

7 Analysing the strategic position of a business

- 1 The philosophy and values of a business are the set of beliefs and principles that a business works toward that explain its overall goals and purpose.
 - 2 An economic recession may mean that a company changes its mission to one of survival. In a recession, consumers' incomes are falling and so profit is harder to come by. The business may have to forego other objectives in order to survive.
 - 3 Corporate objectives are the goals set for the business as a whole that will lead to the achievement of the mission.
 - 4 Business culture may be a limiting factor: in other words, firms may have to set more realistic objectives as a result of culture. On the other hand, business culture may actually support and enhance objectives if they are mutually reinforcing.
 - 5 Short-termism refers to the excessive focus of decision makers on short-term goals at the expense of longer-term objectives. A plc is owned by shareholders, who are generally focused on short-term profit goals.
 - 6 Mission, corporate objectives and corporate strategy are linked by the fact that the objectives set lead to a strategy that enables the mission to be achieved.
 - 7 Strategy is about choosing the best plan for achieving long-term goals, whereas tactics are the short-term actions or means of achieving those goals.
 - 8 Strengths, Weaknesses, Opportunities and Threats.
 - 9 A SWOT analysis identifies internal strengths and weaknesses and external opportunities and threats, which can lead to strategies focusing on the strengths and opportunities while alleviating the weaknesses and threats.
 - 10 How quickly an asset can be sold for cash.
 - 11 Tangible: coffee machine. Non-tangible: the brand.
 - 12 Current liabilities are debts that will be repaid within 1 year, such as short-term debt, dividends.
- 13 Too little working capital could lead to a business having cash-flow problems and struggling to make payments. Too much working capital is an inefficient use of money if cash is sitting in a bank account rather than being invested lucratively.
 - 14 The firm should move quickly to secure an overdraft or a long-term loan. Or it could look to delay some of its payments so that current liabilities become non-current liabilities.
 - 15 Profit quality is the degree to which profit is likely to continue in the future — the sustainability of profit. It is important because it provides an indication of the financial stability of a business.
 - 16 Gross profit is calculated by deducting the cost of goods sold from the sales revenue. Operating profit is the gross profit minus the expenses and overheads of the business. Profit for the year is the operating profit after adjustments for interest paid and receivable and minus tax paid.
 - 17 $ROCE = (\text{net operating profit/capital employed}) \times 100$
 $= (500,000/2.2\text{m}) \times 100 = 22.73\%$
 - 19 gearing ratio = non-current liabilities/equity
 If the gearing ratio is 0.25 and non-current liabilities are £1m, then equity = $0.25/1 = £4\text{m}$
 - 20 An understanding of gearing is useful when deciding how to finance a major capital investment as a highly geared firm may find it difficult to raise finance through borrowing.
 - 21 Payables days: average number of days a business takes to pay its bills.
 Receivables days: average number of days a business takes to convert receivables into cash.
 Inventory turnover: the number of times per period a business sells and replaces its entire stock of inventories.
 - 22 Three limitations of ratio analysis are it is based on past results; it may be 'window dressed'; it is of limited focus.

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Functional area	Performance measure	Formula
Marketing	<ul style="list-style-type: none"> + Market share + Market growth 	<ul style="list-style-type: none"> + $\frac{\text{sales of firm}}{\text{total market sales}} \times 100$ + $\frac{\text{difference in total market sales}}{\text{earliest year}} \times 100$
Operations	<ul style="list-style-type: none"> + Unit costs + Capacity utilisation 	<ul style="list-style-type: none"> + $\frac{\text{total cost}}{\text{units of output}}$ + $\frac{\text{actual output in time period}}{\text{maximum possible output per period}} \times 100$
Human resources	<ul style="list-style-type: none"> + Labour turnover + Labour productivity 	<ul style="list-style-type: none"> + $\frac{\text{number leaving}}{\text{total number of employees}} \times 100$ + $\frac{\text{output per time period}}{\text{number of employees}}$

