

## COMPONENT 1 - Exploring Enterprises

- Investigate the factors that contribute to the success of an enterprise

### What are internal factors?

Internal factors can be controlled by an enterprise.

Internal factors can impact costs positively and negatively. The factors which the enterprise need to fully understand are below.

#### Understanding the market

- Who are the competition?
- What do the customer want from our enterprise?
- What makes our product unique?

#### Satisfying customers

- What is the quality of the product?
- How is the product priced?
- Do you offer good customer service, convenience or a USP? Is the product available?

#### Planning / Financing

- How / When can orders be taken? Online? In person?
- Are we organised? Do we have enough stock?
- Do we have enough time to do X?
- Have we forecasted as well as possible (£)?

#### Marketing and promoting

- Are we getting value for money with our marketing and promotions? M&P can be an expensive cost for SMEs
- Can we make use of social media to M&P?

#### HR Costs

- Do we have a contingency plan? – have we planned for the unexpected (in the hope it will never happen?)
- Do we have money readily available for costs which aren't expected (in the hope we'll never need it)
- Examples: Advertising for a new role/ cover/training.

## INTERNAL FACTORS

## SITUATIONAL ANALYSIS



### How can an enterprise conduct a situational analysis?

This is simply analysing (studying) the situation an enterprise is in, looking at the market and assessing how it could be affected by trends and developments. Below is a SWOT analysis explained:

<b>S</b>	<p><b>Strengths of an enterprise</b></p> <ul style="list-style-type: none"> <li>They might keep customers satisfied.</li> <li>They might have a good brand image &amp; reputation.</li> <li>They might offer a good quality service.</li> </ul>
<b>W</b>	<p><b>Weaknesses of an enterprise</b></p> <ul style="list-style-type: none"> <li>Staff members might lack training.</li> <li>Their improvement plan might not be effective.</li> <li>They may not have the best resources.</li> <li>They may not have high market share.</li> <li>They may not have competitive edge.</li> </ul>
<b>O</b>	<p><b>Opportunities the enterprise might want to exploit</b></p> <ul style="list-style-type: none"> <li>These are different for each enterprise depending on what their strengths and weaknesses are.</li> </ul>
<b>T</b>	<p><b>Threats on an enterprise</b></p> <p>This is anything which might prevent success for example:</p> <ul style="list-style-type: none"> <li>Changes in trends/tastes</li> <li>New competitors entering the market</li> <li>Existing competitive changing what they do</li> </ul>

Enterprises have to consider how each other the factors might effect them below. This is a PEST analysis.

P - Political	E - Economic	S - Social	T - Technological
<ul style="list-style-type: none"> <li>Changes to laws</li> <li>New party in power</li> <li>Effect of wars, tax, environment</li> <li>Relationships with other countries and the EU</li> </ul>	<ul style="list-style-type: none"> <li>Employment levels</li> <li>Exchange rates (import / exports)</li> <li>Wage levels</li> <li>Interest rates (on loans/overdrafts)</li> <li>Disposable income</li> </ul>	<ul style="list-style-type: none"> <li>Changes in fashion/trends</li> <li>Ethical considerations (e.g. Fair Trade)</li> <li>Environmental considerations</li> <li>Demographics (is it growing?)</li> <li>Attitudes towards work</li> <li>Level of customer education</li> </ul>	<ul style="list-style-type: none"> <li>Developments in computing</li> <li>Mobile device developments</li> <li>Machines taking the place of humans</li> <li>Increase in e-commerce</li> </ul>

## COMPONENT 1 - Exploring Enterprises

### EXTERNAL FACTORS



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External factors can not be controlled by the enterprise. Once the enterprise has been made aware of changes they need act on them and over come them!

Factors that impact on COSTS

External factors which may impact an enterprise might be:

- Cost of energy (variable costs) – Gas, Electricity, Oil
- The cost of raw materials – these are items which are needed for producing a product (wood for a joiner for example)
- The cost of borrowing money – if you borrow money from a lender you will have to pay interest on the loan. If the interest rate goes up then so does your cash outflow.
- Rent on a premises – if rent goes up then this impacts your enterprise's costs.

Increase and decrease in costs is known as fluctuation. Enterprises need to be prepared for costs to fluctuate.



