<u>Public Limited Companies</u>

PLC = Company that offers its shares to the public via the stock exchange

Features

- Type of limited company → Limited liability
- Must raise a minimum of £50 000 share capital
- Minimum of two directors and one company secretary

Ltd → Goes through flotation (going public) → Becomes PLC

Gain access to stock exchange → Finance from investors (comes from: pension funds, investment banks, HNW individuals)

Profit distribution → Able to expand → Higher profits

Limited liability → Retain limited liability

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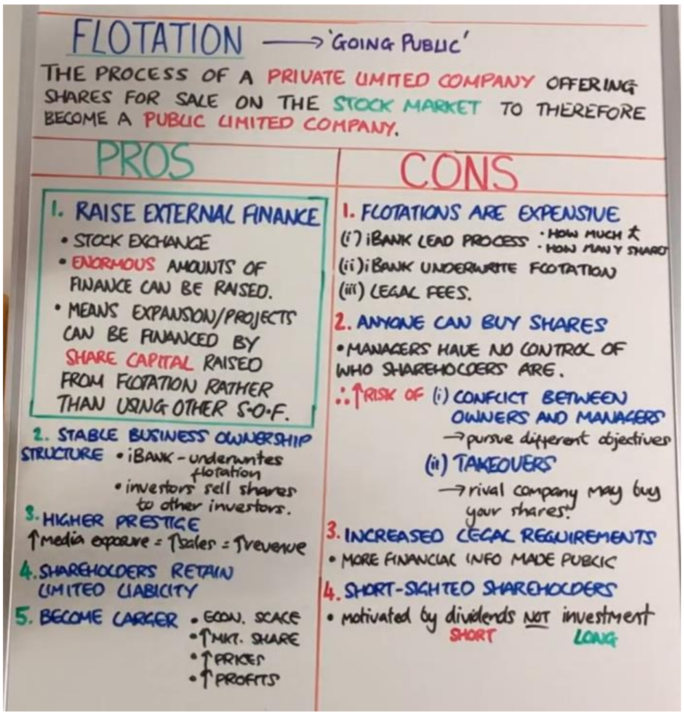
Management → Can't control shareholders → Hostile takeover, loss of control

Sources of finance → Stock exchange access

Focus on management and sources of finance for PLC

<u>Flotation</u>



Flotation = Process of Ltd offering shares for sale on the stock market to become a PLC

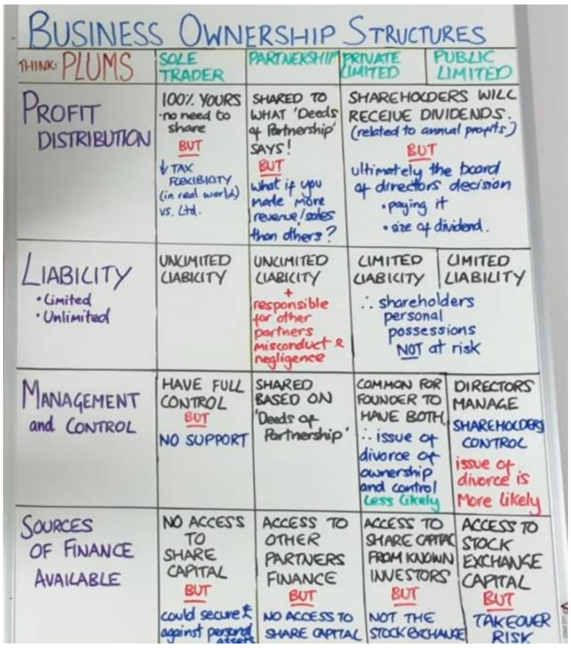
Advantages

- Raise external finance
    - Stock exchange → Lot of finance can be raised → Expansion/projects can be financed by share capital from flotation
- Stable business ownership structure
    - Investment bank underwrites flotation (buys shares if no one else bought shares)
    - Investors sell shares to other investors
- Higher prestige
    - Higher media coverage → Higher sales → Higher revenue
- Shareholders retain limited liability
- Business become larger
    - Benefit from economies of scale
    - Higher market share → More brand loyalty → Higher prices → Higher profit

Disadvantages

- Expensive
    - Investment banks lead process
    - Investment bank underwrite flotation
    - Legal fees
- Anyone can buy shares
    - Managers have no control of who shareholders are
      → Increase risk of:
        - Conflict between managers and owners (Pursue different objectives)
        - Takeovers
- Increased legal requirements
    - More financial info made public
- Short sighted shareholders
    - Motivated by dividends not investment

<u>Business ownership structures</u>



PLUMS	Sole trader	Partnership	Private limited	Public limited
Profit distribution	Full profit Less tax flexibility	Depends on who has more shares May do more than other partner	Shareholders will receive dividends Board of directors decision - Paying it? - Size of dividend	Shareholders will receive dividends Board of directors decision - Paying it? - Size of dividend
Liability	Unlimited	Unlimited Responsible for other partners	Limited → Shareholders personal possession not at risk	Limited → Shareholders personal possession not at risk
Management and control	Full control No support	Shared based on shares	Common for founder to have both → Issue of divorce of ownership and control less likely	Shareholders control Issue of divorce is more likely
Sources of finance	No access to share capital	Access to other partners finance No access to share capital	Access to share capital from known investors Not the stock exchange	Access to stock exchange capital Takeover risk

Internal growth

Internal growth (organic growth)

- Advantage: Cheaper
- Disadvantage: Slower

External growth (integration)

