

Public Limited Companies

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, HNWI 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

Flotation

FLOTATION → 'GOING PUBLIC'	
THE PROCESS OF A PRIVATE LIMITED COMPANY OFFERING SHARES FOR SALE ON THE STOCK MARKET TO THEREFORE BECOME A PUBLIC LIMITED COMPANY.	
PROS	CONS
1. RAISE EXTERNAL FINANCE <ul style="list-style-type: none"> • STOCK EXCHANGE • ENORMOUS AMOUNTS OF FINANCE CAN BE RAISED. • MEANS EXPANSION/PROJECTS CAN BE FINANCED BY SHARE CAPITAL RAISED FROM FLOTATION RATHER THAN USING OTHER S.O.F. 	1. FLOTATIONS ARE EXPENSIVE <ul style="list-style-type: none"> (i) iBANK LEAD PROCESS - HOW MUCH £ (ii) iBANK UNDERWRITE FLOTATION (iii) LEGAL FEES.
2. STABLE BUSINESS OWNERSHIP STRUCTURE <ul style="list-style-type: none"> • iBANK - underwrites flotation • investors sell shares to other investors. 	2. ANYONE CAN BUY SHARES <ul style="list-style-type: none"> • MANAGERS HAVE NO CONTROL OF WHO SHAREHOLDERS ARE. • RISK OF (i) CONFLICT BETWEEN OWNERS AND MANAGERS → pursue different objectives (ii) TAKEOVERS → rival company may buy your shares!
3. HIGHER PRESTIGE <ul style="list-style-type: none"> ↑ media exposure = ↑ sales = ↑ revenue 	3. INCREASED LEGAL REQUIREMENTS <ul style="list-style-type: none"> • MORE FINANCIAL INFO MADE PUBLIC
4. SHAREHOLDERS RETAIN LIMITED LIABILITY	4. SHORT-SIGHTED SHAREHOLDERS <ul style="list-style-type: none"> • motivated by dividends NOT investment SHORT LONG
5. BECOME LARGER <ul style="list-style-type: none"> • ECON. SCALE • ↑ MKT. SHARE • ↑ PRICES • ↑ PROFITS 	

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

Business ownership structures

BUSINESS OWNERSHIP STRUCTURES				
THINK: PLUMS	SOLE TRADER	PARTNERSHIP	PRIVATE LIMITED	PUBLIC LIMITED
PROFIT DISTRIBUTION	100% YOURS no need to share <u>BUT</u> ↓ TAX FLEXIBILITY (in real world) vs. Ltd.	SHARED TO WHAT 'Deeds of Partnership' SAYS! <u>BUT</u> What if you made more revenue/sales than others?	SHAREHOLDERS WILL RECEIVE DIVIDENDS. (related to annual profits) <u>BUT</u> ultimately the board of directors' decision • paying it • size of dividend.	
LIABILITY • Limited • Unlimited	UNLIMITED LIABILITY	UNLIMITED LIABILITY + responsible for other partners' misconduct & negligence	LIMITED LIABILITY + ∴ shareholders' personal possessions NOT at risk	LIMITED LIABILITY
MANAGEMENT and CONTROL	HAVE FULL CONTROL <u>BUT</u> NO SUPPORT	SHARED BASED ON 'Deeds of Partnership'	COMMON FOR FOUNDER TO HAVE BOTH ∴ issue of divorce of ownership and control less likely	DIRECTORS MANAGE SHAREHOLDERS CONTROL issue of divorce is more likely
SOURCES OF FINANCE AVAILABLE	NO ACCESS TO SHARE CAPITAL <u>BUT</u> could secure against personal assets	ACCESS TO OTHER PARTNERS' FINANCE <u>BUT</u> NO ACCESS TO SHARE CAPITAL	ACCESS TO SHARE CAPITAL FROM KNOWN INVESTORS <u>BUT</u> NOT THE STOCK EXCHANGE	ACCESS TO STOCK EXCHANGE CAPITAL <u>BUT</u> TAKEOVER RISK

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			
BUSINESSES EXPAND IN TWO WAYS		① INTERNAL GROWTH (ORGANIC GROWTH) • CHEAPER • SLOWER	② EXTERNAL GROWTH (INTEGRATION) • QUICKER • EXPENSIVE
		NEW PRODUCTS	NEW MARKETS
PROS	* NEW PRODUCTS IN SAME MARKET: (i) INNOVATION (ii) RESEARCH & DEVELOPMENT • INCREASE PRODUCT RANGE • BETTER MEET CUSTOMER NEEDS ↳ USP INCREASE SALES/REVENUES • USE PATENT TO PREVENT RIVALS COPYING PRODUCT. ↓ COMPETITION → ↑ PRICES		* EXISTING PRODUCTS IN NEW MARKETS: FACILITATED BY: • ADAPTING THE MARKETING MIX • ↑ PROMOTION • PRICING STRATEGIES (PP) • CHANGE CHAN. OF DIST. ↳ e-commerce ↓ COST EFFECTIVE METHOD.
CONS	RESEARCH AND DEVELOPMENT • EXPENSIVE • LONG TIME SCALE ↳ DYNAMIC NATURE • CHANGING CONSUMER NEEDS • CHANGING TECHNOLOGY NO GUARANTEE OF SUCCESS ↳ RISKY.		• DEPENDS ON PHASE OF THE PRODUCT LIFE CYCLE ↳ decline = ↓ effective IF INTERNATIONAL MARKET: • DEPENDS ON EXCHANGE RATE ↳ SPICED • DEPENDS ON TRADE BARRIERS ↳ TARIFFS? → ↑ PRICES

Internal growth (organic growth)

- Advantage: Cheaper
- Disadvantage: Slower

External growth (integration)

- Advantage: Quicker
- Disadvantage: Expensive

New products

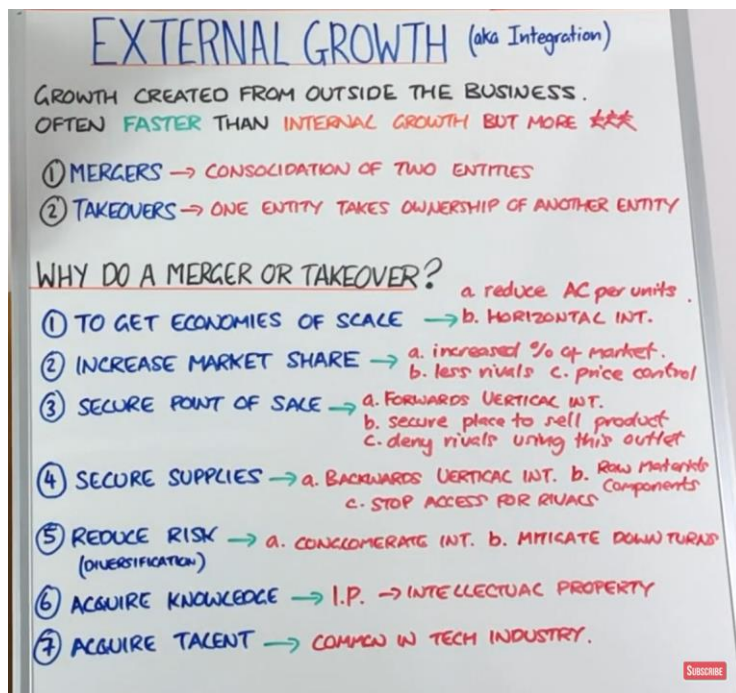
- Advantages
 - Increase product range
 - Meet customer needs → May provide USP
 - Increase sales/revenue