#### **MARKETING (External factor)**

- Marketing costs a lot of time and money and these costs can also fluctuate. In these instances enterprises might choose to use free marketing e.g. social media, blogs, vehicle advertising, email campaigns.
- They may also choose low cost marketing: radio advertising, business cards, flyers or newspaper advertising.

#### **SELLING COSTS (External factor)**

- When selling the enterprise must consider wages (they can rise and the minimum is set nationally), packaging the goods and delivering the goods (the cost of the raw materials can also rise)

#### **GOVERNMENT REGULATIONS**

- Costs can rise due to companies (such as insurance companies) needing to cover their costs.
- Costs can also rise when governments make changes such as to wages, taxation and pensions.

Factors that impact on REVENUE

Revenue is how much an enterprise earns from selling its goods and services. Changes in revenue happen when the amount of money an enterprise receives goes up or down. Enterprises cant also stop or influence the changes in revenue, but they have to respond to the changes to ensure they are still successful.

#### **Competitors**

What are competitors doing which might impact your revenue?  
 What new enterprises are coming into your market?  
 How can you attract customers or encourage repeat purchase to gain competitive edge?

#### **Consumer Confidence**

This means how much confidence consumers have in the economy.

- If the economy is growing peoples jobs will be safe and they'll spend.
- If the economy is in recession people will be uncertain about the future and will be less confident in spending.
- This impact the revenue of enterprises.

#### **Consumer behaviour**

Consumer tastes have an impact on revenue - this creates a social pressure on enterprises to change their product portfolio.

#### **Consumer legislation**

Sometimes things which enterprises sells are:  
 Banned – they become illegal  
 T&Cs change – for example how goods can be packages/promoted

## COMPONENT 1 - Exploring Enterprises

## MEASURING SUCCESS

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- Investigate the factors that contribute to the success of an enterprise

What are some of the reasons for SME success?

- Skills relevant to the market
- Hard work and effort
- Determination
- Resilience
- Ability to develop and train staff
- Ability to motivate staff
- Providing a high level of customer service
- Meeting and exceeding customer needs
- Having experience of the market.

What are common aims of SMEs?

- Survival
- Breaking even
- Making a profit
- Meeting customer needs



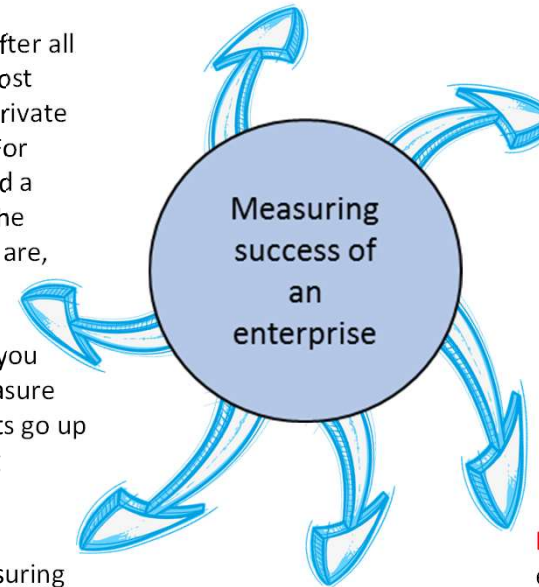
How can the success of an enterprise be measured?

**Profit:** This is the revenue left after all costs have been taken away. Most enterprises make a profit. For private enterprises, profit is essential. For social enterprises, profit is called a surplus, this is reinvested into the organization. Social enterprises are, for example, charities.

There are many liquidity ratios you need to know to be able to measure this, but in essence as the profits go up the enterprise is demonstrating success.

**Customer satisfaction:** Measuring customer satisfaction is done by looking at whether the enterprise has a good reputation and whether customer tell others about the enterprise. If this is the case, then the enterprise will be deemed to be a success.

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**Market Share:** This is the percentage of the market which the enterprise controls. For example if the whole market takes £100,000 per year but my enterprise takes £10,000 on its own then my enterprise has 10% market share.

**Survival:** This means continuing to operate for a long time after the enterprise has started. 90% of enterprises survive their first year, however, it is known that the first 5 years are the most challenging.

The longer an enterprise trades for the more successful it is likely to be. This is due to many of the skills required for success have been learnt and enhanced. Experience assists with success.

**Making a living:** If an entrepreneur is happy and conformable financially then they're making a success of their enterprise. Most enterprises are set up for independence.