The economic environment and anatomy of business assignment

In October 2014, oil prices fell from $100 to $82 a barrel and are expected to continue o fall in 201 5, due to a reduced demand for the good and an increased supply (BBC 2014). Slowing growth in Europe and China has contributed to the decrease in demand, shifting the demand curve inwards to the left (demand I-demand 2), shown in fugue 1 . This causes quantity to fall IQ-Q and price to fall PI-UP (Classless, 2014, a). Figure 1 Simultaneously, a surge in U. S. Oil production through franking has increased the supply for oil on the market, further decreasing prices.

This is illustrated in fugue 2, where supply has shifted outwards from supply 1 to supply 2. This has caused the equilibrium quantity to increase IQ-Q and the price to decrease PI-UP. (Classless, 2014, b). Figure 2 Demand for oil is price inelastic in the short run, as not only is energy a necessity across most industries, but also there are few direct substitutes. However, in the long run, consumers will start to find substitutes such as gas. This was illustrated in the asses oil shocks (Anon. A. D. Tutor, e). Benefits to lower oil prices include a reduction in cost of petrol for consumers.

In addition, this will reduce transportation costs for businesses; this benefit may be passed onto consumers who pay a lower price. This will have a positive multiplier effect across the economy as household disposable income rises, benefiting businesses and potentially leads to economic growth. This is particularly beneficial because economies are still recovering from the 2008 recession (AY-Shattered, 2014). Lower prices will force high cost producers out of the market, or encourage them to seek lower cost technological solutions to stay in the market (Outland, 2014).

Innovation could lead to decreased supply costs of oil in the long term. However, a continued period of low oil prices could push Russia into a recession, having a The price of oil is influenced by supply and demand. When oil prices are low, consumers benefit across the whole economy. However producers suffer, which can plunge an economy into a recession, impacting other economies in the process. 2. Entry barriers Ferrier acquires hazelnut supplier Alton http://www. Confectionery's. Com/Manufacturers/Ferrier-acquires-hazelnut- supplier-Alton This essay will explain the entry barriers of the hazelnut-spread market.

Barriers to entry are obstacles that prevent new competitors from easily entering an industry (Investigated, b). Entry barriers can be beneficial to companies currently operating within the market because they limit potential competition. This can result in the existing companies forming natural monopolies. An entrant may either be a new firm seeking to enter the market or an existing firm, which has chosen to diversify into a new market (Manama and Taylor, 2014, c). There are many examples of potential entry barriers within a market.

If a large firm achieves economies of scale, they achieve lower costs per unit as output increases. As costs of production are less, cost per unit is also less because large firms can bulk ay, and smaller firms will struggle to compete with this (Manama, 2008). This may result in a new entrant having to be of a certain size before it can compete; this is most often unrealistic for start up companies (Manama and Taylor, 2014, d). The main barrier to entry for hazelnut spread is the supply of hazelnuts. Turkey has a natural monopoly on them as 70% of the worlds supply is grown there (Rankin, 2014, a. Ferrier consumes 25% of the world's hazelnut crop per year, mainly for Nutshell (Nibbler, 2014, a). However, in spring 2013, a quarter of the hazelnut crop in Turkey was destroyed by spring frost. This caused the price of hazelnuts to soar by 60% (Rankin, 2014, b). As hazelnuts are one of the main ingredients in Nutshell, the company suffered; more pressure was put on the crop as demand for Nutshell increased 6. 4% in 2013. (Feldman, 2014, a.) In 2014 Ferrier acquired Alton, the largest supplier of hazelnuts in the world (Nibbler, 2014, b).

This is called backwards integration, which is a form of vertical integration and " involves the purchase of suppliers" (Anon. N. D. Investigated, c). The aim of backwards integration is to create efficiency and cost savings. This greatly benefits Nutshell because not only does it reduce the costs of production, but also it has priority over an unreliable crop. However, this forms barriers to entry for the hazelnut-spread market as not only do competitors have the challenge of a weather dependent crop but also they may intentionally be priced out of the market by Altars hazelnuts.

Many customers are loyal to the brand Nutshell, posing as a further barrier to new entrants into the Incumbents can create an entry barrier by acquiring a patent for their product, legally protecting their idea, and preventing copycat companies. In addition, larger firms can afford research and development, which they can then patent, whereas new entrants will typically struggle to secure appropriate funds for innovation. Larger firms can afford bigger advertising campaigns which smaller entrants rarely can, giving them publicity and an advantage in securing new customers.

Businesses within industries such as the oil industry can have high start up costs, which prevent new businesses from entering and surviving within the market. Trade barriers can also limit companies if there are tariffs and quotas that have to be met. A lack of intro of essential resources is another entry barrier, which often firms have little control over. Those that can afford to can overcome this issue through vertical integration; however, this can be expensive which is a barrier in itself (Manikin and -array, 2014, e). Entry barriers are beneficial for existing firms in a market and can lead to the formation of monopolies.