- 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

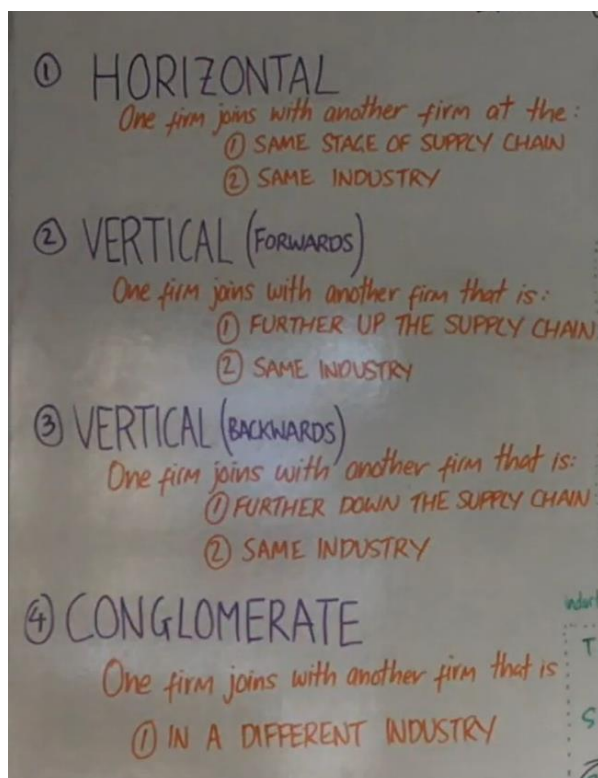
- Mergers = Consolidation of two entities
- Takeovers = One entity takes over another entity

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 : TREND OF COUNTRIES BECOMING MORE INTER-CONNECTED ∴	
Result? BUSINESSES BUY + SELL INTERNATIONALLY. INCREASED USE OF E-COMMERCE ADAPT MARKETING MIX : 4P's	(i) OPENING UP TO TRADE (ii) FREE MOVEMENT OF LABOUR / CAPITAL • CHINA • SOVIET UNION • EUROPEAN UNION
PROS	CONS
1. EASIER TO SELL PRODUCTS ABROAD ∴ ↑ TARGET MARKET ↑ SALES ↑ REVENUE ↑ INVESTMENT (R+D)	1. UK BUSINESSES HAVE INCREASED COMPETITION (FROM ABROAD) • DOMESTIC CONSUMERS → BUY OVERSEAS
2. ACCESS TO CHEAPER RAW MATERIALS / COMPONENTS ... countries specialise ∴ ↓ PRICES → LOWER PRODUCTION COSTS	2. EXCHANGE RATES WILL IMPACT SALES ✗ ↑ EXPORTS REDUCE
3. ACCESS TO CHEAPER LABOUR → COMPARATIVELY HIGHER UK WAGE RATES → OUTSOURCE TO COUNTRIES WITH LOWER WAGE RATES	3. UK LABOUR COSTS HIGHER → COSTS OF PRODUCTION ↑ → REDUCED PROFIT MARGINS → especially if competitive market and price cannot be increased.
4. CHANGE LOCATIONS • nearer to suppliers / cheaper labour	4. RISK OF BECOMING UNETHICAL → worsen reputation.
LARGE BUSINESSES → FINANCE TO GAIN MOST FROM GLOBALISATION	
SMALL BUSINESSES → IN COMBINATION WITH TECHNOLOGY ARE ABLE TO GET ACCESS TO ↑ INT. MARKETS	

