There are many different types of market – the *Internet*, city centres, and the *Stock Exchange* are all markets.

Another definition of a market relates to the competition between manufacturers (or suppliers) to sell their products. There is, therefore, a 'market' for cars, CD players, banking services, etc.

Sectors of Activity

Businesses are grouped into *sectors*, according to the types of products and services that they provide.

Primary sector businesses

These grow products or *extract resources* from the ground. Examples are mining, farming, forestry.

Secondary sector businesses

These *manufacture* products from raw materials. Examples are construction of new buildings, factories and ships, as well as products ranging from tinned food to TV sets.

Tertiary sector businesses

These do not produce a product – they *provide a service* instead. Examples are shops, hotels, banks, insurance companies.

Since the 1960s, the proportion of workers in the secondary sector has *declined* significantly in the UK. There are now fewer manufacturing firms because of this. The vast amount of steel factories, shipbuilding yards and mines that were in existence have been reduced to a handful with more closing day-by-day. Changes in *consumer demand* are to blame, along with new *competition* at home and abroad, lack of investment and the effects of *government legislation*.

The percentage of jobs in the tertiary sector, or service sector as it is also known, has *increased*. Whilst primary and secondary businesses have declined in the last 40 years, the number of employees in the service sector has seen considerable growth.

Private Sector Organisations

There are many different types of organisations operating in the UK. A definition of an *organisation* is a group of people who come together and use their resources and knowledge to achieve a common goal.

Private sector organisations are sole traders, partnerships, limited companies and franchises.

Sole Proprietorships (traders)

These are one-owner businesses (owned and controlled by the one person). There are bound to be many examples of sole traders in your local area – corner shops, hairdressers, etc.

Advantages

- The owner retains all the profits.
- You have complete control over all the decisions that have to be made.
- You can choose your own hours of work and vacation time.
- There is a greater *personal service* offered to your customers.
- This type of organisation is very cheap to set up.

Disadvantages

- You have *unlimited liability* – you carry all the business's debts if it fails, even if this involves selling all your personal possessions in order to pay it off.
- Restricted sources of finance – banks will charge you high rates of interest *if* they will commit to a loan at all.
- You have no one to share decisions with and you cannot share your workload with other people.
- The business has to shut down when you are on vacation or ill.

Possible Sources of Finance

- Your own personal savings.
- Retained profits (profit kept back from the previous trading period and ploughed back into the business).
- Bank loans.
- Overdrafts.
- Government grants.
- Trade credit.
- Debt factoring.

Objectives

- Survival
- Profit maximisation
- Create a good image.
- Improve your personal circumstances.
- Satisficing (generating a sufficient level of profit to satisfy the owner, while not making a high level of profit).

Partnerships

Partnerships are businesses with 2 to 20 partners – people who own and control the business together. A Partnership Agreement is drawn up, stating the rights of partners and procedures to be followed upon the death of a partner, a new partner joining the business or a partner leaving. Allowances are made for solicitors, accountants and members of the Stock Exchange, meaning they can have more than 20 partners.

You could also have 'sleeping partners' – people who invest in the business but have no control over the way it is run, the advantage being that they usually have limited liability, and will only lose their investment in the business if it fails (although sometimes this may not be the case if these people have been regular partners before becoming sleeping partners, as any decisions made by them beforehand may still have an impact).

Advantages

- Partners may have different areas of expertise – operations, finance, human resources, marketing etc.
- More finance is available to the business – you can pool capital from all the partners.
- You can share the workload with other partners.
- You can raise finance from lenders more easily than sole traders can – there is less 'risk' involved.

Disadvantages

- Unlimited Liability (possibly even for ‘sleeping partners’).
- Profits need to be shared (or *appropriated*) between partners.
- Disagreement may occur, with people having different methods and ideas.
- A new Partnership Agreement has to be drawn up every time a partner joins, leaves or dies due to the change in circumstances.

Sources of Finance

- Personal savings.
- Retained profits.
- Inviting new partners to join (increases investment).
- Bank loans.
- Overdrafts.
- Government grants.
- Trade credit.
- Debt factoring – where a specialist *factor* provides finance against any invoices which have not been paid (around 80% of the total amount due), the balance (20%) being paid back when the customers settle the invoices. An administrative charge and service fee is payable by the business to the factor.

Objectives

- These are the same as a sole trader’s objectives.

