Topic 1.5
Understanding external influences
Focus on these areas as a minimum

1.11 Business Ideas
1.13 Unique selling point
1.22 Market research
1.23 Market Mapping
1.24 Marketing Segmentation
1.25 Competitive environment
1.33 Cash Flow
1.35 Trade credit
1.41 Sole Trader
1.43 Marketing Mix
1.51 Business Stakeholders
1.57 Technology and Business

Exam Sections

Section A
In this section you will be tested on your knowledge of business. 35 marks are available and the highest mark on a question is:

“Discuss” 6 marks

Section B
In this section you will be tested on your knowledge of business applied to a case study. 30 marks are available and the highest marks on the question is:

“Analyse” 6 marks
“Justify” 9 marks

Section C
In this section you will be tested on your knowledge of business applied to a case study. 25 marks are available and the highest marks on the question is:

“Justify” 9 marks
“Evaluate” 12 marks

Answering questions

Command words are the part of the question which tell you what to do

<table>
<thead>
<tr>
<th>Command Word</th>
<th>What to do</th>
</tr>
</thead>
<tbody>
<tr>
<td>State orGive</td>
<td>These ask for a statement – you don’t need to back up with evidence.</td>
</tr>
<tr>
<td>Define</td>
<td>You need to write down what term means.</td>
</tr>
<tr>
<td>Identify</td>
<td>You need to interpret data shown on a graph or in a table to get your answer.</td>
</tr>
<tr>
<td>Calculate</td>
<td>Some questions ask for a bit of maths. Remember to show your working.</td>
</tr>
<tr>
<td>Complete</td>
<td>You need to fill in the missing parts of some information you’ve been given (e.g. complete a table).</td>
</tr>
<tr>
<td>Outline</td>
<td>You need to make two main points about a business issue and link them together.</td>
</tr>
<tr>
<td>Explain</td>
<td>You need to give reasons for things. So take a business issue, show how it impacts on other areas of business by giving reasons why.</td>
</tr>
<tr>
<td>Discuss</td>
<td>This is a longer version of an explain question, where you describe the business issue or issues and then explain the impact as per the Explain command word.</td>
</tr>
<tr>
<td>Analyse</td>
<td>This means ‘examine in detail’. You show describe and explain the main features of the ‘thing’ you’re analysing. The explain how the features of the ‘thing’ collectively impact on the business.</td>
</tr>
<tr>
<td>Justify</td>
<td>You’ll be given some information about a business and asked to recommend whether the business should do something or chose between two options for what the business should do. Each option needs to be Analysed</td>
</tr>
<tr>
<td>Evaluate</td>
<td>You should discuss both sides of a business issue. Each side needs analysing. You should finish with a conclusion which gives an overall judgement</td>
</tr>
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How small business interacts with the wider world

Understanding external influences

- Business stakeholders
- Legislation and business
- The economy and business
- Technology and business

Business response to external influences
1.5.1 BUSINESS STAKEHOLDERS

WHAT IS A STAKEHOLDER?

A STAKEHOLDER IS:
- Anyone who has an interest in a business
- Anyone affected by the activities of a business
- Anyone who works for a business
- Anyone who supplies a business
- Anyone who competes with a business
- Anyone who lives near a business
- Pressure groups who campaign against the activities of a business
- Anyone who buys from a business or is the end user of its products

INTERNAL STAKEHOLDERS
- Owners – want profits, good reputation and potential to grow business
- Managers – want good salaries, recognition and career progression
- Employees – good working conditions, good salary and job security

EXTERNAL STAKEHOLDERS
- Shareholders – want return on investment (dividend pay out)
- Suppliers – sell at highest price and paid on time
- Customers – buy quality, reliable goods and services at lowest price
- Local community – want local investment, jobs and limited pollution
- Government – wants low unemployment, competitive markets and business to operate within law and pay taxes
- Banks – want to lend money with limited risk
- Pressure groups – want businesses to operate ethically and not polluting the environment

INFLUENCE OF STAKEHOLDERS

Stakeholders can both influence and be influence by the activities of a business:
- OWNERS make decisions which can influence the success of their business
- EMPLOYEES can influence a business by providing excellent customer services which boosts reputation. Or poor service can drive away customers
- SUPPLIERS can influence a business by supplying it with goods of excellent quality, leads to repeat purchases. Poor supply and/or poor quality may send customers elsewhere
STAKEHOLDER CONFLICT

Caused by stakeholders having different aims which cause the business to pull in different directions. Often this is due to the stakeholders acting in their own interests rather than the interests of the business.