- Advantage: Quicker
- Disadvantage: Expensive

New products

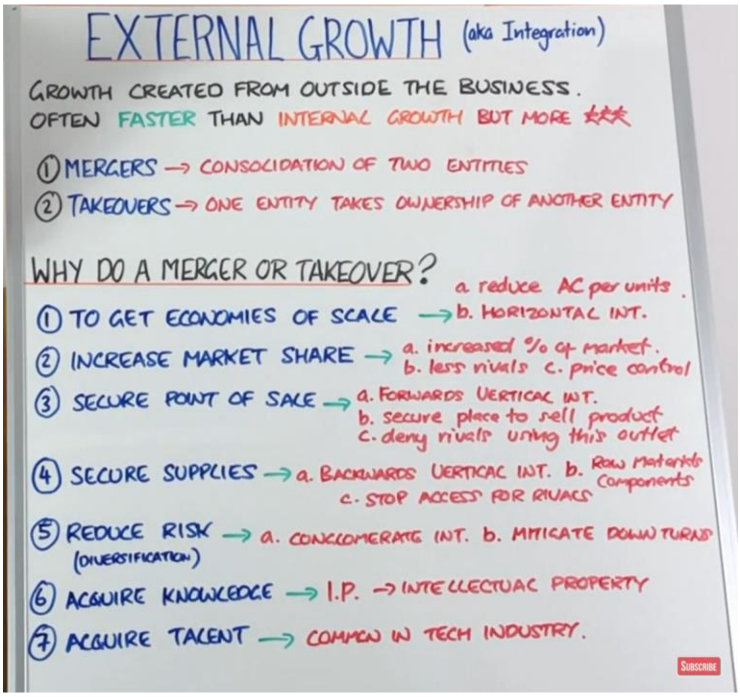
- Advantages
  - Increase product range
  - Meet customer needs → May provide USP
  - Increase sales/revenue

    - Patent to prevent rivals from copying product → Less competition → Higher prices
- Disadvantages
    - R+D
        - Expensive
        - Time consuming → Consumer needs may change and changes in technology
    - No guarantee of success → Risky

New markets:

- Advantages
    - Adapting marketing mix
        - Increases promotion
        - Different pricing strategies (PP)
        - Change channel of distribution (e-commerce)
- Disadvantages
    - Depends on phase of product life cycle (decline = less effective)
    - If international market
        - Depends on exchange rate (SPICE)
        - Depends on trade barriers (tariffs → Higher prices)

External growth



External growth = Growth created from outside the business

Two types of external growth

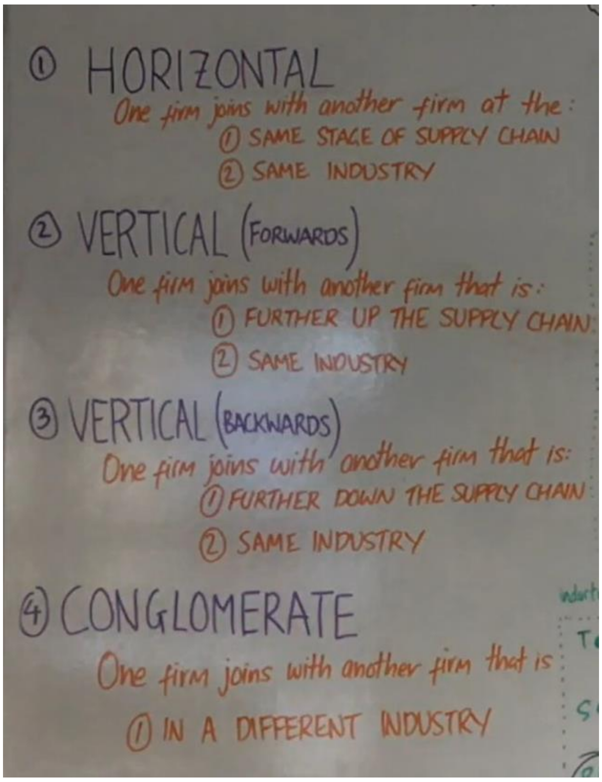
- Mergers = Consolidation of two entities
- Takeovers = One entity takes over another entity

Why use external growth

- Get economies of scale
  - More sales → More output → Reduce AC/unit
  - Horizontal integration (merge with business in same level of supply chain)
- Increase market share
  - Higher % of market → Less competitors → Control prices
- Secure point of sale
  - Forwards vertical integration (move closer to final consumer) → Secure place to sell product → Can deny rivals of using outlet
- Secure supplies

- Backwards vertical integration → Secure raw material components → Can stop access for rivals
- Reduce risk (diversification)
    - Conglomerate integration (buy company in different industry) → Mitigate downturns in one industry
- Acquire knowledge
    - More intellectual property → Become more successful
- Acquire talent
    - Common in tech industry
    - Get best people

Type of integration



Horizontal

- One firm joins with another firm at the
    - Same stage in supply chain
    - Same industry
- Why

    - Economies of scale
    - Less competition → More market power → Ability to increase prices

Vertical (forwards)

- One firm joins with another firm that is
    - Further up the supply chain
    - Same industry
- Why
    - Guarantee point of sale (own outlet) → Deny outlet to competition

