

# GCSE Business Studies

## Topic 5 – The External Environment



Name:

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## Section A – The activities of competitors

Competition occurs when two or more organisations act independently to supply their products to the same group of consumers. Some markets are highly competitive, while others are a lot less so. The different types of competition include:

- Direct competition - this exists where organisations produce similar products that appeal to the same group of consumers.
- Indirect competition - this exists when different firms make or sell items which although not in head to head competition still compete for the same £ in the customers pocket.

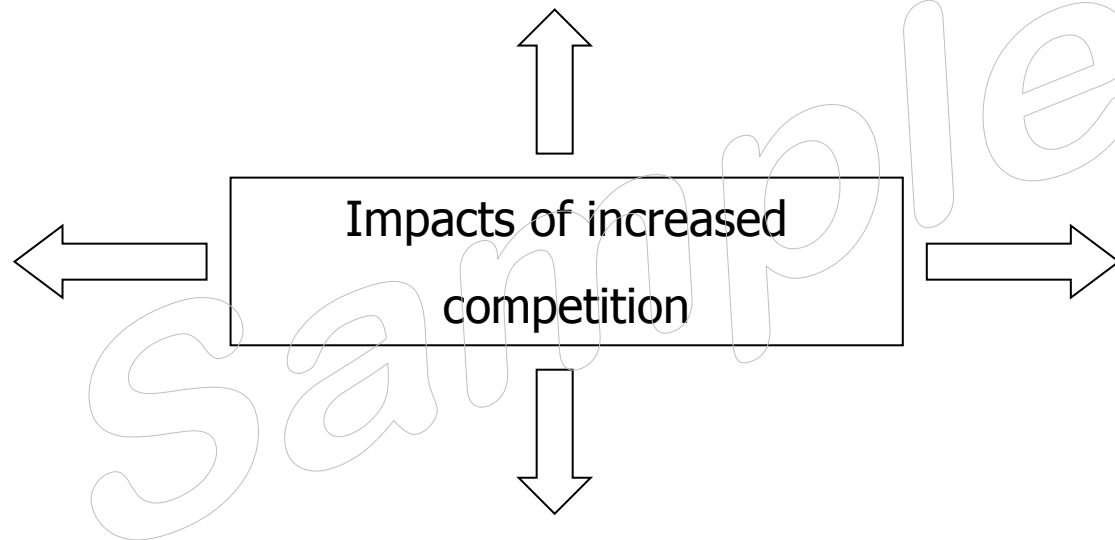
Highlight below whether the example is direct or indirect competition:

*A High Street shop selling CD's competing with a cinema that is also trying to entice young shoppers to spend money on leisure activities.*

*Two supermarkets offering the same range of chocolate bars for sale.*

## Section A – The activities of competitors

Businesses will prefer to operate in markets where there is low levels of competition. As more businesses enters the market, there can be a number of impacts on the business. Highlight below what you think these could be.



**Extension:** The smart phone market is highly competitive now, what impact has this had on the prices of the products?

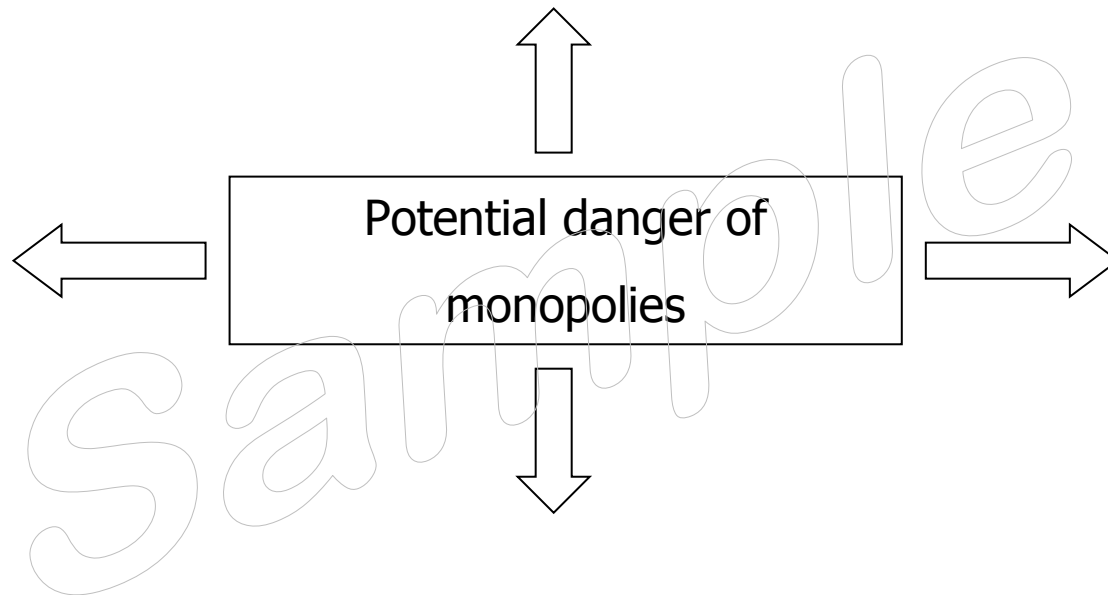
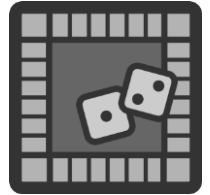
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## Section A – The activities of competitors