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

Exchange rate impacts

EXCHANGE RATES		
VALUE OF ONE CURRENCY COMPARED TO ANOTHER CURRENCY. GBP (£) → USD (\$)		
VITAL FOR BUSINESSES THAT ⇒ ① SELL ABROAD (EXPORT) ② PURCHASE SUPPLIES FROM ABROAD (IMPORT)		
	STRONG POUND	WEAK POUND
EXPORT	1. APPEAR MORE EXPENSIVE IN INTERNATIONAL MARKETS. 2. LESS COMPETITIVE 3. LESS SALES 4. LESS REVENUE	1. APPEAR CHEAPER WITHIN INTERNATIONAL MARKETS. 2. MORE COMPETITIVE 3. MORE SALES 4. MORE REVENUE
IMPORT	1. CHEAPER TO BUY SAME AMOUNT OF SUPPLIES - RM OR COMP 2. REDUCED COSTS 3. ↓ Price ↑ Demand ↑ Sales OR G+N Price Same : ↑ PROFIT COMPETITIVE MARGIN	1. MORE EXPENSIVE TO BUY SAME AMOUNT OF SUPPLIES - RM OR COMP 2. INCREASED COSTS 3. ↑ Price ↓ Demand ↓ Sales OR G+N Price Same : ↓ PROFIT COMPETITIVE MARGIN
	SPICED	WPIDEC

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)

MULTINATIONALS		
<p><u>WHAT ARE MNC's?</u></p> <p>A BUSINESS THAT OPERATES IN <u>MORE</u> THAN ONE COUNTRY.</p> <ul style="list-style-type: none"> ◦ USUALLY HAVE A HEAD OFFICE IN ONE SPECIFIC COUNTRY. ◦ USUALLY DEFINED BY EARNING 25%+ REVENUE OUTSIDE ITS 'HOME' COUNTRY <p>GLOBALISATION → COUNTRIES MORE INTERCONNECTED</p>		
<p><u>PROS OF BEING AN MNC</u></p> <ol style="list-style-type: none"> ① INCREASE POTENTIAL CUSTOMERS ↑ REACH = ↑ TARGET = ↑ SALES MARKET ② ACCESS TO CHEAPER SUPPLIERS ↓ UNIT COSTS → ↑ PROFIT MARGINS OR → ↑ COMPETITIVENESS ③ ACCESS TO CHEAPER LABOUR → ↓ COSTS ④ ACCESS TO A WIDER RANGE OF SKILLS → ↑ EFFICIENCY ↑ INNOVATION 		
IMPACT OF MNC'S ENTERING A 'NEW' COUNTRY		
STAKEHOLDER	POSITIVE	NEGATIVE
BUSINESSES IN NEW COUNTRY	MAY BECOME SUPPLIER TO MNC	MNC BECOMES A RIVAL WHO IS ABLE TO ↓ PRICES ↑ QUALITY
EMPLOYEES	CREATE JOBS	WORKING CONDITIONS PAID POOR WAGE
GOVERNMENT	↑ TAX REVENUE (WORKERS/MNC)	MNC MAY USE TAX AVOIDANCE TECHNIQUES
COMMUNITY	INFRASTRUCTURE IMPROVEMENTS	AIR+NOISE POLLUTION USE UNSUSTAINABLE RES.

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

Tariffs and trade blocs

TARIFFS	TRADE BLOCS
A TARIFF IS A TAX ON AN IMPORT . • selling internationally	WHEN SEVERAL COUNTRIES (USUALLY IN THE SAME REGION) CLUB TOGETHER AND REDUCE OR ELIMINATE TARIFFS BETWEEN THEMSELVES.
IMPACT OF A TARIFF	IMPACT OF THE UK JOINING A TRADE BLOC ON A UK BUSINESS
BUSINESS IN UK: \$1 exports BUSINESS IN US: \$2 • US MARKET • UK BUSINESS CHEAPER	• UK PRODUCTS EXPORTED TO OTHER COUNTRIES "WITHIN" THE TRADE BLOC WILL HAVE LOWER TARIFFS COMPARED TO BUSINESSES FROM COUNTRIES OUTSIDE THE TRADE BLOC. • COST ADVANTAGE
US INTRODUCE \$2 TARIFF	
BUSINESS IN UK: $\$1 + \$2 = \$3$ BUSINESS IN US: $\$2 + \$0 = \$2$ • US BUSINESS CHEAPER	
∴ (1) ↑ effective price UK (2) ↓ demand \$12 (3) ↓ sales (4) ↓ revenues (in this country)	