Sole traders and partners are often referred to as being *self-employed*, as they own the business that they also work for.

Private Limited Companies

Private limited companies are companies whose shares are owned privately – not available to the public on the Stock Market. There is a minimum of one shareholder (owner) in a private limited company, and a *director* or most commonly, a *board of directors* runs the business. A shareholder can be a director, and there must be at least one director and one company secretary (who keeps all the company records). The company must produce a *Memorandum of Association* and Articles of Association that state the details of the company, responsibilities of its directors and the rights of its shareholders. Private limited companies tend to be family businesses, although this is not always the case.

Examples of private limited companies are *Arnold Clark* and *Baxters* (soup).

Advantages

- Shareholders have *limited liability* – they only lose their invested capital if the business fails.
- More finance can be raised from shareholders and other sources.
- *Control* of the business is not lost to outsiders who have no knowledge of it (like public limited companies).

Disadvantages

- Profits are shared among more people.
- A *legal process* has to be adhered to when setting the company up.
- Shares *cannot be sold to outsiders* – it might be more difficult to raise finance.
- You have to abide by the *Companies Act* requirements.
- Annual accounts have to be published for the business, although these do not have to be made available to the general public.

Sources of Finance

- Company profits.
- New shareholders joining the company.
- Bank loans.
- Overdrafts.
- Government grants.
- Trade credit.
- Debt factoring.

Objectives

- Profit maximisation.
- Growth.
- Status.
- Sales maximisation.

Public Limited Companies

A public limited company, or plc, is a company whose shares are available to be purchased on the Stock Market. You need to have *at least* two shareholders and £50,000 of share capital to start one up. The same legal documents as a private limited company have to be drawn up. A board of directors – appointed by shareholders – controls the company. Public limited companies can also be called *corporations*.

Examples of public limited companies include the mobile phone giants Vodafone and T-Mobile.

Advantages

- You can raise immense amounts of finance.
- Plcs are usually market leaders.
- You can borrow money from lenders easily due to the size of the business.

Disadvantages

- There are a lot of set-up costs involved – prospectuses and underwriting (an insurance against some shares remaining unsold, meaning fees have to be paid to the underwriter who must buy these unsold shares) need to be set up before gaining the interest of investors.
- The Companies Act must be adhered to.
- The business has no control over who buys the shares on the Stock Exchange in the long term, although they can choose whom they wish to sell to when trading begins.
- You must publish annual accounts and make them available to the general public upon request.

Sources of Finance

- Retained profits.
- Selling shares to the public.
- Bank loans.
- Overdrafts.
- Debentures.
- Government grants.
- Trade credit.
- Debt factoring.

Objectives

- Profit maximisation.
- Growth.
- Maximise sales.
- To be dominant in their market.
- Image.

Plcs may be global companies, or *multinationals* (having manufacturing plants in more than one country). In doing so, they can:

- Take advantage of *economies of scale* – buying more products at a lower unit cost.
- Avoid legislation in the home country that might have a negative effect on the business's profitability.
- Avoid restrictions on quotas (number of imports brought into the country).
- Receive tax benefits and government grants from more than one country.

Franchises

A franchise is an agreement that allows an individual or group to use another business's name and sell their products and services. The individual is called the *franchisee*, and the business selling their name is called the *franchiser*. A small percentage or fixed sum is given to the franchiser in return for using their name and products/services.

Examples of franchises are the BSM (British School of Motoring) and McDonald's.

Advantages (to the Franchiser)

- You can increase your market share without a great deal of investment.
- Revenue is reliable (you get a set payment or a percentage of profits each year).
- Risks are shared between the franchiser and franchisee.

Advantages (to the Franchisee)

- The franchiser will undertake its own marketing strategy; therefore you will not have to carry out much advertising on your own.
- The franchiser may train you in the operation of machinery or the routine that you must follow.
- The risk of failing will be reduced because the business already has a good reputation.

Disadvantages (to the Franchisee)

- You have to pay the franchiser a percentage of profits or a *royalty* payment.
- The franchiser might not renew the franchise after a certain period of time, leaving you without the backing and permission to continue.
- The products you sell, the price you sell them at, and the layout of the shop may be dictated by the franchiser, meaning you will be less able to make your own decisions.