A market where a single business dominates is known as a monopoly. In the UK, there is legislation in place to avoid this situation occurring. Highlight below why you think this is.



**Extension:** Can you think of any examples of monopolies? Describe why they have been allowed to dominate the market.

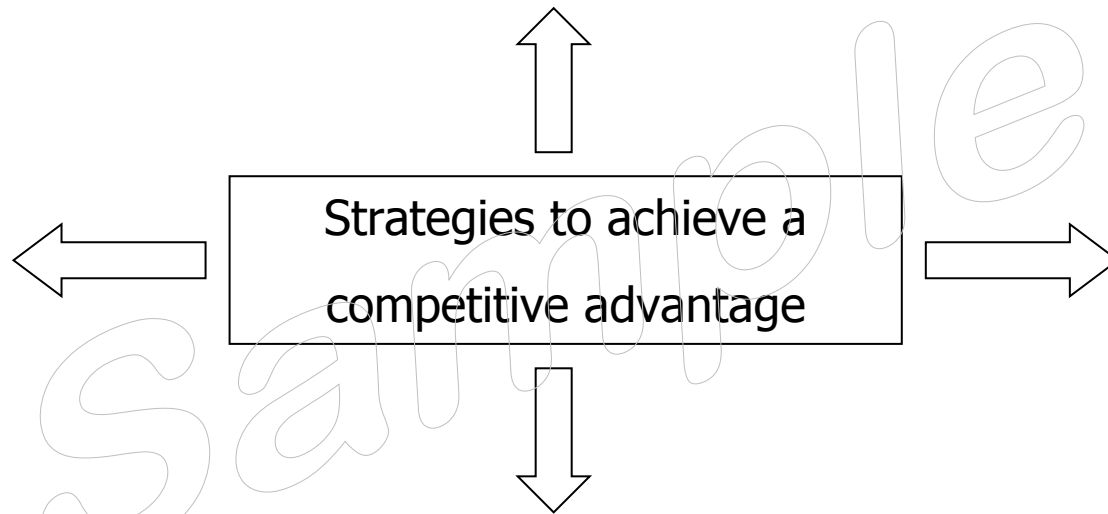
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## Section A – The activities of competitors

A duopoly is where two businesses dominate an industry. Examples include Coca-Cola and Pepsi (soft drinks) and Unilever and Proctor & Gamble (detergents). They will often not compete on the price of their products; explain below how else they try to achieve a competitive advantage.