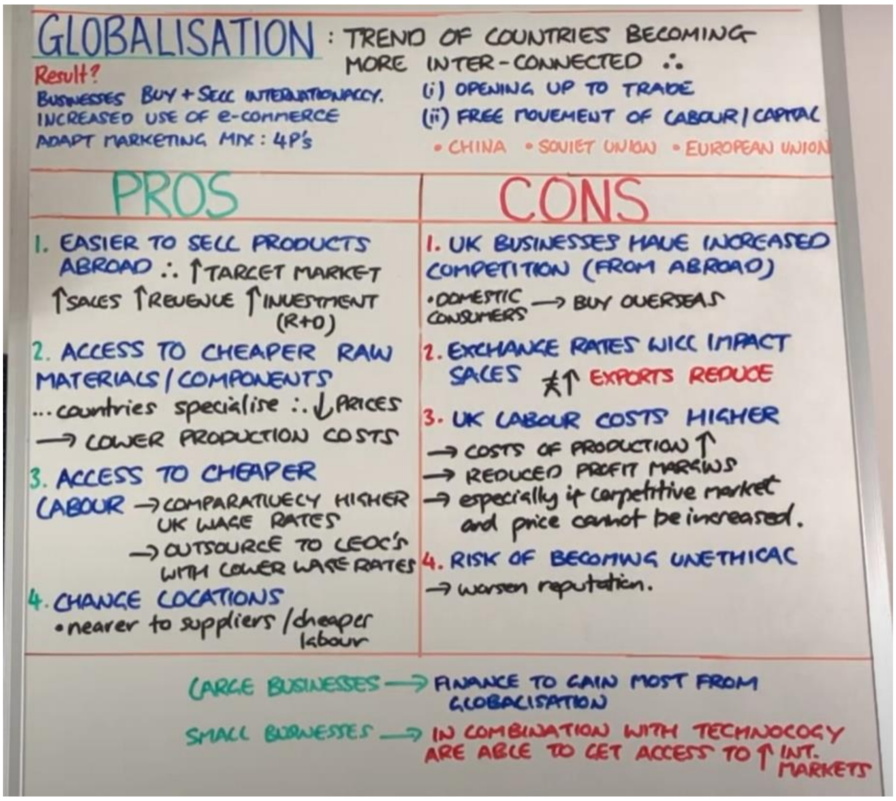
Vertical (backwards)

- One firm joins with another firm that is
    - Further down supply chain
    - Same industry
- Why
    - Guarantee source of raw materials, produce, components
    - Deny materials to rivals → Rivals have increased costs

Conglomerate

- One firms joins with another that is
    - Different industry
- Why
    - Reduce risk (diversified)
    - Wider ideas and innovation
    - If close companies (YouTube – Google) → Get economies of scale (lateral integration)

Globalisation



Globalisation = Process in which businesses and countries become more interconnected leading to

- Open trade
- Free movement of labour and capital

Result

- Business buy and sell internationally
- Increased use of e-commerce
- Adapt marketing mix (4ps)

Advantages

- Easier to sell products abroad because of larger target market → More sales → More revenue → More investment (eg R+D)

- Access to cheaper materials/components (some countries specialise in producing some materials) → Lower prices → Lower production costs → Higher profit margin/reduce prices to stimulate demand
- Access to cheaper labour (cheaper abroad and outsource certain departments to LEDCs with lower wage rates)
- Change locations
    - Nearer to suppliers → Lower transport costs
    - Nearer to cheaper labour

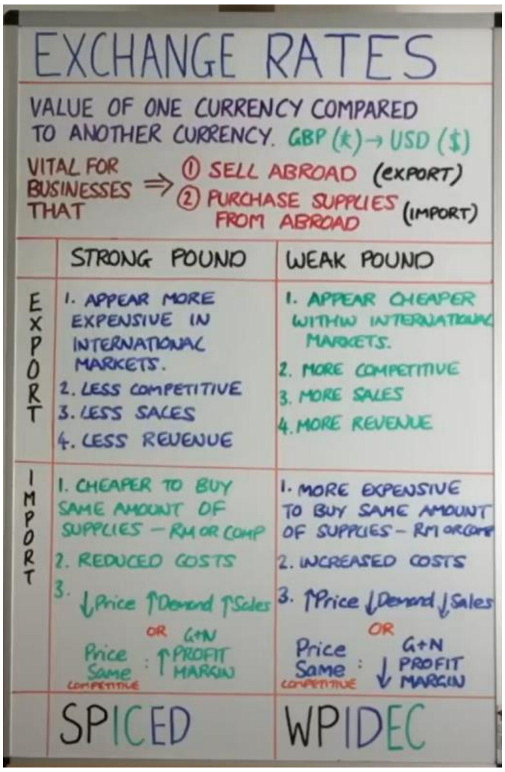
Disadvantages

- UK businesses have increased competition (from abroad)
    - Domestic consumers (home country) buy overseas
- Exchange rates will impact business (SPICE)
- UK labour costs higher
    - Increased costs of production → Reduced profit margin → Price cannot be increased in competitive market so suffer loss
- Risk of becoming unethical → Worsen reputation

Large businesses → Able to finance so they can gain the most from globalisation

Small businesses → Not enough finance but can still sell internationally via e-commerce