SUMMARY POINT

QUICK TEST

1. Explain the term ‘stakeholder’.
2. Explain three examples of ‘external stakeholders’
3. Explain one pull on a business by a stakeholder, give an example
4. Explain one push on a stakeholder by a business, give an example
As technology advances, it presents businesses with many opportunities in terms of innovating products and production processes. However, businesses that do not embrace technology or are slow to develop with it, can very quickly become uncompetitive.

**E-COMMERCE**
Is the buying and selling of goods and services over the internet. It also allows customers to make purchases at any time of day and to their own convenience.

**DIGITAL COMMUNICATION**
Involves making contact with customers electronically. This can be done through email, e-newsletters, websites, social media, mobile apps, live-chat, video calls.

**SOCIAL MEDIA**
Has provided businesses with a cheap and efficient way of communicating with customers, or to gather feedback via polls. Information can be regularly and quickly updated. It also allows users to communicate with other users about a product.

**PAYMENT SYSTEMS**
Customers can now use electronic payment systems to transfer money very quickly and safely, allowing much more convenient purchasing of products. E.G. smartphone payments, contactless cards.

**TECH’S INFLUENCE ON BUSINESS ACTIVITY**

**SALES**
Use of technology can increase sales. E-commerce allows wider markets to be reached. Innovative technology also appeals to customers.

**COSTS**
Technology has made businesses more efficient so able to make cost savings:
- Selling purely online means costs for a physical location are reduced
- Technology which automates a process means less cost on employee’s wages
- Social media and digital communications are cheaper than traditional forms of promotion and often reach larger and wider audiences
IMPACT ON THE 4PS

PRODUCT
Technology means that products have become more innovative and customers have more choice.

PRICE
Technology has led to cost savings which have led to the lowering of prices.

PROMOTION
Technology has led to the use of digital channels to promote products and businesses rather than the traditional methods.

PLACE
Technology has allowed a growing number of businesses to locate online.

QUICK TEST

1. Explain what e-commerce is and how it affects business.
2. Explain how technology has influenced costs.
3. Explain how technology influences the marketing mix.
LEGISLATION: WHAT AND WHY

Refers to laws set by governments of countries which set out the strict rules in which businesses can operate so that they do not exploit staff or customers. And no business can gain a cost advantage over other businesses by avoiding implementing legislation, this makes legislation fair to all businesses.

PRINCIPLES OF CONSUMER LAW

Is enforced to ensure that consumers are protected from malpractice by businesses. It protects consumers by addressing the quality of products and the rights of the consumer by stating that:

- Products should be fit for purpose
- Products should be of satisfactory quality
- Products must be as described

Consumers have the legal right to their money back, or to have their product repaired or replaced if the business does not meet these principles.

PRINCIPLES OF EMPLOYMENT LAW

Is enforced in order to protect workers. Various laws are in place to stop employees from being exploited by their employers. It covers the following areas:

- RECRUITMENT – businesses must ensure that employees have a legal right to work in the UK. This involves completing checks on new employees
- DISCRIMINATION – a businesses must not discriminate against employees. This includes:
  - Age, gender, race, religion, sexual orientation or disability. People must be paid the same amount for the same work completed
  - PAY – employees must receive a minimum wage. Workers over 25 years old are entitled to the National Living Wage which is slightly more than the National Minimum Wage.
  - HEALTH AND SAFETY – employees have the right to be kept safe at work. Businesses must carry out risk assessments of workspaces to ensure that risks are controlled and minimised.
IMPACT OF LEGISLATION ON BUSINESS

There are advantages to complying with legislation:
- Complying with consumer law means a business will gain a positive reputation helping future sales
- Doing the right thing will build a better relationship with customers, leading to greater customer loyalty
- Employees will feel happier and better protected, more motivated and more productive
- If seen as a good employer the business will find it easier to recruit people and retain existing staff.

