External influences on business activity

Business

Products are made competitive in many different ways. Some businesses make a product competitive by lowering the price to equal or beat a main competitor e. g. Sainsburys lowering the price of baked beans to make them cheaper than Tesco or ASDA. Wight Mountain would try to lower the price of a specific bike to make it cheaper than Halfords.

Businesses also make a product competitive by increasing the quality and the range of product, e. g. asking their own customers what they can do to improve a product. Wight Mountain could bring in another range of a particular bike, e. g. different suspension. Some businesses try to expand their customer service, e. g. at Sainsburys, the staff try to make the customers feel valued by the business so customers are happy shopping at Sainsburys.

Target Customers

Age: Popular music is usually bought by young people so music companies such as EMI take advantage by advertising in magazines because most young people read magazines. Coach holidays are most popular with older people, and so would be promoted to this age group. Sainsburys cater for all age groups as they have CDs for teenagers, dolls and action figures for the younger children, sainsburys have older CDs for adults to remember the past.

Gender: Women are important customers for mail order businesses, so companies such as Freeman's design their catalogues to attract women. However, men tend to buy do-it-yourself (DIY) equipment, so DIY stores like B&Q advertise price reductions to catch men's attention.

Income: Expensive products, such as ROLEX watches, are at the wealthier people like doctors and surgeons. While most supermarkets concentrate on people with average incomes.

Lifestyle: Young people are a popular target for businesses selling alcohol, whereas instant meals may be aimed at professional people who lead busy lives.

Where they live: The location of consumers is important to businesses. For example, petrol retailers such as Esso and Shell will not open stations in small villages with small populations as people would have to travel quite far to get there.

Who are their main competitors?

Sainsburys main local-direct competitors are small corner shops like Spar and local newsagents. National-direct competitors are supermarkets like Tesco, Safeway and Morrisons. Although ASDA would also fall into this category, Wallmart who are an international-direct competitor to Sainsburys owns them. Local-indirect competitors are grocers and butchers such as Farm Fayre and Lane's Family Butchers in Nodehill. National-indirect competitors for Sainsburys are fast-food restaurants like McDonalds, KFC and Burger King because Sainsburys also sell instant meals like sandwiches. There are no international-indirect competitors for Sainsburys.

Wight Mountain does not have many competitors. They have a national-direct competitor in Halfords who many people think of as the best bicycle shop in Britain. There are other places, which sell bicycles, they include, Argos who are a national-indirect competitor.

How have markets for your businesses changed, and to what extent is new technology changing the nature of competition

The supermarket industry has changed quit a lot in the last few years. In 1997 Tesco overtook Sainsburys to lead the market into the new millennium. Sainsburys are now fending off ASDA for second place, but they are closing. The main reason why Sainsburys are gradually falling down the line is that their very high quality products are expensive. Stores like Tesco and ASDA have low prices and that attracts people more than quality because most people don't earn pots of money. The Safeway Takeover will surely alter the market because the company that succeeds in buying Safeway will control approximately another 10% of the Market Share. For Tesco this would mean speeding out in front of every other supermarket. However, if Sainsburys or ASDA succeed in buying Safeway they would either close up right behind Tesco of slip ahead of them. If Morrisons succeed in buying Safeway they will catch up with ASDA and Sainsburys and possibly pass them. So whatever happens there will be a change.

Economic Conditions

The key aims of the government are to control the exchange rate so as to ensure that British goods remain competitive. If the value of the pound rises significantly then companies will find it difficult to export their products overseas. On the other hand if the rate of the pound falls, imported goods will cost businesses more and this can equally have an adverse effect on businesses that need to import a significant amount of raw materials or products. Interest rates are also a key part of government strategy however they no longer control this aspect of fiscal policy since the Bank of England now independently sets and adjusts interest rates.