Voluntary Organisations

Charities

A Register of Charities is kept by the government, which also regulates the activities of charities. Professionals working for them often run charities, and the charity is usually exempt from paying some taxes.

Examples of charities include Capability Scotland and Cancer Research UK.

Sources of Finance

- Public and private donations.
- Government grants.
- Lottery grants.
- Profits from sales in charity shops, raffles, jumble sales and mail order goods.

Objectives

To be recognised as a charity they must have one of the following aims:

- To relieve poverty.
- To advance education.
- To advance religion.
- To carry out activities beneficial to the local community.

Voluntary Organisations

These are usually run and staffed by volunteers. Examples include the Scouts, local youth clubs and some sports clubs. Voluntary organisations bring together people with similar interests, and are run by a committee of elected volunteers.

Sources of Finance

- Grants from the Lottery, sports councils or local authorities.
- Fees payable upon joining or for use of facilities.

Public Sector Organisations

Public sector organisations are owned and controlled by either local or central government.

Local Government Organisations

Local authorities/councils provide services including:

- Education.
- Recreation.
- Housing.
- Refuse collection.

They are set up by central government and are run by locally elected *councillors*. The day-to-day running of the services are organised by council employees. A local council aims to meet the needs of the local community and provides services that might be considered unprofitable if handled by private firms, for example libraries and archives.

Sources of Finance

- Central government.
- Business rates.
- Council tax.
- Charges for using services, e.g. leisure centres and parking.

Objectives

- To meet the needs of the local community.
- To make cost-savings.
- To stick to budgets set down by central government and at local level.

Central Government Organisations

The Scottish Parliament and Westminster provide important services *nationally* from departments such as the Treasury, Trade and Industry, Health, Transport and Defence.

Politicians are elected to be overall in charge of the departments in line with the best interests of the population, however employed civil servants run them.

Sources of Finance

- Taxation

Objectives

- To improve society.
- To make best use of the funds available to them.
- To manage taxation to protect people who are in a less favourable position.

Public Corporations

Corporations are companies that are owned by central government. A government minister appoints a chairperson and board of directors, or governors, to run them on the behalf of the government. The Post Office and the BBC are examples of public corporations.

Sources of Finance

- Central government.
- The public – TV licensing, merchandise etc.

Objectives

- To provide a quality service.
- To manage their funds efficiently to make the best use of them.
- To serve the interests of the public.

Privatisation

The last 20 years has seen the government selling off key public corporations as a cost-cutting measure. BA (British Airways) used to be run by the government, as well as British Rail, which has been split up into two components – Network Rail (which used to be Railtrack), the company which manages the lines across the UK, and franchises who run trains on Network Rail's lines, e.g. Stagecoach, Virgin Trains, etc.

The government has sold these companies off because:

- The Treasury can receive a huge amount of income from the selling of these corporations.
- They were very poorly managed and did not make a profit, they could be profitable if someone else managed them.
- They wanted to increase share ownership and let the public have a chance to benefit from the success of the economy by buying into these businesses.

However, they were, according to business analysts, sold off too cheaply because this was the only kind of price thought possible and privatising them has not always led to greater competition or efficiency. The BBC might be the next corporation to be sold off as a private company, since it no longer has the leading market share of television and radio. With so many smaller entertainment channels setting up, their share has decreased dramatically.

Business Objectives

Objectives are *goals* that organisations have. They are crucial to the business's decision-making process, and having them usually motivates everyone in the workforce as they are working towards a common *aim*. Typical objectives include:

- Survival.
- Growth.
- Maximise sales.
- Provide a service.
- Maximise profits.
- Create a good image and be *socially responsible*.

Business objectives will vary from organisation to organisation depending on how old it is, the state of the economy and the sector of the economy in which the business operates.

It is important to remember that objectives are things that you are working towards – they may not be achieved for a number of reasons, including:

- Competition has made it too difficult or unachievable.
- Environmental policies are in the way.
- The demand for your product from the public has decreased dramatically due to bad press.
- The objectives were unrealistic.

Businesses may also claim to be environmentally friendly, or to provide equal opportunities and eliminate discrimination.

Stakeholders

A stakeholder is an entity – person, company or group of people – that has an interest in an organisation's success.

Internal stakeholders – examples

- Owners.
- Shareholders.
- Managers.
- Employees (or volunteers in the case of voluntary organisations).