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)

Retained profit

SOURCES OF FINANCE	
Retained Profits:	WHEN A BUSINESS USES <u>HISTORICAL</u> PROFITS FROM PREVIOUS YEARS TO INVEST.
<ul style="list-style-type: none"> • long term finance • internal finance • usually established businesses 	
PROS	CONS
<ol style="list-style-type: none"> 1. NO FINANCIAL COST <ul style="list-style-type: none"> • no interest like with debt finance 2. NO CONTROL/SHARE GIVEN UP <ul style="list-style-type: none"> • no external influence • control remains internal 3. SAFE LOW RISK APPROACH <ul style="list-style-type: none"> ... make sense in recession? 	<ol style="list-style-type: none"> 1. MAY CREATE CONFLICT WITH Shareholders <ul style="list-style-type: none"> • using RP = ↓ dividends ∴ ☹️ 2. USUALLY FINITE RETAINED PROFIT ∴ Slow growth & ONLY source of finance 3. NO 'EXPERTISE' ADDED <ul style="list-style-type: none"> • debt: banks • equity: shareholders

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

SOURCES OF FINANCE	
SELLING FIXED ASSETS: RAISING CASH VIA THE SALE OF SURPLUS FIXED ASSETS e.g. spare machines spare vehicles	
usually • long term finance • internal finance • usually established businesses	
PROS	CONS
1. NOT A FORM OF: • debt: ∴ NO INTEREST PAID • equity: ∴ NO CONTROL GIVEN UP 2. PROVIDING YOU CAN FIND A BUYER IT'S A QUICK FORM OF CASH	1. ONLY A FINITE AMOUNT OF TIMES YOU DO IT AS LIKELY YOU HAVE FEW SURPLUS ASSETS. • most Fixed Assets needed for the business? 2. RISK YOU: a. CANNOT FIND BUYER b. DO NOT RECEIVE "Fair Value" FOR THE FIXED ASSET c. VERY LIKELY IT HAS DEPRECIATED

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

Bank loans

SOURCES OF FINANCE	
<p>BANK LOAN : WHEN A BUSINESS BORROWS A SUM OF MONEY AND PAYS IT BACK WITH <u>INTEREST</u></p> <ul style="list-style-type: none"> • long term finance • external finance • used by new/start-up businesses (SME) <p>OVER AN <u>AGREED</u> PERIOD OF TIME.</p>	
PROS	CONS
<p>COMMON TOOL FOR EXPANSION</p> <ol style="list-style-type: none"> 1. NO SHARE IN BUSINESS NEEDS TO BE GIVEN UP ∴ Keep Control! 2. ↓ INTEREST RATE vs. Overlap ∴ ↓ COSTS OVERALL 3. ABLE TO BE RESTORED TO BUSINESS NEEDS e.g. Repayment Terms: ^{what they want} when 4. FREQUENT REPAYMENTS MAY IMPROVE CREDIT SCORE. 5. ↑ NET ASSETS ∴ ↑ NET WORTH of biz 	<ol style="list-style-type: none"> 1. ASSETS WILL BE TAKEN IF YOU FAIL TO REPAY → limited liability? 2. NO FLEXIBILITY MUST KEEP TO THE Repayment Terms 3. FAIL TO PAY WILL WORSEN CREDIT SCORE 4. INCREASES GEARING OF BUSINESS as long term debt finance