Disadvantages of legislation on a business:
- Compliance may lead to additional expenditure and costs. Having to keep up-to-date with changes may require staff training.
- Failure to comply may damage reputation. For example, if there was an accident and an employee was injured and it was discovered that the business did not carry out its risk assessments properly.
- Having to pay the minimum wage may add extra cost and impact on profit.
- Having to pay for employees PPE will impact on costs.

QUICK TEST

1. Explain the purpose of legislation.
2. Name the four areas of employment law that businesses must comply with
3. Explain why failure to comply with legislation may lead to a drop in sales for a business
CONSUMER INCOME

Also known as disposable income. Is the amount of money consumers have left to spend after they have paid for living expenses and bills. This income is affected by the following economic variables:

- Changes in taxation levels
- Changes in levels of unemployment
- Changes in the interest rate
- Changes in the exchange rate

Income levels in an economy will have a significant impact on the level of demand. If consumers have more disposable income, then the level of demand will increase. This will lead to a business’ sales level increasing.

UNEMPLOYMENT

Unemployment exists in an economy when there are people of working age who want to work but cannot find a job. High levels of unemployment can be negative for a business because:

- Lots of consumers will have less disposable income
- The level of demand in an economy will fall
- Sales levels will decrease
- As demand and sales fall, businesses may need fewer workers, so unemployment rises further.

In times of low unemployment, consumer incomes are high meaning they spend more money on goods and services. This will increase demand in an economy. However, businesses will find it harder to recruit people with the right skills.

GOVERNMENT TAXATION

The government taxes individuals on the income they earn. If they increase the level of income tax, then consumers will have less disposable income. Businesses must pay corporation tax, which is based on profits. This increase the costs to a business. VAT is charged on most goods and services. If this increases, it makes the products more expensive.
### Inflation

This is the general rise in the price level of goods and services within an economy. It represents the cost of living. When inflation increases, it means that the average prices of goods and services have been increasing at a faster rate compared to average earnings. This will have an impact on the costs of the business and the purchasing power any of disposable income consumers have.

### Costs to the Business

As the price level in the economy will be increasing, suppliers are likely to put their prices up. This increases the cost to the business. As a result, this could have a negative impact on a business’ profit levels unless they increase their own prices too.

### Consumer Income

As prices of goods and services increase, consumers will have less disposable income. This means that demand will start to fall. If businesses choose to increase prices because their costs are increasing, it begins to perpetually worsen the situation.

### Interest Rates

Interest rates affect the cost of borrowing money. This includes loans, mortgages and savings.

#### Increase in Interest Rates

This will increase the cost of borrowing to both businesses and consumers and will have the following impacts:

- Businesses who have taken out loans may see an increase in costs.
- Businesses are less likely to borrow money as it is now more expensive to do so.
- Consumers will have less disposable income as they have to repay more on any borrowed

#### Decrease in Interest Rates

The cost of borrowing is reduced and will have the following impacts:

- Business costs will decrease for those that have borrowed money.
- More businesses will be encouraged to borrow and spend money as it may be cheaper to do so.
- Consumers will be more inclined to spend money as borrowing money from banks or spending on credit cards will be cheaper
EXCHANGE RATES

An exchange rate is the value of one currency in terms of another.

IMPACT OF AN INCREASE IN THE VALUE OF THE £
- Cheaper to import materials from abroad.
- Poor for exporters as the price of exports will rise.
- Domestic businesses suffer as customers buy cheaper products from abroad

IMPACT OF A DECREASE IN THE VAULE OF THE £
- Costs more to import materials from abroad.
- Good for exporters as the price of exports in terms of foreign currencies falls.
- Good news for domestic businesses as foreign imports become more expensive

SUMMARY POINT

QUICK TEST

1. Explain how unemployment affects businesses.
2. Explain how high interests rates affect consumer spending
3. Explain how a decrease in the value of the £ affects businesses in the UK
### TECHNOLOGY: HOW BUSINESSES RESPOND

**NEW TECHNOLOGY IS DEVELOPED**
- Businesses should invest in research and development so that they can create new products and remain competitive.
- Investment in new machinery helps to reduce production costs. This allows the business to become more competitive.
- Improvements in communications and video conferencing technology can increase the amount of home working. Less expensive office space is required by the business reducing overall costs.
- Production of products that have become obsolete may have to stop.