External stakeholders – examples

- Customers.
- Trade unions.
- Banks and other lenders.
- Suppliers.
- The local community.
- Donors.
- The government.
- Pressure groups (e.g. *Greenpeace*).

Owners

Owners have invested time, effort and finance in setting the business up. They have also taken a huge risk, therefore they want the business to thrive and be profitable.

They can exert an influence on the business by making decisions affecting its running – e.g. who to hire, what price to sell at, how much to produce, anticipating the demand for the product etc.

Shareholders

Shareholders want the firm to be profitable because in doing so they will receive dividends and the value of their shares will increase.

They can exert an influence by voting for particular directors on the board and by speaking out at Annual General Meetings.

Managers

Managers receive salaries and bonuses, so they want the organisation to be successful to keep them in a job.

They make important decisions on the hiring and firing of staff and the types of products made, and these decisions may not be the right ones.

Employees

Employees want a good salary, satisfaction from their work and good working conditions. They also want their job to be safe; job security is an important factor for many workers these days.

They exert an influence on the business by their standard of work and relations with the company. If they go on strike they have an impact on the success of the business; if the quality of their work is noticeably poor the business will suffer from lack of sales.

Customers

Customers want the right product at the right price.

At the end of the day, customers choose whether or not to buy the product, influencing the products and services the business provides.

Suppliers

Suppliers want to remain supplying products to the business, therefore they want the business to be successful.

They exert an influence by changing the unit cost of materials, the credit period they offer to the business and the discount they offer.

The Local Community

The organisation generates employment and wealth for the area. The local community also have an environmental interest – they don't like noise, air and land pollution.

They exert an influence by complaining to the local authority or petitioning against environmental damage, or conversely, by pressing the LA into attracting new businesses to a depressed area to provide jobs.

Conflict

All the stakeholders don't have the same interests – the business might want to maximise profits by increasing costs, whereas the customers want to buy at the lowest price. The business might want to build a new production facility but the community think it will be a blot on the landscape. The moral of the story is that *not everyone can be happy with a decision made by an organisation* and all stakeholders should be working together to reach solutions acceptable to all.

Entrepreneurs

An entrepreneur is someone who has a business idea and combines the factors of production in order to see the idea through into a finished product.

They take risks and have to use 'gut feelings' and the skills acquired through training and experience in order to be successful. They make all the decisions pertaining to the business and therefore need to be good at making these decisions. Anita Roddick is a well-known entrepreneur, having founded the Body Shop. She started with a small business and made it grow into what it is today. Most other entrepreneurs follow the same method, being responsible for all aspects of the business – marketing, production, dealing with suppliers and handling all the administration for the business. As it grows, the role of the entrepreneur may change as they will delegate some responsibilities to other people.

Managers

Managers have the responsibility to ensure that the business achieves its objectives.

A Manager's Function (POCCC)

Planning – for the future.

Organising – arranging the required resources to meet the plan.

Commanding – ensuring that things are done properly by telling people what to do.

Co-ordinating – synchronising all the staff and resources to achieve the plan.

Controlling – making sure everything goes to plan.

Required Skills of a Manager

Interpersonal skills – having good relationships with other people (leadership, encouragement, liasing and motivating people).

Informational skills – collecting and passing information on to the correct people.

Decisional skills – solving problems and allocating resources to tasks.

Sources of Finance

Businesses have access to many different sources of finance. They depend on the purpose and the length of time for which it is required.

Sources of finance are shown below, with advantages and disadvantages for each. It is important to revise all of the different sources of finance, as in the exam or unit assessments it may ask for advantages and disadvantages of a variety of them.

Bank Overdrafts (Short Term)

Advantages

Customers can arrange overdrafts simply; the amount borrowed can be varied and is usually strictly limited. Interest is cheap as it is only charged on the actual amount borrowed over the number of days the money is borrowed for.

Disadvantages

Overdrafts may turn out to be an expensive source of short-term finance if used for a long time. If the strict limit imposed is broken extra charges may be payable.

Trade Credit (Short Term)

Advantages

Firms purchase goods on trade credit from suppliers, meaning they pay for them at a later date. When cash flow is poor, e.g. in the summer months for companies who sell Christmas products, they can use trade credit to purchase items and manufacture during the summer, paying the credit back when sales are made.