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

SOURCES OF FINANCE	
<p>NEW SHARE ISSUES: WHEN A <u>LIMITED</u> COMPANY ISSUES SHARES IN EXCHANGE FOR A PAYMENT.</p> <ul style="list-style-type: none"> • long term finance • external finance • established businesses • called 'shareholders' • equity finance 	
PROS	CONS
<ol style="list-style-type: none"> 1. NO INTEREST ... it's not a loan ... you keep the PAYMENT ... <u>no</u> repayment. 2. IF PUBLIC LIMITED COMPANY → stock exchange ↑ OPPORTUNITY TO RAISE HUGE AMOUNT OF FINANCE EMPLOYEE INCENTIVE? • PROFIT SHARING 3. EXIT/CASH IN METHOD? 	<ol style="list-style-type: none"> 1. GIVE UP SHARE OF BUSINESS ∴ give up 51%. ... you lose control? 2. EXPECTED YOU PAY SHAREHOLDERS 'Dividends' ∴ ↓ Retained Profits 3. IF PUBLIC LIMITED COMPANY 'Flotation' is £ as ↑ as £100k • rules.

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

New share issues

- Long term finance
- External finance
- Established businesses

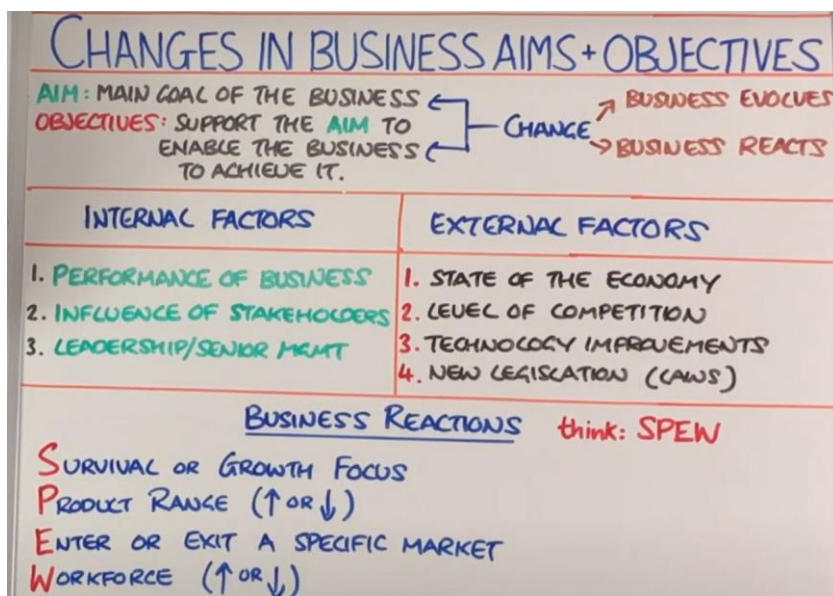
Advantages

- 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

Changes in aims and objectives



Change happens

- Business evolves
- Business reacts

Internal factors

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

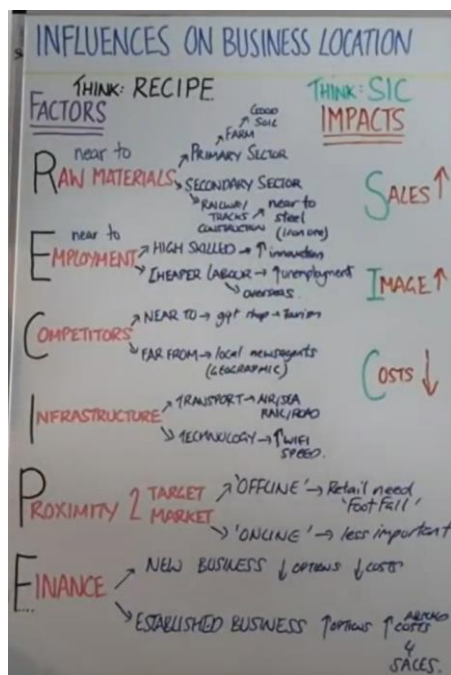
External factors

- 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

Business location (RECIPE)