- 24 Core competencies are the combination of pooled knowledge and technical capacities that allow a business to be competitive in the marketplace.
- 25 The four elements of the Balanced Scorecard model are financial, customer, internal business process and learning/growth.
- 26 Kaplan and Norton's Balanced Scorecard model provides a broader view that might detect weaknesses early, but it is complex and some areas are difficult to quantify.
- 27 The three aspects of the Triple Bottom Line are profit, people and planet.
- 28 Shareholders are likely to want to concentrate on the profit, whereas other stakeholders (such as workers) may prefer to focus on people. They may disagree about the company's performance as a result.
- 29 Anti-competitive practices are where businesses exploit consumers by unfair means such as price fixing and cartels.
- 30 The Competition and Markets Authority (CMA) is a non-ministerial government department responsible for strengthening business competition and preventing and reducing anti-competitive activities.
- 31 Discrimination in the workplace is bias or prejudice resulting in the denial of opportunity or unfair treatment regarding the selection, promotion or transfer of employees. It may be on the grounds of age, sex, race, religion etc.
- 32 Closed shops, open ballots and picketing.
- 33 The Environment Act 1995, the Climate Change Act 2008 and the Energy Act 2013.
- 34 Enterprise is encouraged by the reduction of red tape and lower taxes.
- 35 Ofwat, Ofcom and the Civil Aviation Authority.
- 36 Infrastructure is important for economic development and quality of life, and therefore investment in education, health and transport is a key determinant of inward investment.
- 37 Boom, recession, slump, upswing.
- 38 As incomes rise, demand for its product (a luxury product) should rise. However, rising demand may cause shortages and bottlenecks in supply, which means that not all of the demand can be fulfilled. Prices may rise too.
- 39 A downturn in the business cycle will result in lower demand for a car manufacturer because of rising unemployment and falling consumer confidence.
- 40 Direct taxation is on income (e.g. income tax), whereas indirect taxation is on spending (e.g. VAT).
- 41 An increase in income tax will lead to a fall in sales, as consumers have less disposable income to spend. An increase in corporation tax will lead to a fall in net profit.
- 42 It will find it hard to export its goods abroad.
- 43 More people will want to go abroad on holiday (because it is relatively cheaper) and so sales for travel agents should increase.
- 44 Fiscal policy is the means by which the government controls the economy through its spending and taxation, whereas monetary policy is the control of the economy through the use of interest rates and other means to control the money supply.
- 45 i Lower disposable income and a greater incentive to save.
ii Higher interest payments and lower demand.
iii More value or budget items being bought and fewer luxury items, because of lower disposable income of consumers.
- 46 Protectionism refers to policies and actions by governments to restrict or restrain international trade, such as import tariffs, quotas or subsidies to local businesses.
- 47 Improved transport, with bigger ships and containers making transport cheaper and easier. Improved technology, making it easier and quicker to communicate and share information.
- 48 An emerging market describes a national economy that is progressing toward becoming more advanced through rapid growth and industrialisation.
- 49 Helps to fill skills gaps; more competitive labour market; increased market size (more consumers).
- 50 People have more leisure time, taking more holidays and to places further afield.
People are generally more affluent and eat out more frequently. When eating in, they often opt for a ready meal.
- 51 Online shopping opens a wider market, increases sales and can reduce costs.
- 52 MNCs can now take orders from anywhere in the world (via the internet). MNCs can also move money to/from different locations more easily.
- 53 Blockbuster specialised in renting out VHS tapes. That technology declined with online streaming and the company did not keep pace. The product failed. Toys R Us could not compete with the likes of online retailers like Amazon. The process failed.
- 54 The shareholder concept sees the role of a business as one of making a profit for its owners (shareholders), whereas the stakeholder concept views the role of a business as one of looking after the interests of all stakeholders, not just shareholders.
- 55 Corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits to all stakeholders. It can lead to brand differentiation, resulting in customer and employee engagement, as well as (in some cases) cost savings.
- 56 Carroll's pyramid of corporate social responsibility illustrates the four layers of corporate responsibility (economic, legal, ethical and philanthropic). It provides the framework for a business to understand the necessary principles of social responsibility, enabling practices and strategies to be developed to achieve it.
- 57 The action of pressure groups and the resulting unwanted media attention, which may impact adversely on sales, have led to greater pressure for CSR. Pressure has also come from increased

consumer awareness and action through social media, which may impact on a business's reputation.

- 58 The forces in Porter's five forces model are entry threat (barriers to entry), buyer power, supplier power, rivalry and substitute threat.
- 59 High sunk costs; government licensing.
- 60 Groceries (supermarkets); bottled water.
- 61 A differentiation strategy calls for the development of a product or service offering unique attributes that are valued and perceived to be different from those of competitors by customers, whereas a cost leadership strategy is one that aims to gain a competitive advantage by having the lowest costs in the industry.
- 62 payback = number of full years + (amount of cost left/revenue generated in the next year)

$$= 0 + \frac{100,000}{12,500}$$

$$= 8 \text{ years}$$
- 63 average annual return = $\frac{\text{net return}}{\text{life expectancy}}$

$$= \frac{1,000,000}{4}$$

$$= 250,000$$

$$\begin{aligned} \text{average rate of return} &= \frac{\text{average annual return}}{\text{initial outlay}} \times 100 \\ &= \frac{250,000}{2,000,000} \times 100 \\ &= 12.5\% \end{aligned}$$

- 64 The discount factor is the percentage rate used to calculate the present value of a future cash flow.
- 65 Net present value is considered better than payback or average rate of return as it takes into consideration the timings of cash flows.
- 66 The state of the economy may impact on investment decisions. For example, a downturn might lead to a postponement because of the deteriorating environment.
Industrial relations could have an impact, particularly if job losses may be involved.
- 67 Sensitivity analysis is a 'what if' tool that enables a change in a variable to be examined and allows more informed decisions to be made.
- 68 Sensitivity analysis could be used with a higher or lower discount factor in a net present value calculation.