### LEGISLATION: HOW BUSINESSES RESPOND

If consumer legislation made it more difficult to sell a product a business may respond by not selling the product as a result they may have to spend more money on researching developing modifications or a brand new product. To do this the business may have to raise finance to be able to fund the research consequently the business may find itself in debt. Another option maybe for the business to enter new markets where there is less legislation on selling the product. This may involve retraining staff and moving the production locations which would be costly but would allow the business to continue to sell their product.

### ECONOMIC CLIMATE: HOW BUSINESSES RESPOND

**A RISE IN ECONOMIC ACTIVITY**
Demand will be increasing so this could be the right time to invest and grow the business. Therefore a business may:
- Recruit extra staff
- Invest in new equipment
- Research and develop more products
- Spread risk by entering different markets

**A FALL IN ECONOMIC ACTIVITY**
The economy will be lower. Businesses may react by:
- Concentrating on their core activities
- Cutting investment and spending
- Reducing the size of the workforce
- Lowering prices to remain competitive
QUICK TEST

1. Which one of the following is true when the pound falls in value compared to the US dollar?
   a. It benefits a UK manufacturer who imports raw materials from abroad
   b. it is bad for UK domestic businesses as UK consumers can purchase cheaper alternatives from the USA
   c. it is more expensive for travellers from the USA to visit the UK
   d. a UK exporter to the USA will benefit because UK exports will be cheaper for Americans to purchase

2. Businesses purchased some land in unspoilt countryside to build a new factory. Which one of the following stakeholder groups is most likely to be in conflict with the business?
   a. Pressure groups
   b. Shareholders
   c. Suppliers
   d. Workers

3. Explain one benefit that technology can have on the costs of a business.

4. Explain one advantage to a business of complying with consumer law.

5. Explain one impact on the business of rising inflation.

6. Discuss the impact on the business of falling interest rates.
Stand up paddleboarding is a sport which is similar to surfing but the riders use a paddle whilst standing on the board. Joe Thwaites opened Loco in 2012 as he spotted a gap in the market manufacturing stand up paddleboards (SUPs). Joe felt that he could compete using innovative designs and by changing the shape of the SUPs he made. He spent a few weeks in Fuerteventura, Spain, working with professional SUP riders where he developed designs for three Loco boards.

Since then Loco has surrounded itself with creative talent. This includes world class SUP shapers, graphic designers and team riders, who compete in competitions using its boards. Within months of its new SUPs becoming available, one of the team went on to win the British National Championship and represent Team GB in the World Championships.

Loco now sells an extensive range of SUPs, surf and kite boards throughout the UK and Europe and is ready to further extend its brand. Joe feels that the use of digital marketing using social media is vital in this growth. This combination of creative marketing and Joe’s active role in the business, by offering advice to customers, has provided him with a firm belief that Loco can compete against larger manufacturers.

(Source: adapted from https://locosurfing.com/ and interview with owner 8/06/2018)

2 State one stakeholder of Loco.  

3 Explain one possible conflict that can exist between stakeholders of a business.
6 In order to make improvements to the business, Loco is considering two options:

**Option 1:** introduce a digital payment system e.g. PayPal
**Option 2:** hold online meetings using digital communication.

Justify which one of these two options Loco should choose.
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**Option 1:** Introduce a digital payment system e.g. PayPal

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Justify which one of these two options Loco should choose.
1.5.1 Business stakeholders

*Last Course Patisserie Ltd* is a small private limited company based in Devon which produces hand-made desserts and puddings. The business was established in 1986. Its owners previously worked in the food industry but felt they could offer better value for money to customers. All of the desserts are made fresh to order which has provided *Last Course Patisserie* with a reputation for being flexible when meeting customer needs.

Getting the best ingredients for the desserts is a vital part of the business. *Last Course Patisserie* found excellent suppliers of free range eggs and dairy products close to its business location. This means all ingredients could be delivered quickly when needed.

*Last Course Patisserie* has recently employed a new head chef from Switzerland who has introduced a new range of products to the menu. This has proved to be very popular with customers and the business now struggles to keep up with demand. *Last Course Patisserie* is receiving increased orders for desserts but, due to the size of its business premises, struggles to meet this increase in demand. The owners have decided that it is the right time for *Last Course Patisserie* to expand and possibly relocate to new premises.