<u>Exchange rate impacts</u>



Exchange rates = Value of one currency compared to another currency

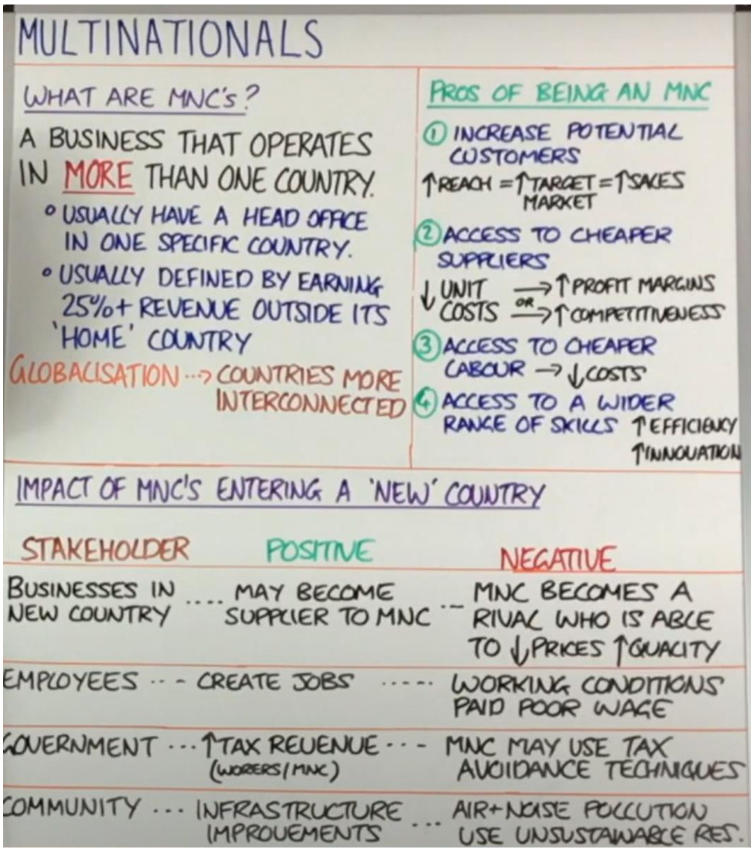
Exchange rate impacts

- Business selling abroad
- Purchase supplies from abroad (importing)

	Strong pound	**Weak pound**
Export	More expensive internationally → Less competitive → Less sales → Less revenue	Cheaper internationally → More competitive → More sales → More revenue
Import	Cheaper to buy supplies → Reduced costs → Lower price → Higher demand → More sales	More expensive → Increased costs → Higher prices → Lower demand → Lower sales

	Or If price kept same → Higher gross and net profit margin	Or If price kept same → Lower gross and net profit margin
	SPICED	**WPIDEC**

Multinationals (MNC)



MNC = Business that operates in more than one country/economy

Advantages

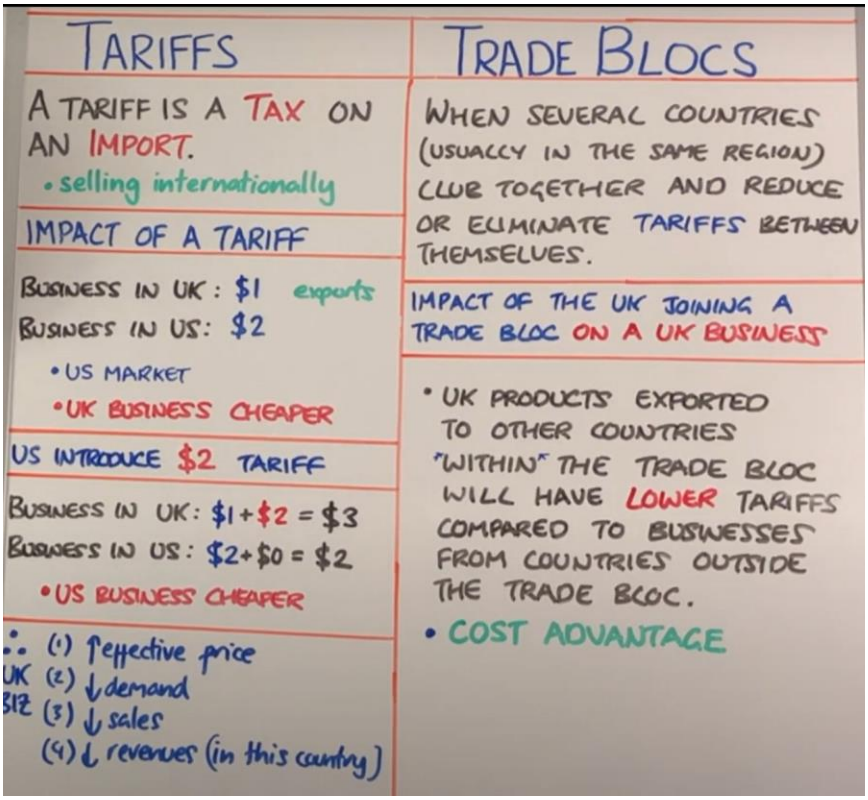
- Increase potential customers → Higher reach → Increase target market → More sales

- Access to cheaper supplies → Lower unit costs → Higher profit margins or Increase competitiveness
- Access to cheaper labour → Lower costs
- Access to wider range of skills → More efficient → More innovation

Impact of MNCs entering new country

Stakeholder	Positive	Negative
Businesses in new country (business already there)	May become supplier to MNC	MNC becomes a rival who can decrease prices and increase quality
Employees	Create jobs	Working conditions are bad and paid poor wages
Government	Increase tax revenue (Workers/MNC)	MNC may use tax avoidance techniques
Community	Infrastructure improvements	Air and noise pollution Using unsustainable resources

<u>Tariffs and trade blocs</u>



Tariff = Tax on an import (relevant for international businesses)