**Extension:** Explain why organisations such as Coca-Cola sell lots of similar products using different brand names.

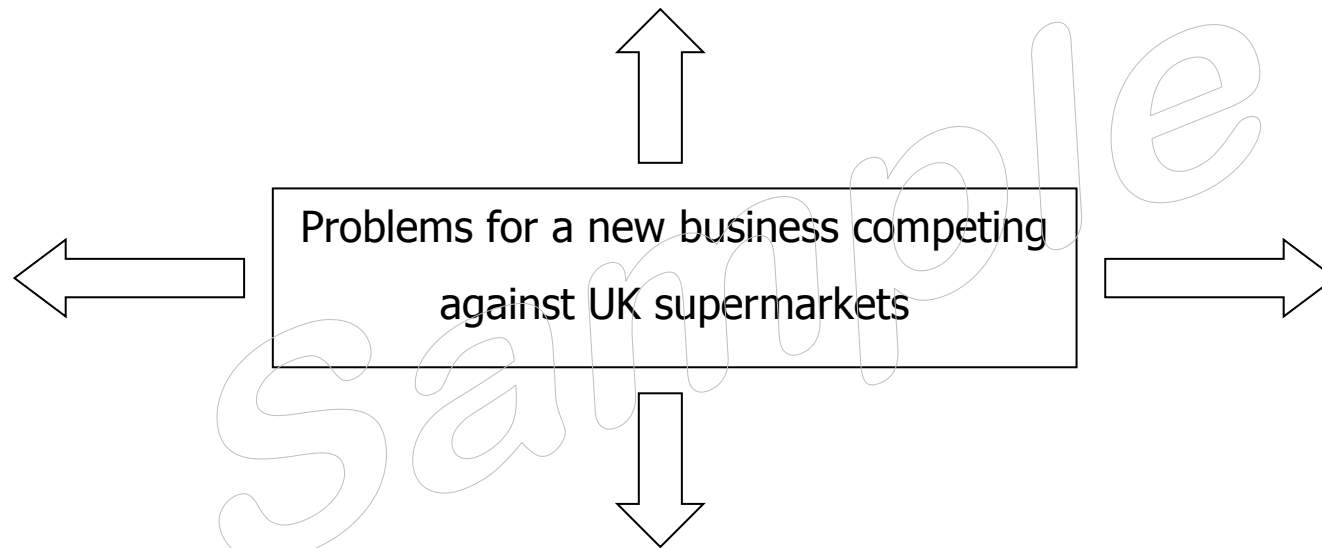
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## Section A – The activities of competitors

An oligopoly is where a small number of businesses (3 – 8) dominate the industry. They are likely to be very large businesses and have the ability to earn high levels of profit. The UK supermarket industry is an example of an oligopoly, explain below why it is difficult for another business to enter this market.



**Extension:** Virgin recently announced they are going into the banking market. Explain why you think they have done this.

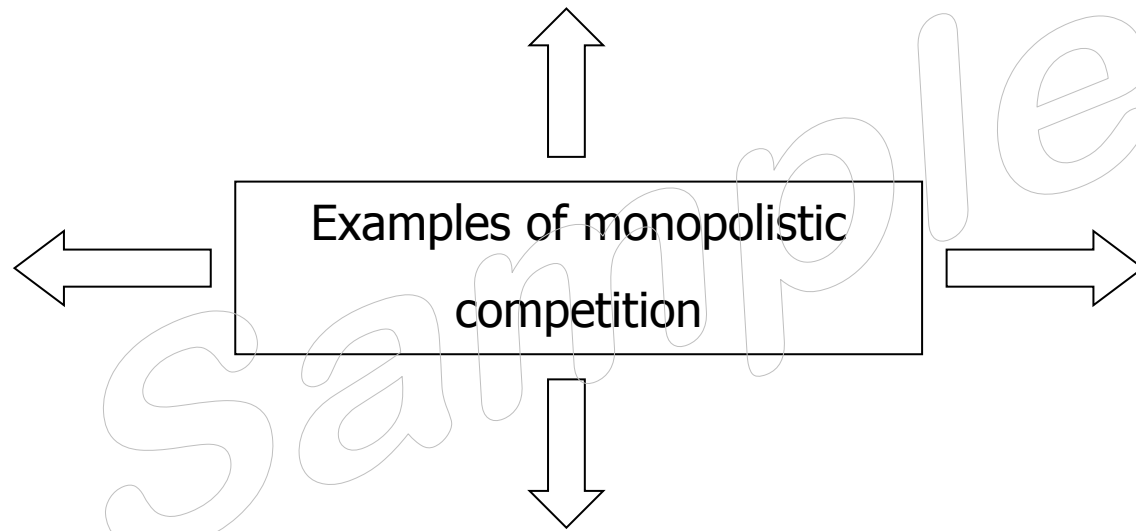
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## Section A – The activities of competitors

Monopolistic competition refers to a situation where many businesses exist in an industry, and each has a wide product range and a degree of product differentiation. Profits are not as high as in an oligopolistic industry. List below some examples of this type of market in the UK.