Disadvantages

Suppliers may be reluctant to sell any more items on credit if you don't pay up on time. An APR (Annual Percentage Rate) may have to be paid to the seller for buying goods on credit.

Factoring (Short Term)

Advantages

You can sell customer invoices for less than face-value, improving cash flow due to receiving payment from the factor almost immediately. The factor chases up unpaid invoices, saving the company's time, money and resources doing so.

Disadvantages

Your own business does not receive all the money it is due – the factor takes its cut from the money owed. They are usually only interested when you have huge sums of money owing to you or if there are large numbers of invoices to be collected (they deal per invoice).

Sale of an Asset (Short Term)

Advantages

You can gain additional finance when you need it, and when you no longer need a specific item of equipment, e.g. a redundant computer.

Disadvantages

You normally only use this source of cash as a last resort, and by its nature is usually a 'one-off'.

Retained Profits (Short Term)

Advantages

You can purchase assets using profits kept back from previous years. This can ‘grow’ the business without gaining a debt burden or increasing dividend liability.

Disadvantages

Growth will be minimal, as if you are self-financing your business you will not have access to the outside money required to expand greatly.

Bank Loans (Medium Term)

Advantages

Banks agree to lend you money for a specific purpose, time period, amount, and instalment period. You can budget and plan more easily as repayments are made in fixed instalments.

Disadvantages

You will pay higher interest rates if you are a small business.

Leasing (Medium Term)

Advantages

You can rent vehicles and equipment from a leasing company to avoid using limited finance on purchasing goods outright. You can change leased equipment when it is rendered obsolete or to keep up with the times, e.g. company cars. Repairs and maintenance are part of the leasing agreement.

Disadvantages

You do not have any rights to the equipment (no ownership). The cost of renting the equipment can build up over a long period of time, meaning it might have worked out cheaper buying outright in the long run.

Hire Purchase (Medium Term)

Advantages

A deposit is handed over, the rest being paid in instalments, spreading the cost meaning you can afford it more easily. You own the equipment at the end of the instalment period.

Disadvantages

Until the last instalment is paid the equipment is owned by the finance company. Hire Purchase also has relatively high interest rates.

Owner’s Savings (Long Term)

Advantages

If funds are needed and the owner has capital to invest, this is a safe, essentially low cost way to generate finance while still staying in control of the business.

Disadvantages

It will be difficult to draw the invested capital back out and the money is at risk if the business fails.

Share Issue (Long Term)

Advantages

This is the main source of finance for limited companies. Shareholders have limited liability and usually receive an annual dividend as a return. You can raise large sums of finance through share issue.

Disadvantages

It costs a lot of money to issue shares, you can only issue a certain amount of shares and cannot go over a limit set down at the start-up of the business. Depending on the type of shares issued, dividends will be payable every year.

Debentures (Long Term)

Advantages

Plcs use this source of finance. Debentures are groups of loans from people or other companies. Holders of debentures receive fixed interest over the loan period and then the full amount after a set period of time.

Disadvantages

You must pay the interest on debentures even if the business reports a loss through the year. If the business fails, debenture holders may be able to sell the business's assets to repay the loans secured on it.

Venture Capital (Long Term)

Advantages

Finance is provided from venture capitalists when banks see giving you a loan to be too risky. Large amounts of money are available very quickly.

Disadvantages

Venture capitalists usually do not deal with small loans, they prefer to deal with larger loans. They charge a fee for their services, usually a lot higher than interest rates from the banks. They usually want to own a stake in the business in return for their investment.

Sources of Assistance

A variety of different organisations can help you to set up a new business or help your existing business to expand. These include:

The Business Start-up Scheme

Enterprise Agencies run this service on behalf of the government. People who start up their own business are given start-up finance and a weekly grant from the Scheme depending upon circumstances.

Local Enterprise Agencies

Scottish Enterprise is a local enterprise agency. This service is funded by the government and offers free advice, contacts for more information, and training services/information.

Enterprise Fund

The Enterprise Fund is a government scheme that allows small businesses to borrow money from banks when starting up. In order for the bank to offer the loan, the government guarantees part of the loan for you.

Banks

Banks can offer help and support to businesses on ways to get finance, creating a viable business plan, and usually offer an information pack to people wishing to set up their own business.

The Inland Revenue

The Inland Revenue gives new business advice relating to taxation – e.g. the rate of corporation tax payable and all the procedures that should be followed to ensure the business is paying its way.