Impact of tariff

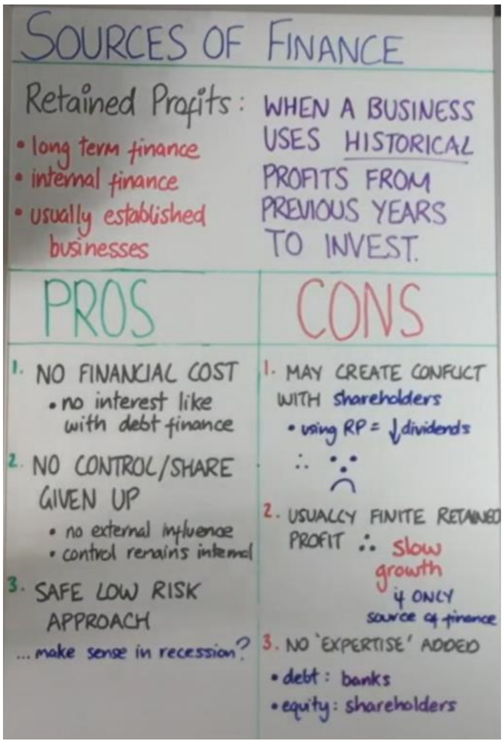
- UK business exporting to another country would make it more expensive in the other country

Trade blocs = Several countries (usually in same region) come together and reduce/eliminate tariffs between them

Impact of trade bloc

- UK products exported to other countries within trade bloc will have lower tariffs (cost advantage)

<u>Retained profit</u>



Retained profit = When business uses historical profit from previous years to invest

- Long term finance
- Internal finance
- Used in established businesses

Advantages

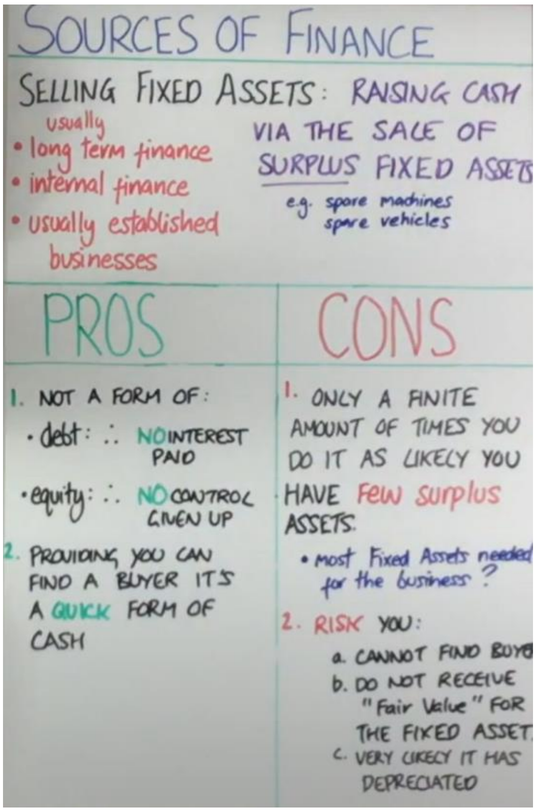
- No financial cost
    - No interest like debt finance
- No control/equity given up
    - No external influence → Control remains internal
- Safe low risk approach (makes sense in recession)

Disadvantages

- May create conflict with shareholders

    - Using retained profit → Lower dividends → Become unhappy
- Finite retained profit
    - Slow growth if only retained
- No expertise added
    - Debts → Banks
    - Equity → Shareholders

Selling fixed assets



Selling fixed assets:

- Long term finance
- Internal finance
- Usually established businesses

Advantages

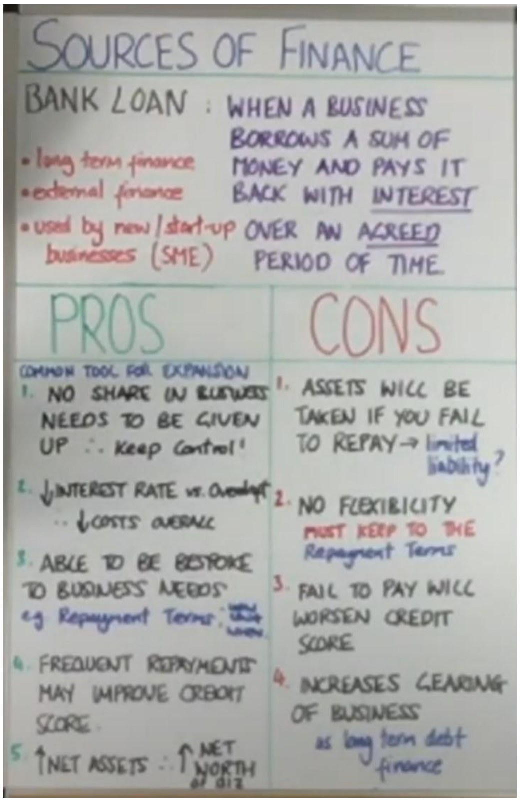
- Not form of

    - Debt → No interest
    - Equity → No control given up
- Quick cash if you can find buyer quickly

Disadvantages

- Only finite amount of times because limited surplus assets
- Risks
    - Cannot find buyer
    - Do not receive fair value
    - Depreciated