Entry barriers can be natural as in hazelnuts are weather dependent and an unreliable crop. But they can also be influenced by existing firms, such as Ferrier buying out Alton, giving them control over the hazelnut supply. 3. Economies of Scale Container firms order new ships to gain economies of scale http://www. Reuters. Com/article/2013/12/03/us-contradictoriness-fleet-idUSBRE9B20JB20131203 This essay will explain why firms benefit from economies of scale and how internal and external economies of scale are achieved in the shipping container industry.

Economies of scale occurs when the long-run average total costs of a firm fall as the quantity of output increases, this can be seen as A in fugue 3 (Manama and Taylor, 2014, a). Figure 3 operating on larger scales can secure lower supply costs leading to a cost advantage ever rivals (Bespeak, Dragoon, Schaefer, Channel, 2012, b). In some markets, including the containers industry, firms have to be of a certain size before they can expect to compete (Tutor, a). There has been an increase in orders for larger ships;

the largest in the world carrying 30, 000 containers, in the past two years (Misspoken, 2013, a).

Economies of scale can be specific to an individual firm also known as internal, or where the industry is benefited as a whole, known as external. Internal economies of scale can be divided into 5 categories: financial, specialization, marketing, managerial or technical (Anon, n. . Tutor, b). Technology has been the key for growth in containers companies, but larger firms can only afford this. The largest and most efficient containers in the world is currently being developed called the Triple E.

An innovative design of Triple E resulted in approximately 250 more containers fitting into the space, and can be operated with a crew of 13 persons, as opposed to 19. Furthermore operating costs are reduced, as the ships are 20% more fuel-efficient (Martin, 2011, a). The new innovative ship design means the average total cost of a firm falls as output increases. The industry grew 9. % in 2013 alone, economies of scale being a vital factor in the growth. (BBC, 2013, a). This is evidenced by Flowstone building a third rail link, doubling the amount of containers that can be transported (BBC, 2013, b).

External economies of scale can arise from firms operating in a concentrated geographical area, creating a local skilled and flexible work force, and reducing transport costs. This is the case for ports where the container's dock. External economies of scale are being achieved as ports grow to facilitate the larger ships, encouraging containers companies to purchase larger ships (Anon. N. D. Tutor, Economies of scale result in more market power, however it is not always desirable and in certain industries smaller firms can excel. It is easier for smaller firms to adapt to local demands and changes in the economy.

As a firm increases in size it can start to experience discomposes of scale. This is where as output increases average costs start to rise, shown as B in fugue 3. This can be caused by a lack of motivation, increased costs in administration of the workforce, increased transport costs, and/or poor communication (Anon. N. D. Investigated, a). Economies of scale has been vital to the success and growth of firms in the internship industry. 4. Price discrimination http://personable. Campaigners. Co. Montauk= price-discrimination This essay is going to look into price discrimination in the theme park industry.

Price discrimination is the, " business practice of selling the same good at different prices to different customers" even though the cost of producing the good for the two customers is the same (Manama and Taylor, 2014, b). Perfect price discrimination is where the seller has perfect information about each buyers valuation and is able to set a different price based on this knowledge (Manama and Taylor, 2014, c). Product fermentation leads to greater supplier power over the price, producers can charge a premium price to consumers due to differences.

The law of supply and demand applies to the theme park industry. By increasing the overall cost of a ticket, business owners can create higher profits per visitor, however this will lead to less visitors in total. Alternatively the theme park owners could cut the price of tickets, encouraging more visitors, but this would lead to less profit per transaction. In Figure 4, at price P the theme park would be losing out on revenue as some customers would be willing to pay more, area A. Area B represents the revenue the owners are missing out on because their prices are too high.

The solution is to charge more to customers who are willing to pay more and less to those who are not (cabal, 2000, a). Figure 4 In order for price discrimination to work different consumer groups must have different price elasticity of demand. Price elasticity of demand is a “ measure of how much the quaintly demand of a good responds to a change in the price of that good (Manama and Taylor, 2014, d). Firms will charge a higher price to the group with inelastic demand. Merlin entertainments PLY, who own Thorpe Park use price coordination to maximize profits.

They have two ticket prices: for standard and concessions (Thorpe Park, Merlin Entertainments Group Limited). Concession tickets are for individuals with relatively price elastic demand; older people are likely to be living off their pensions and children don’t work, so they are not willing to pay as much for the same ticket. Therefore extra revenue is obtained from these additional sales. Price discrimination can come in different forms such as peak and off peak pricing. At peak time, such as weekends, the demand for tickets becomes more inelastic cause customers have more free time for leisure.