**Extension:** Explain why lots of retailers have cut down the amount of stores they have on the high street.

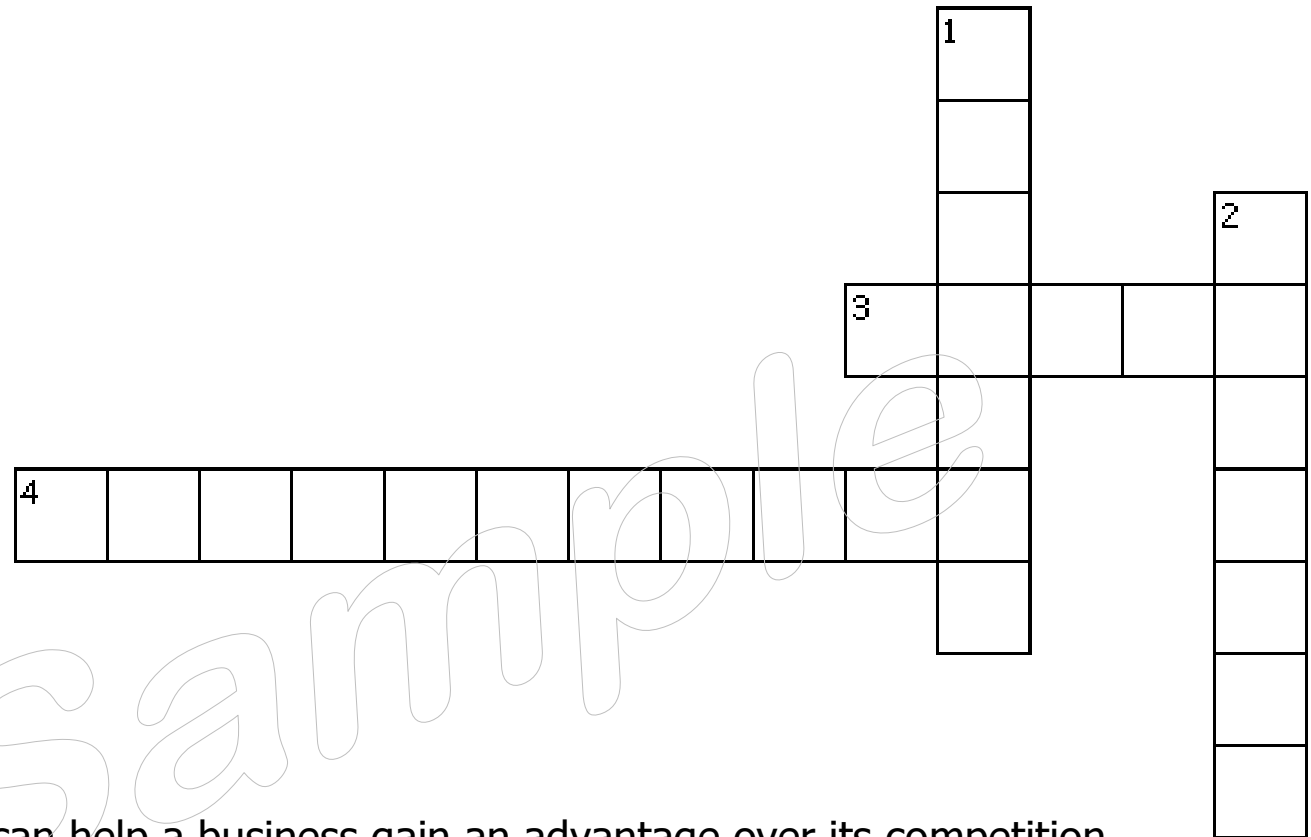
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## Section A – The activities of competitors



### *Across*

3. Providing ..... for money can help a business gain an advantage over its competition.
4. Businesses will try and obtain this type of advantage.

### *Down*

1. If a business is conveniently ..... it will encourage customers to visit more often.
2. Offering efficient customer ..... will encourage customers to keep using the business in the future.

## Section A – The activities of competitors

- Practice exam question

A new hairdressing business has opened up in a busy town, where there are several other established hairdressers. The owner is considering two different strategies to achieve a competitive advantage over these businesses, shown below. Recommend which one the business should use and justify your choice.

1. Using a penetration pricing strategy, whereby the owner will charge a low introductory price for her services, but then increase the price when the business becomes more established in the local market.
2. Having longer opening hours compared to the other hairdressers in the town.

Remember to:

- *Evaluate the benefits and drawbacks of each strategy before making your judgement.*

## Section A – The activities of competitors

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