<u>Bank loans</u>



Bank loan

- Long term finance
- External finance
- Used by new businesses

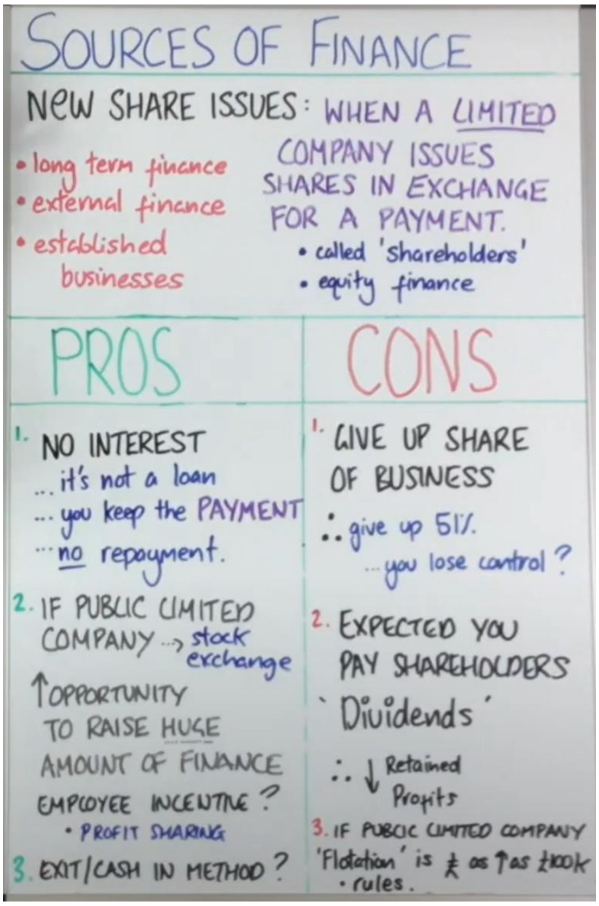
Advantages

- No shares given up → Keep control
- Lower interest rate vs overdraft → lower costs overall
- Able to bespoke to business needs (able to decide when pay)
- Frequent payments → improve credit score
- Increase net assets → increase net worth of assets

Disadvantages

- Assets taken if fail to pay → limited/unlimited?
- No flexibility
- Fail to pay → worsen credit score
- Increase gearing of business

New share issues



New share issues = Limited company issues shares in exchange for payment

New share issues

- Long term finance
- External finance
- Established businesses

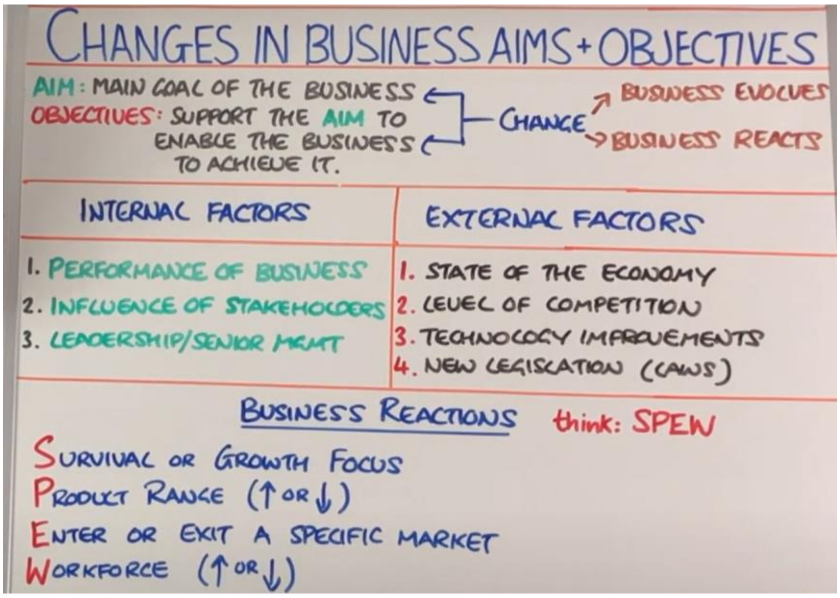
Advantages

- No interest
- If PLC → stock exchange → increase opportunity of huge finance
- Create employee incentive → share profit with employees → increase productivity
- Exit/cash in method

Disadvantages

- Give up shares of business → lose control
- Expected to pay shareholders dividends → lower retained profits
- If PLC → go through flotation → expensive

<u>Changes in aims and objectives</u>



Change happens

- Business evolves
- Business reacts

Internal factors

- Performance of business
- Influence of stakeholders
- Changes in leadership

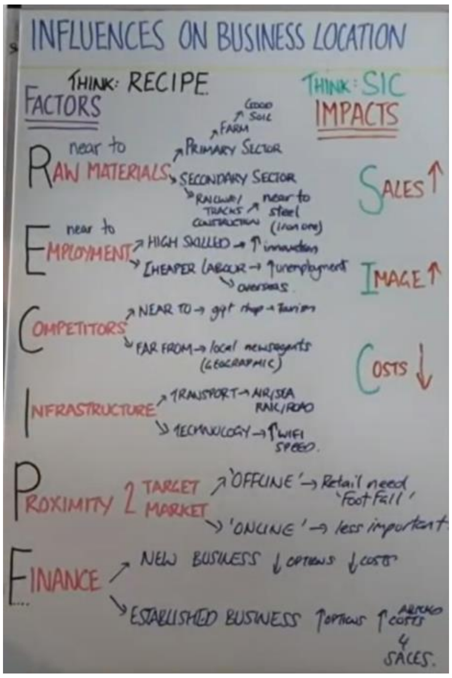
External factors

- State of the economy
- Level of competition
- Technology improvements
- New legislation

Business reactions (SPEW)

- **S**urvival or growth focus
- **P**roduce range
- **E**nter or exit market
- **W**orkforce