Most businesses rely upon borrowing in particular to finance capital investment for growth. If interest rates rise then the cost of borrowing rises and this in turn leads to inflation, the third area that is central to government economic policy. High interest rates mean that businesses find it difficult to meet current repayments (for existing loans) and this in turn means that they may either have to increase their prices or reduce costs (most usually by reducing their workforce). Furthermore, high interest rates mean that businesses find it hard to borrow more money for investment, and this restricts their ability to grow and develop new markets.

Inflation means that prices rise and markets shrink since people can longer afford to buy products and services. This leads to a vicious circle with both wages and prices rising and exports falling. An example of this can be seen during pre war Germany when people had to pay a wheelbarrow full of money to purchase a loaf of bread. In effect the currency had become worthless. In more recent times, in Argentina they have experienced hyperinflation with currency rates falling. This has led to people seeking to withdraw all their cash from the banks. A global example can be seen in third world countries where there is massive inflation and to keep the economy going they need to borrow large amounts of money, money which they are unable to repay and this over time leads to spiralling debts.

Booms and Slumps

Sainsburys

Sainsburys as a major company will feel the effect of the booms and slumps of the economic cycle. In a 'slump' inflation will be high and unemployment high. This means the spending power of their customers will be significantly reduced, turnover will fall and their will be an increased pressure upon the company to reduce their prices and costs. At a time of high inflation and poor exchange rates, the cost of their products will also significantly increase which in turn drives prices up and reduces turnover. During a 'boom', the spending power of their customers will be increased, inflation rates will be lower and exchange rates stable. This maximises the potential for profit. The one benefit Sainsburys have (as opposed to Wight Mountain) is that they supply food, a basic necessity and this is the one area that feels the impact of recession least.

However Sainsburys are at the top end of the market and therefore they may experience significant competition from supermarkets that focus more on 'cheap and cheerful' like ASDA and Tesco. High interest rates would however affect Sainsburys ability to acquire new sites and provide capital investment (due to the high cost of loans). During the eighties at a time of economic slump several supermarket chains suffered since they had already embarked upon large capital investment programmes with a high level of loaning.

Wight Mountain

Wight Mountain operates in a market that would be highly sensitive to the economy. As a small company, they will feel the impact of recession since they will find it hard to receive loans for repayments, as interest rates rise and their market share will be reduced since cycles are seen as a luxury item. As a small company Wight Mountain may have only limited reserves and there will be few opportunities for them to reduce costs. Local council business rates may also rise forcing them to close their business. This happened during the eighties recession in the Ryde area of the island when many local businesses closed, since property had been bought at inflated prices on borrowing that the owners could no longer repay when the recession hit.

Stable Economy

With a stable economy both Sainsbury's and Wight Mountain will benefit since both will be able to plan for growth, invest, borrow and develop their businesses in a climate where borrowing rates are low, exchange rates remain stable and inflation is under control. Smaller businesses are far more sensitive to economic change than larger ones since their ability to borrow; especially when times are hard is far less than large multi national companies, who can draw on sizeable reserves. At the moment although the economy remains stable there are increasing concerns about the level of debt of individuals, with large amounts of purchases being made on 'credit'. Should inflation rise and exchange rates fall this will mean that retail figures will fall dramatically as customers struggle to repay their existing debts.

Environmental constraints

Sainsburys

Sainsburys pollute the environment in a number of ways but as with many large supermarkets, they have environmental policies that seek to reduce the impact of this. Their distribution network requires transportation; large lorries that transport goods from suppliers to retail outlets. Larger container vehicles have sought to reduce the impact of this. One of the main ways that supermarkets can pollute the environment is via packaging since most products arrive in store with cardboard, plastic and other types of packaging. This packaging ends up in many cases at the local landfill site. Sainsburys have tried hard to promote recyclable packaging or biodegradable packaging that has a minimum impact of the environment. There are also economic reasons for doing this since local authorities levy large charges for waste disposal and therefore companies such as Sainsburys are encouraged to minimise their waste.

