
Theme 2: Managing business activities

Chapter 42 and 43 – February, 2017

LEGISLATION

THE NEED FOR LEGISLATION IN BUSINESS



LEGISLATION

CONSUMER PROTECTION



LEGISLATION

HOW DOES CONSUMER LEGISLATION AFFECT BUSINESSES?

- ▶ increases in costs:
- ▶ quality control:
- ▶ dealing with customer complaints:
- ▶ changes in business practice:

LEGISLATION

EMPLOYEE PROTECTION

- ▶ employment contract:
- ▶ discrimination:
- ▶ unfair dismissal:
- ▶ equal pay:

LEGISLATION

HOW DOES EMPLOYMENT LEGISLATION AFFECT BUSINESSES?

- ▶ compliance costs:
- ▶ higher labour costs:
- ▶ changing working practices:
- ▶ loss of flexibility:
- ▶ penalties:

LEGISLATION

ENVIRONMENTAL PROTECTION

- ▶ pollution:
- ▶ destruction of wildlife habitats:
- ▶ traffic congestion:
- ▶ resource depletion:

LEGISLATION

HOW DOES ENVIRONMENTAL LEGISLATION AFFECT BUSINESSES?

- ▶ marketing:
- ▶ finance:
- ▶ operations management:
- ▶ human resources:

LEGISLATION

COMPETITION POLICY

- ▶ increasing prices:
- ▶ restricting consumer choice:
- ▶ raise:
- ▶ market sharing:

LEGISLATION

HOW DOES COMPETITION POLICY AFFECT BUSINESSES?

- ▶ positive
- ▶ negative

LEGISLATION

HEALTH AND SAFETY



LEGISLATION

HOW DOES HEALTH AND SAFETY LEGISLATION AFFECT BUSINESSES?

- ▶ costs:
- ▶ penalties:
- ▶ benefits:

LEGISLATION

CASE STUDY: PADWELL ELECTRONICS PLC



LEGISLATION

KEY TERMS

- ▶ anti-competitive or restrictive practices:
- ▶ barriers to entry:
- ▶ collusion:
- ▶ contract of employment:
- ▶ discrimination:
- ▶ employment tribunal:
- ▶ national minimum wage:
- ▶ unfair dismissal:

THE COMPETITIVE ENVIRONMENT

- ▶ most of the markets are characterised by *high competition*:
 - ▶ specialist clothes chains
 - ▶ department stores
 - ▶ supermarkets
 - ▶ ...
- ▶ there are markets with *very little competition*:
 - ▶ regional water supply

THE COMPETITIVE ENVIRONMENT

DETERMINANTS OF COMPETITIVENESS

Market structures: *features and characteristics* of markets.

- ▶ number and relative size of businesses in the market:
 - ▶ *market share* of single business is *small* (i.e., farming in some countries)
 - ▶ market share of single business is *large* (i.e., some railway routes in the UK)
- ▶ extent of barriers to entry: high barriers → low competition
 - ▶ *low* barriers: low cost of entry, low amount of knowledge required, no licences required, no legal obstacles, ...
 - ▶ *high* barriers: licences to limited number of businesses (i.e., telecommunication), high marketing costs (i.e., perfume industry)
 - ▶ **Note:** In markets with *high barriers* businesses tend to emphasise the *non-price elements of the marketing mix* (i.e., promotion or place)

THE COMPETITIVE ENVIRONMENT

DETERMINANTS OF COMPETITIVENESS

Market structures: *features and characteristics* of markets.

- ▶ extent to which products can be *differentiated*:
 - ▶ *homogeneous* products
 - ▶ *highly differentiated* products
 - ▶ **Note:** With *highly differentiated* products the *non-price elements of the marketing mix* (i.e., promotion) tend to be emphasised
- ▶ knowledge that buyers and sellers possess (*access to information*):
 - ▶ *perfect knowledge*: easy to find best price in market (buyer), easy to know what the most efficient method of production is (seller)
 - ▶ *imperfect information*: limited knowledge about the rival
 - ▶ **Note:** With *imperfect knowledge* businesses tend to prefer *non-price elements of marketing mix* (i.e., production or promotion)

THE COMPETITIVE ENVIRONMENT

DETERMINANTS OF COMPETITIVENESS

Market structures: *features and characteristics* of markets.

- ▶ degree of interrelationship:
 - ▶ markets with *independent businesses* (i.e., farming)
 - ▶ markets with *interdependent businesses*: higher sales by one business → lower sales by the other business
- ▶ legal factors:
 - ▶ market with strong *competition*: consumers have the choice when they are dissatisfied
 - ▶ market with *monopoly* (i.e., monopoly by *collusion*, cartel): strongly regulated by the state

THE COMPETITIVE ENVIRONMENT

IMPACT ON BUSINESSES OF A COMPETITIVE ENVIRONMENT

Businesses are challenged and *forced to monitor* the activities of rivals.

- ▶ price:
 - ▶ in competitive environment businesses are *price-taker*
 - ▶ however by *differentiating the product* business may be able to increase the price without losing customers
- ▶ profit:
 - ▶ competitive market: *low profit margins* because prices are squeezed down
 - ▶ by *reducing costs* and being more *efficient* business may have higher profits
- ▶ communication with customers: competitive environment forces to put more effort in customer service
- ▶ innovation: customers prefer to buy products that are *differentiated*
- ▶ product range: failure to match rival's *product range* might result in lost customers

THE COMPETITIVE ENVIRONMENT

COMPETITION AND MARKET SIZE

- ▶ global markets
- ▶ national markets
- ▶ regional markets
- ▶ local markets

THE COMPETITIVE ENVIRONMENT

KEY TERMS

- ▶ barriers to entry:
- ▶ cartel:
- ▶ colluding:
- ▶ market structures: