Factors That Influenced on My Business

DEFINITION – CARTEL AS A MARKET STRUCTURE

A. A cartel is a uniqe case of oligopoly this is when normally competetive businesses in an industry collude to create a distinct, formal agreement to fix prices and production volume. In theory, a cartel can be formed in any industry but it is only practical in an oligopoly where there is a small number of businesses. Cartels are usually prohibited by law. Prices in this market structure will be unusually high, as they are set by cartel members. This situation is made possible by the fact that there is no differention in the product, prices of production costs are fixed and there are a small number of businesses dominating the industry. It is extremely difficult to enter this marketing structure due to the economies of scale. One of the best known examples of a cartel is OPEC (the Organisation of the Petroleum Exporting Countries).

B. OPEC ANNOUNCEMENTS IMPACT ON MY BUSINESS

i. Fuel increase: Oil prices usually reacts after an announcement from OPEC, although the impact on fuel prices are not immediate, it will gradually catch up with oil prices, this will result in higher transportation costs. As our business is a mobile business, moving from one construction project to the next.

ii. Inflation: At the beginning of the inflation cycle, banks generally expand their loan portfolio, should we have business loans there will be an increase in loan repayments, changes in exchange rates, etc which will have a direct impact on our importation cost of new technology and material.

C. TWO INDUSTRIES THAT EXHIBIT CARTEL LIKE BEHAVIOUR IN SOUTH AFRICA

South Africa can look at the origination of collusion and price fixing during the apartheid era. This was encouraged by the then government due to the isolation of industry because of sanctions. This helped industry to perform steadily with avg prices and production, where all parties benefit.

i. Cellphone industry: Vodacom and MTN has an agreement in terms of interconnection fee to use each other's networks. In 2009 these operaters raised this price by 500%. In this agreement they they set the rate themselves and added a non-discrimination clause, which states that all parties will be charged the same. Although this is Cartel behaviour it is difficult to prove.

ii. SATMC(SA Tyre Manufacturers' Conference): In 2008 a consumer complained to the Competition Commission that various tyre companies adjusted their prices during the same time period within the same margins. Bridgestone rolled over and offered evidence against the other companies for conditional immunity from prosecution.

2. ANALYSE THE IMPACT OF THE FOLLOWING MACROECONOMIC ASPECTS ON MY BUSINESS:

i. INFLATION;

1. Consumer purchasing – if cost of services or prices of products increase too drastically, consumers will not purchase our products or make use of our services.
2. Price changes – When prices of products and service fluctuate, or business will need to spend money on printing costs, changes to advertising pages etc. This will negatively impact our business
3. Exchange rates – When inflation occurs, the dollar purchasing power drops in relation to other currencies. When the dollar rate drops, our cost for International products increase.

ii. CPI;

StatsSA is responsible for compiling, calculating and publishing CPI (Consumer Price Index) reports in South Africa. The index sets out prices of an average basket of goods and services during the same period in previous years. Should CPI increase faster than our profits, or our customers purchasing power, the amount of money we can use decreases, on the other hand if CPI exceeds the interest on our investments, it will erode our savings over time.

iii. UNEMPLOYMENT;

Our business will be affected by unemployment in the following way:

1. Demand for mediocre products – using substandard materials to keep costs down when buildin or renovating.
2. Less consumer spending – instead of renovating their kitchen and bathroom, the choose to do one or the other.
3. Insecurity in the workforce – this will lead to low morale and de-motivation among our workforce

iv. MONETARY POLICY;

Monetary policy in South Africa is set by the South African Reserve Bank(SARB) the aim of the monitary policy is to maintain price stability in the interest of sustainable and balance economic development. The focus is to create confidence in the economy, which ideally will lead to economic growth and job creation.

v. FISCAL POLICY;

Government uses their fiscal policy (Tax and Government spending) to guide the economy in the right direction by either decreasing or increasing the demand and availability of services and products. If government has a good handle on the fiscus and well thought out fiscal policy, our business will benefit, through investments, which in turn will grow our business leading to job creation and economic growth.

vi. BALANCE OF PAYMENTS;

When countries import more products, services and capital(investment) than they export, it creates a deficit in the balance of payments. This will result countries borrowing money to pay for everything they import.

DESCRIBE THE CONTINGENCIES YOU WOULD RECOMMEND TO THE BUSINESS TO ENSURE YOU ACHIEVE THE ORGANISATIONAL GOALS

o Use a “what-if” approach for incidents which is out of our control. We should identify potential scanrious that may affect our daily operations and how we will react the each scenario.

o We should then develop a plan, set goals on how to return to normal operations as soon as possible as well as keeping our staff informed of the plan. Ensure that our staff remain informed of any changes and remind them of their roles and responsibilities in the event of any eventualities.

4.A. DEFINE PRIVATISATION AND NATIONALISATION

o PRIVATISATION; this is the process of transferring ownership from a government owned company to the private sector, in other words the government either sells or gives up ownership of their company. In South Africa the government companies are calle SOE’s (State Owned Enterprises) suchs as Eskom, Telkom, SAA etc.

o NATIONALISATION; governments can take over private companies, industries and resources, with or without compensation. The argument for nationalisation include:

(a) to prevent the exploitation of labour or to prevent major retrenchments

(b) there should be a fair distribution of income from a countries natural resources

(c) to ensure the wealth that is generated remains in public control

B. THE FOLLOWING SUPPLIERS ARE PRIVATISED: ELECTRICITY, FINANCE AND REFUSE REMOVAL. CRITICALLY EVALUATE THE ADVANTAGES AND DISADVANTAGES OF THE 20% PROPOSED PRIVATISATION.

o Advantages: Currently any level of privatisation in the these sectors will be a welcome relief to consumers, aswel as government as it will reduce some of the immediate financial pressures felt by government. By partially privatising these sectors, will have funding which they didn’t have before, it will drive competition if a free market system is adhered to this in turn will result in price decreases for the consumer, increase efficiency and as more competitors enter the sectors, more people will be employed. Coupled with minimal government intervention, consumers will definitely reap the benefits.

o Disadvantages: Private companies main objective is to make money and keep their sharholders happy. This causes them to fail in their social responsibility to society. In private companie work performance by employees is key, there is a lot of pressure and emphasis meeting targets and deadlines. Those who have worked for years without pressure may find it difficult to addapt, which could result in them resigning.

C. WHAT WILL BE THE IMPACT ON YOUR BUSINESS? WHAT ACTION COULD YOUR BUSINESS TAKE TO ENSURE CONTINUITY THROUGHOUT THE PRIVATISATION

PROCESS

The impact on our business would be problematic if we cannot finance projects due to service disruptions in the financial sector, we will not be able to test run electricity installations on sites, which will result in us not being able to hand over projects. This means that we will not be paid, resulting in us not being able to pay our staff and suppliers.