Supermarket car parks house bottle collection sites and cardboard and paper is separated out from the waste to be recycled. Although some efforts have been made to reduce the amount of packaging altogether consumer taste still requires that products come well wrapped and there ahs been little movement by the supermarkets in terms of refillable products such as washing up liquid. This may change when household waste is taxed or charged at a higher rate, resulting perhaps in future with a stronger consumer demand for these types of products. Perhaps the most significant development in recent years regarding environmental impact has been genetically modified food.

This has the potential to create significant environmental damage since the long-term effects of genetically modified farming methods are relatively unknown. Supermarkets such as Sainsburys are increasingly required to label foods clearly so that the consumer can identify those foods that are genetically modified. Reducing the environmental impact of their business activity is important to companies such as Sainsburys since they wish to avoid the label of 'polluter'. Approaches to waste reduction, recycling and environmentally produce e. g. organic foods are ways in which they can demonstrate their corporate social responsibility.

Wight Mountain

Wight Mountain actively contributes to the environment since it promotes and sells bicycles, an environmentally friendly form of transport. As a small company the overall impact of its business on the environment is negligible since they do not carry large quantities of stock and therefore do not support a large distribution chain. They do not have large quantities of packaging either. They are however influential in terms of promoting, locally, to a younger market, the attraction and benefits of cycling. Government regulation has affected both Sainsburys and Wight Mountain. Both are affected by local authorities charging structures for waste disposal and EU regulation is particularly is requiring larger companies to demonstrate that they have a proactive environmental policy. Soon to be implemented EU directives will require suppliers of electrical, white goods to be responsible for their disposal.

A SWOT Analysis for each of my companies

Sainsburys

Strengths:

1) Sainsburys have specialist marketing expertise.

2) Sainsburys have a new service in the Nectar Card. This gives customers the opportunity to collect points from different stores.

3) The location of sainsburys store is a strength because it is spacious and easy to get to.

4) A strength to Sainsburys is their terrific customer service as it encourages customers to shop there. This will give them the advantage over their competitors.

5) Large company with significant purchasing power to drive down costs and demand more environmentally friendly products from suppliers.

Weaknesses:

1) Sainsburys have a damaged reputation for their high prices, higher than most of their competitors.

2) Sainsburys are vulnerable to competition from other large supermarkets and the potential for mergers and acquisitions.

3) Sainsburys profit lies mainly in volumes therefore economic stability supports profitability and large interest rate rises affect ability to invest whilst exchange rates can force prices higher, often leading to fiercer competition.

4) Large companies are usually targeted by government through the taxation system.

Opportunities:

1) Given the increasing pressure on environmentally friendly products, Sainsburys could develop this as part of their 'brand image'. Sainsburys could for example permanently decide not to stock genetically modified foods.

Threats:

1) If Sainsburys are slow to implement Government policy and reflect consumer trends in terms of a demand for more environmentally friendly products, they may find that they are liable to heavy financial penalties and increased competition from other supermarkets.

2) With increasing mergers and acquisitions Sainsbury's must ensure they do not over stretch themselves and make themselves 'vulnerable to being taken over.

3) There is increasing competition from 'low cost' supermarkets such as ALDI - these types of supermarkets will do particularly well in times of economic decline.

Wight Mountain

Strengths:

1) They promote an environmentally friendly form of transport and one that also has an impact on health.

Weaknesses:

1) They are a small company and therefore very vulnerable to potential competition from larger stores. For this reason they need to concentrate on 'niche market' products and avoid competing with companies such as Halfords.

2) As a small company they have only small reserves and are very vulnerable during times of economic slump. They have recently expanded and this could place them under pressure if interest rates rise.

3) They will be unable to afford rises in environment charges such as those levied by local authorities for waste disposal.

Opportunities:

1) The market they are in is highly specialised and demand is rising given the increase in healthy living awareness and pressure on the public to use environmentally friendly forms of transport.

Threats:

1) Bicycles are still viewed as luxury items and in an economic slump; Wight Mountain may find its sales falling dramatically.

2) Without the purchasing power of Sainsbury's they will be unable to reduce costs significantly during an economic slump.