<u>Business location (RECIPE)</u>



Raw materials

Employment

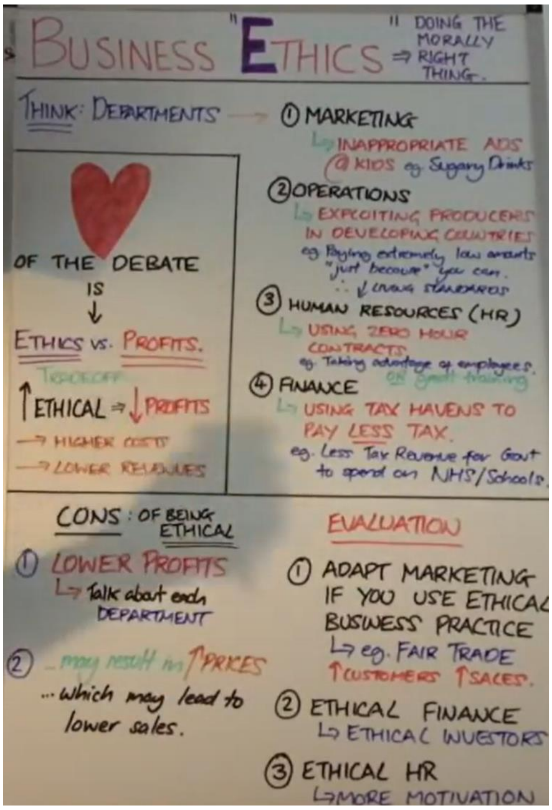
Competition

Infrastructure

Proximity too target market

Finance

Business ethics



Marketing

- Inappropriate ads at kids

Operations

- Exploiting producers in developing countries

Human resources (HR)

- Zero hour contracts
- May give no training to save costs

Finance

- Using tax havens → less tax for government to spend on NHS/schools

Heart of the debate – Ethics vs profit:

- Being more ethical = less profit
  - Higher costs
  - Lower revenues

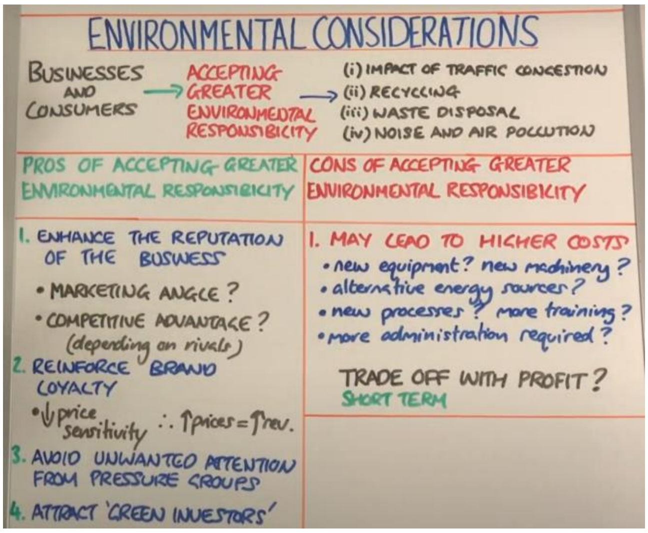
Disadvantages

- Lower profits
  - Talk about different departments
- May result in high prices → lower sales (law of demand)

Evaluation

- Adapt marketing to promote ethical business
- Ethical finance → ethical investors (only invest in ethical projects)
- Ethical HR → more employee motivation

<u>Environmental considerations</u>



Advantages of accepting environment responsibility

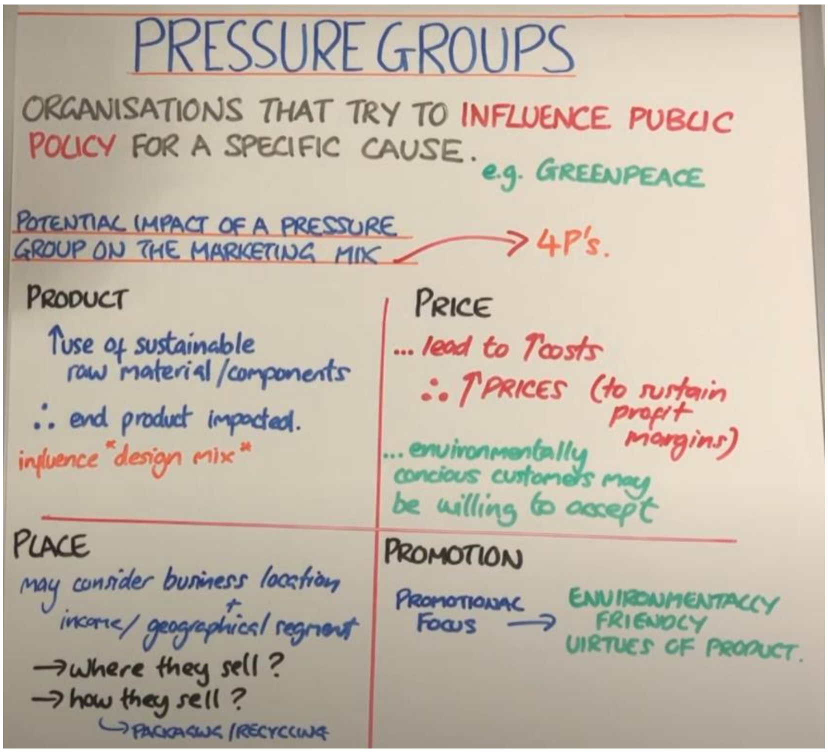
- Enhance business reputation
  - Use as marketing angle

- Competitive edge
- Reinforce brand loyalty
  - Have segmented environmental customers → lower price sensitivity → increase prices → more revenue
- Avoid unwanted attention from pressure groups
- Attract green investors

Disadvantages

- May lead to higher costs
  - New equipment/machinery?
  - Alternative energy sources?
  - New processes? → more training?
  - More administration required?