Raw materials

Employment

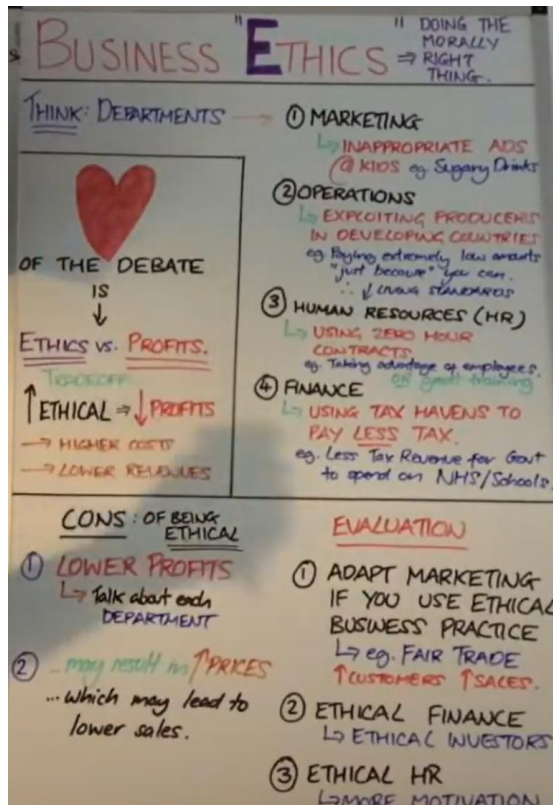
Competition

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
 - o Higher costs
 - o Lower revenues

Disadvantages

- Lower profits
 - o 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

Environmental considerations

ENVIRONMENTAL CONSIDERATIONS	
BUSINESSES AND CONSUMERS → ACCEPTING GREATER ENVIRONMENTAL RESPONSIBILITY →	(i) IMPACT OF TRAFFIC CONGESTION (ii) RECYCLING (iii) WASTE DISPOSAL (iv) NOISE AND AIR POLLUTION
PROS OF ACCEPTING GREATER ENVIRONMENTAL RESPONSIBILITY	CONS OF ACCEPTING GREATER ENVIRONMENTAL RESPONSIBILITY
<ol style="list-style-type: none">1. ENHANCE THE REPUTATION OF THE BUSINESS<ul style="list-style-type: none">• MARKETING ANGLE?• COMPETITIVE ADVANTAGE? (depending on rivals)2. REINFORCE BRAND LOYALTY<ul style="list-style-type: none">• ↓ price sensitivity ∴ ↑ prices = ↑ rev.3. AVOID UNWANTED ATTENTION FROM PRESSURE GROUPS4. ATTRACT 'GREEN INVESTORS'	<ol style="list-style-type: none">1. MAY LEAD TO HIGHER COSTS<ul style="list-style-type: none">• new equipment? new machinery?• alternative energy sources?• new processes? more training?• more administration required? <p>TRADE OFF WITH PROFIT? SHORT TERM</p>

Advantages of accepting environment responsibility

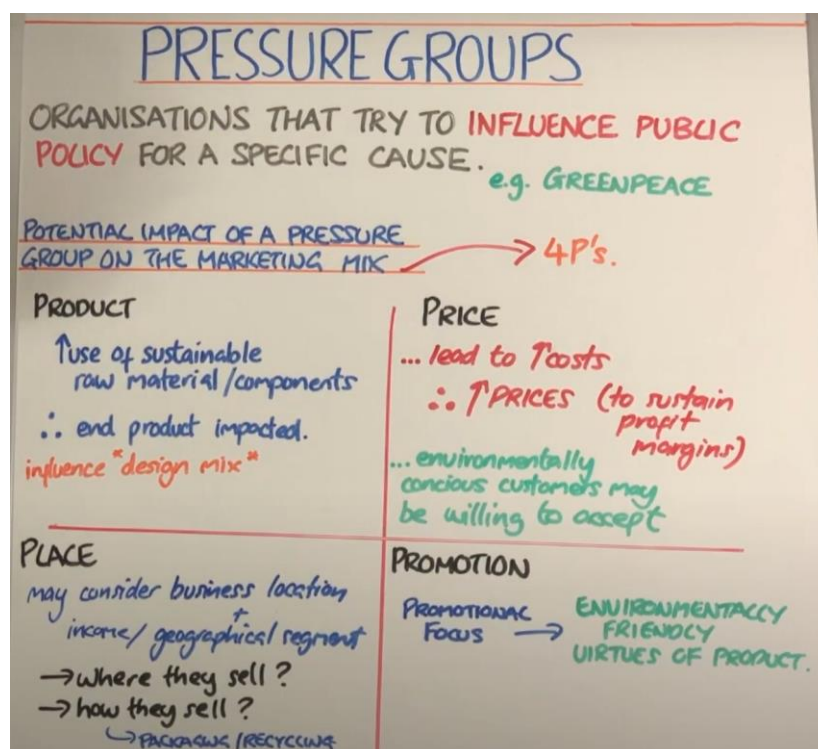
- Enhance business reputation
 - o Use as marketing angle