(Source adapted from: http://devondesserts.co.uk/; photo: © 2009-2018. Last Course Patisserie Ltd.)

The new head chef carried out secondary market research to identify information about the food market.

1 Outline one impact on a stakeholder group of *Last Course Patisserie* if it relocates to new premises.

____________________________________________________________________________________________________________________________________________________

____________________________________________________________________________________________________________________________________________________

____________________________________________________________________________________________________________________________________________________

1.5.3 Legislation and business

7 Which two of the following areas are covered by employment law? Select two answers.

A Consumer rights  
B Discrimination  
C E-commerce  
D Health and safety  
E Quality of products
1.5.2 Technology and business

*Aphrodite* is a clothes shop that was formed in 1994 by two brothers, Andrew and Duncan McKenzie. They opened the shop because they had a lifelong enthusiasm for new fashion.

Andrew and Duncan visit Paris, Milan and London each year to buy their stock. They aim to buy well-known brands, such as Stone Island and Hugo Boss, and to also stock clothes from new designers. This range of stock helps provide them with an advantage over their competition.

Customer service has always been an important part of *Aphrodite*’s success. A polite and friendly attitude greets all customers on arrival at the shop. In 2007 the business launched its website, which sells its range of clothing using e-commerce. The owners looked to maintain existing high standards of service for customers using their website.

A new opportunity was created when the shop premises next to *Aphrodite* became available to buy. Andrew and Duncan are considering buying the shop in order to convert the two shops into one large premises. They have calculated that this will cost them £250 000 but are undecided on the best way to finance this.

(Source: adapted from https://www.aphrodite1994.com/about-us and interview with owner 9/10/2017; photo: © fiphotographer/Shutterstock)

4 State one way *Aphrodite* could use social media.

(1)
On Your Bike is a family owned business that first opened in London in 1983. Its customers include children buying their first bikes and scooters, through to experienced enthusiasts in road cycling and mountain biking.

The business offers a wide range of bikes, many imported from abroad. These include high quality brands such as Brompton, Cannondale and Ridgeback. It also stocks a wide range of clothing and helmets including brands such as Endura and Altura.

On Your Bike has large workshop facilities in its shop where qualified mechanics maintain and repair all makes of bike. All mechanics go on regular training courses to ensure they keep their skills and knowledge up to date with the latest cycling technology. This allows On Your Bike to offer exceptional customer service and advice.

The cycling market has grown over recent years. Market research has shown that an increasing number of tourists like to rent bikes when on holiday. In response to this, On Your Bike operates one of the largest bike rental services in London. Bikes can be hired by the day or week with a choice including road and electric bikes.

This is customer review from a comparison website.

![Review](image)
5 Analyse the impact on *On Your Bike* of customers using social media to review the business.
Erik Fairbairn started *POD Point* in 2009. Based in the UK, the business builds and supplies charging systems for electric cars. Erik felt that the demand for such cars was going to grow and saw a business opportunity. *POD Point* is a way of charging an electric car at home.

Sales were promising and the business decided to expand. In 2014 *POD Point* raised £1.5 million through the crowd funding site Seedrs. In 2017 it raised a further £1.5 million using CrowdCube website.

By 2017 the business had over 25,000 customers, many of whom are in other countries. For example, 20% of revenue comes from exports to Norway. The business is affected when the exchange rate changes.

The business uses market research data that suggests that the demand for electric cars will continue to rise. Figures 3 and 4 show examples of market research in the car industry.

(Source: adapted from http://startups.co.uk/the-entrepreneur-erik-fairbairn-pod-point/)

The UK economic climate is important for *POD Point*. It is considering two options to reduce the impact of falling UK consumer incomes on sales:

- **Option 1:** Focus on selling to foreign customers.
- **Option 2:** Cut costs of production.

16 Justify which one of these two options *POD Point* should choose. (9)
The UK economic climate is important for POD Point. It is considering two options to reduce the impact of falling UK consumer incomes on sales:

**Option 1:** Focus on selling to foreign customers.
**Option 2:** Cut costs of production.

16 Justify which **one** of these two options *POD Point* should choose.  

10 Which **one** of the following is a definition of an exchange rate? Select **one** answer.

A The flow of goods and services into a country  
B The value of one currency in terms of another currency  
C A tax on a particular good or service  
D When businesses operate on an international scale