Trade Associations e.g. ABTA

ABTA is the Association of British Travel Agents, a regulatory body which provides advice to customers of the travel industry.

How Can Businesses Grow?

Businesses usually grow through the *integration* with other businesses. This integration can take place either on equal terms, a *merger*; or by one company taking control over another business, a *takeover*.

Recent takeovers have included *Go Airlines* that have been taken over by *Easyjet*. The airline is featured on the documentary *Airline*, showing on ITV1, all the *Go* check-in desks and customer service areas were stripped of their *Go* branding and painted ‘*Easyjet* orange’ in order to fit in with the rest of the company’s strong image.

There are three types of integration:

Horizontal Integration

Companies horizontally integrate when they are producing the same type of product at the same level, for example two building companies. The benefits of this include *economies of scale*, where the business can benefit from ‘bulk-buying’ materials. Businesses which integrate horizontally tend to be dominant in their market and raise profits through competition with smaller businesses.

Vertical Integration

You can integrate vertically when you integrate with a firm at a different stage of production, e.g. a sportswear company integrating with a rubber manufacturing plant or a retailer. You integrate forwardly when you take over a customer – e.g. the retail store where your products are sold, and backwards when you take over a supplier, e.g. the rubber plant.

Conglomerate Integration

Conglomerate Integration or *diversification* takes place when you merge with a business operating in a totally different market, for example Virgin, who own music stores, an airline, tour operator, as well as trains. You may be more financially secure if you diversify, as you do not have to worry about losing out to competition in one area because you have all the other areas of the business to fall back on.

Those were the three main types of integration. Companies, however, can do other things in order to grow.

De-integration

Business can de-integrate by selling off areas of the business in order to concentrate on other areas. This is also a source of finance for other projects, as you raise capital from the sale of an area.

Divestment

Businesses can sell its assets to another company in order to raise finance, e.g. *British Airways* selling *Go Airlines* (billed as their low-cost sister airline at launch).

De-merger

A de-merger occurs when a business splits into two companies to raise investment capital. You concentrate on core areas and cut costs in other areas in order to increase efficiency.

Asset Stripping

Businesses can buy other businesses and then sell off all the profitable elements of it, closing down the areas making losses. This may occur after a takeover, as it might raise more cash selling the components off separately rather than as a single entity.

Outsourcing

Outsourcing means hiring other companies to perform tasks which would be considered too expensive or too time-consuming to the business, e.g. contract cleaning – instead of a small business employing a part-time cleaner, it may be better for them to outsource this and only pay for someone to come in for a few hours a week.

Buy-outs and Buy-ins

Buy-outs occur when managers purchase the business from the current owners. This lets the managers keep their jobs secure and make the firm more efficient, the advantage to the current owners being that they can raise finance. A buy-in occurs when a group of managers from outside the business buy into the business and take over its running.

The External Business Environment

Companies *have* to look at its external environment in order to respond to changes that might affect its success. External factors are summarised in a PESTEC analysis.

Political

Politics plays a key role in all businesses – laws and decisions made by government can affect the success of the business. The EU has set a limit on the maximum number of hours that people can work in the EU. If businesses do not comply with this limit they may be liable to prosecution or penalty.

Economic

Economic factors, e.g. interest rates or exchange rates can affect the business. If the interest rate is high it will be more difficult to borrow money to expand as the cost will be higher.

Social

Social factors, for example changes in the *demography* of the UK (movements in the distribution of the population) can affect a business's success. If the country has an ageing population there may be a higher demand for mobility aids or healthcare insurance instead of holidays catering for young people. Social factors should be revised in more detail from your notes.

Technological

Businesses must move with the times. New information technology helps businesses to remain competitive, have easier contact with suppliers, employees and customers, manage information, and plan for the future. You can also reduce costs thanks to new technology – robotic plants are now taking over mundane, routine tasks that humans have previously undertaken. This has meant the businesses concerned have become less *labour intensive* and more *capital intensive*.

Environmental

Businesses have a duty to the environment, as do consumers. Some businesses, e.g. ink recycling companies, recycle materials during production in order to help the environment.

Competitive

Competition is an extremely important factor in business decision-making. Competitors have an immense amount of influence on your business. For example, car dealerships have had to cope with the introduction of new car *supermarkets* operating throughout the country.