

BUSINESS ENVIRONMENT



Brand: Mehta Solutions

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Short Description

BUSINESS ENVIRONMENT case study

Description

Case 2 : Resource prices

As we saw in Chapter 1, resources such as labour, technology and raw materials constitute inputs into the production process that are utilised by organisations to produce outputs. Apart from concerns over the quality, quantity and availability of the different factors of production, businesses are also interested in the issue of input prices since these represent costs to the organisation which ultimately have to be met from revenues if the business is to survive. As in any other market, the prices of economic resources can change over time for a variety of reasons, most, if not all, of which are outside the direct control of business organisations. Such fluctuations in input prices can be illustrated by the following examples:

- Rising labour costs – e.g. rises in wages or salaries and other labour-related costs (such as pension contributions or healthcare schemes) that are not

offset by increases in productivity or changes in working practices. Labour costs could rise for a variety of reasons including skills shortages, demographic pressures, the introduction of a national minimum wage or workers seeking to maintain their living standards in an inflationary period.

- Rising raw material costs – e.g. caused by increases in the demand for certain raw materials and/or shortages (or bottlenecks) in supply. It can also be the result of the need to switch to more expensive raw material sources because of customer pressure, environmental considerations or lack of availability.**
- Rising energy costs – e.g. caused by demand and/or supply problems as in the oil market in recent years, with growth in India and China helping to push up demand and coinciding with supply difficulties linked to events such as the war**

in Iraq, hurricanes in the Gulf of Mexico or decisions by OPEC.

- Increases in the cost of purchasing new technology/capital equipment – e.g. caused by the need to compete with rivals or to meet more stringent government regulations in areas such as health and safety or the environment.**

As the above examples illustrate, rising input prices can be the result of factors operating at both the micro and macro level and these can range from events which are linked to natural causes to developments of a political, social and/or economic kind. While many of these influences in the business environment are uncontrollable, there are steps business organisations can (and do) often take to address the issue of rising input prices that may threaten their competitiveness. Examples include the following:

- Seeking cheaper sources of labour (e.g. Dyson moved its production of vacuum cleaners to the Far East).**

- **Abandoning salary-linked pension schemes or other fringe benefits (e.g. company cars, healthcare provisions, paid holidays).**
- **Outsourcing certain activities (e.g. using call centres to handle customer complaints, or outsourcing services such as security, catering, cleaning, payroll, etc.).**
- **Switching raw materials or energy suppliers (e.g. to take advantage of discounts by entering into longer agreements to purchase).**
- **Energy-saving measures (e.g. through better insulation, more regular servicing of equipment, product and/or process redesign).**
- **Productivity gains (e.g. introducing incentive schemes).**

In addition to measures such as these, some organisations seek cost savings through divestment of parts of the business or alternatively through merger or takeover activity. In the former case the aim tends to be to focus on the organisation's core products/services and to shed unprofitable and/or costly activities; in the latter the objective is usually to take advantage of economies of scale, particularly those associated with purchasing, marketing, administration and financing the business.

Case study questions

- 1. If a company is considering switching production to a country where wage costs are lower, what other factors will it need to take into account before doing so?**
- 2. Will increased environmental standards imposed by government on businesses inevitably result in higher business costs?**

Details

1. Case study solved answers

2. pdf/word

3. Fully Solved with answers