<u>Pressure groups</u>



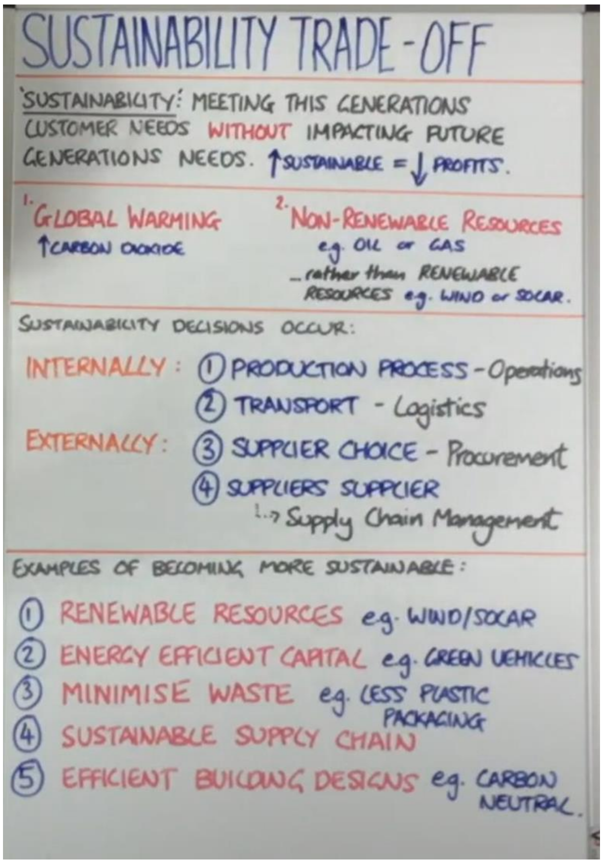
Potential impact of a pressure group on marketing mix:

- **Product**

- Increase use of sustainable raw materials → end product impacted (influences design mix)

- **Price**
  - Increased costs → raise prices (sustain profit margins) *environmentally customers may be willing to accept price*
- **Place**
  - Consider location move (closer to suppliers)
  - Consider income/geographical segment
  - Where they sell?
  - How they sell? (packaging/recycling)
- **Promotion**
  - Promotional focus (more environmental friendly)

Sustainability trade-offs



Issues

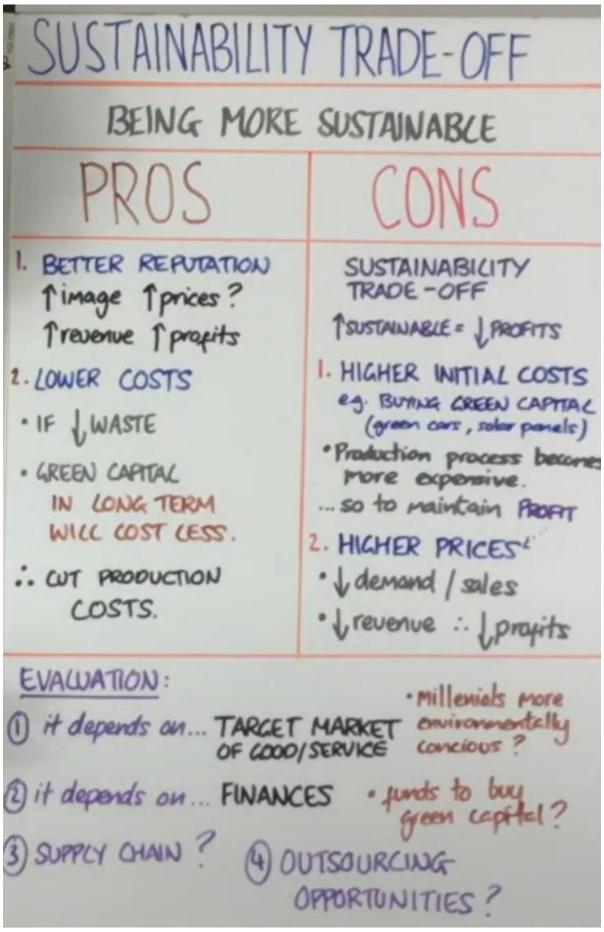
- Global warming
- Non-renewable resources

Sustainability decisions

- **Internal**
  - Production process – operations
  - Transport – logistics
- **External**
  - Supplier choice – procurement
  - Supplier’s supplier – supply chain management

Examples

- Renewable resources
- Energy efficient capital (green vehicles)
- Minimise waste
- Sustainable supply chain
- Efficient building decisions



Advantages

- Better reputation
  - Better image → increase prices
  - More revenue → more profit
- Lower costs
  - If lower waste
  - Green capital (long term will cost less)
  - Cut production costs

Disadvantages

- More sustainable = less profit
- Higher initial costs (buying green capital)
  - Production process becomes more expensive
- Higher prices (maintain profit)
  - Lower demand/sales → lower revenue → lower profit

Evaluation

- Depends on target market (millennials more environmentally conscious
- Finances (funds to buy green capital?)
- Supply chain?
- Outsourcing opportunities?