- 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?

Pressure groups

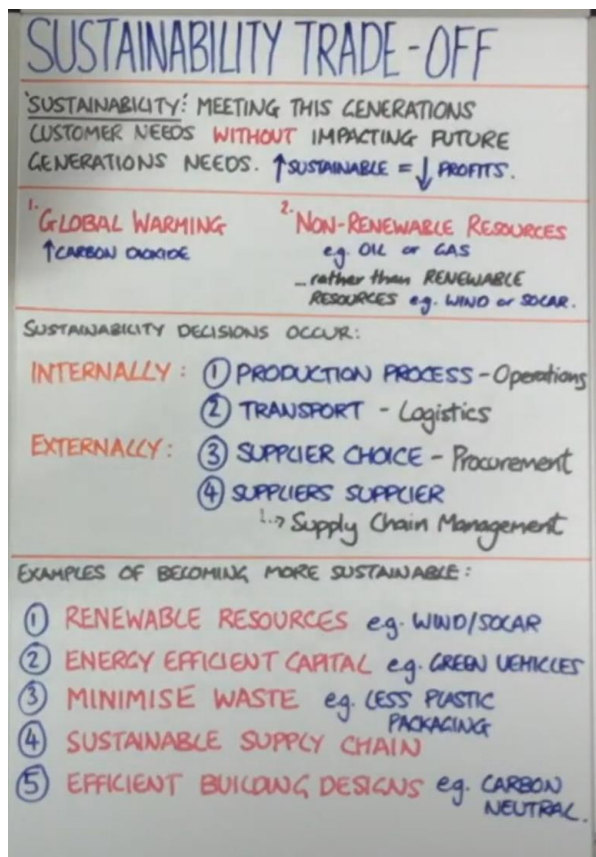


Potential impact of a pressure group on marketing mix:

- 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

SUSTAINABILITY TRADE-OFF	
BEING MORE SUSTAINABLE	
PROS	CONS
1. BETTER REPUTATION ↑ image ↑ prices? ↑ revenue ↑ profits 2. LOWER COSTS • IF ↓ WASTE • GREEN CAPITAL IN LONG TERM WILL COST LESS. ∴ CUT PRODUCTION COSTS.	SUSTAINABILITY TRADE-OFF ↑ SUSTAINABLE = ↓ PROFITS 1. HIGHER INITIAL COSTS eg. BUYING GREEN CAPITAL (green cars, solar panels) • Production process becomes more expensive. ... so to maintain PROFIT 2. HIGHER PRICES • ↓ demand / sales • ↓ revenue ∴ ↓ profits
EVALUATION: ① it depends on... TARGET MARKET OF GOOD/SERVICE • Millennials more environmentally conscious? ② it depends on... FINANCES • funds to buy green capital? ③ SUPPLY CHAIN? ④ OUTSOURCING OPPORTUNITIES?	

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?