

A Level Business

Lesson 3: Comparing Businesses



Aim of this Lesson

The A level examination consistently asks you to consider how businesses will be impacted by an event such as a raise in minimum pay or an increase in import duties.

Typically students struggle with these questions as are unable to consider a sufficient range of industries so they can compare, contrast and evaluate in order to answer the question.

This lesson is designed to get you to think about how businesses can be compared. It concludes with an exemplar essay which illustrate the need for this knowledge, which is a core requirement if you wish to do well at A Level

Activities 1-3

The next 3 activities ask you to compare companies within an industry. 'McDonalds' and '5 Guys' both sell burgers, 'Primark and Boohoo' both sell clothes, but whilst they have many influences in common, they equally have many factors which differentiate them such as, pricing policies, promotion, target audiences, distribution, supply chain considerations.

For each activity. Take notes on a separate sheet of A4 so you can keep them in your business folder and refer back to them when planning essays

Activity 1 – Compare Car Companies

Research the Morgan Motor Company and Nissan. Identify similarities and their differences:

- Job/mass production
- Skilled labour/availability of skills
- Elastic/Inelastic – ability to change price
- Mass/Niche market – level of competition
- Ownership
- Local/national markets
- Size of company



Activity 2 – Compare Capital and Labour Intensive Industries

Watch the following video about how frozen pizzas are made

<https://www.youtube.com/watch?v=Do7qLGiVbwY>. These large factories are called capital intensive as they use lots of space and large machinery which are funded by capital (money). Assume the factory is making pizzas for a well known brand.

Compare that to how your local independent pizza restaurant (or one you visited on holiday) make pizza. Look at the staff levels – what are they skilled at?, dependency on reviews/sourcing of ingredients. Make judgements about location, ownership and access to loan/investor capital.

Who are the target audience, competition and what are the pricing considerations?



Activity 3: Availability of Skills

Compare the 3 businesses below.

- <https://www.youtube.com/watch?v=G6O2zTuGOVQ> Heinz
- <https://www.youtube.com/watch?v=yw5NcaMxfxU> Amazon
- <https://www.youtube.com/watch?v=HBe6XUFvtRY> Google

Do the usual comparisons as in Activity 1 and 2, but then focus on the workers.

1. How many are there, are they engineers, highly creative or likely to be on minimum wage?
2. How many people have the necessary skills to do the required work?
3. What implications will that have for the leaders for those organisations

Activity 4- Look at A level essays – 25 marks

Look at the following essay questions.

1. Do you consider it inevitable that a sharp rise in interest rates will result in reduced profits for all Businesses
2. Is the sugar tax a threat or an opportunity for drinks manufacturers?

Both require you to assess what your answer depends upon and then to explain why. We encourage a 3 paragraph response, with paragraph 1 and 2 contrasting. Paragraph 3 is the conclusion which fully answers the question, typically explaining in which scenario's you would agree with the question and when you wouldn't.

Answers which can provide examples to illustrate their points are likely to score higher than a generic response. An example response to essay 1 is shown next.

Essay Plan: Do you consider it inevitable that a sharp rise in interest rates will result in reduced profits for all Businesses

Paragraph 1

Point – Yes if Businesses produce products which require customers to buy them with loans

Explain – Higher interest rates will reduce disposable income as customers will have to pay more on their mortgages, loans etc. Additionally the higher interest payments will increase the cost of the item

Analyse – This will reduce the amount of customers able to purchase the products and it may be that the purchase can be deferred, it depends on its elasticity.

Evidence – An example of a business which would be likely to suffer a reduced profits in this circumstance are Nissan, as whilst for most people a car is a necessity and paid for on credit, they are typically purchased to replace an existing car. When interest rates are high, car purchases are reduced.

Evaluate - However niche car manufacturers such as Morgan will be less likely to suffer a decline in sales as their customers tend to be high net worth individuals so the rise in interest rate is less likely to have an impact on their sales especially seeing as customers typically have to wait 12 months for their car to be built.

Link back to Q – Consequently businesses where customers tend to finance purchases via loans are likely to face a fall in profits

Essay Plan: Do you consider it inevitable that a sharp rise in interest rates will result in reduced profits for all Businesses

Paragraph 2

Point – Yes if Businesses are predominantly funded by loans (highly geared)

Explain – Higher interest rates will increase the amount of interest due on the loans, thereby increasing the businesses costs

Analyse – Increased costs will typically reduce the profits for a business, particularly if they are in a competitive industry and are unable to be able to raise prices to cover the increased costs, as by doing so customers would simply then buy from the competitor with a lower price.

Evidence – Weatherspoon's have expanded rapidly in the UK and this has been financed by loans so they will see a significant increase in their costs.

Evaluate – Their USP is low prices so if they raise their prices they lose their USP, and customers may move to alternative pubs and restaurants which are deemed more attractive.

Link back to Q – Consequently businesses which are financed heavily by loans are likely to face a fall in profit especially if they cannot raise prices.

Essay Plan: Do you consider it inevitable that a sharp rise in interest rates will result in reduced profits for all Businesses

Conclusion

Answer the question – Yes, I consider the majority of business will face reduced profits if interest rates rise significantly

Justify – This is because customers will be facing falls in their disposable income so will reduce their spending resulting in a fall in Revenue. Most businesses also have some element of loan funding especially as the ideal gearing is considered to be 50% so costs will have increased. Reduced revenue and increased costs result in reduced profit.

It depends on – However if the goods are inelastic or inferior then revenue won't decrease. Also it depends if the business can raise its prices to cover the increased cost. However I consider the

Most important reason is the level of loan funding that they have. Some businesses such as McMullan Brewery in Hertford have no loans and as a consequence would see no cost increase

Activity 4 – Plan the 2nd Essay

1. Use your own knowledge. How have Coke responded?
2. Biggest growth area recently in soft drinks have been in premium drinks. Research fever tree or premium drinks you have recently tried or would like to try (age restrictions) such as Red Bull. What has made them successful
3. Use the prompts in the previous essay to plan your paragraphs and conclusions

Good Luck

