

### **Absorption and marginal costing**

Before creating business plans or when evaluating existing ones it is important to 'scan' the external environment. This takes the form of a SLEPT analysis, i.e. an investigation of the Social, Legal, Economic, Political, and Technological influences on a business. In addition it is also important to be aware of the actions of your competitors. These forces are continually in a state of change. Social factors relate to pattern of behaviour, tastes, and lifestyles. A major component of this is a change in consumer behaviour resulting from changes in fashions and styles. The age structure of the population also alters over time (currently we have an ageing population). An understanding of social change gives business a better feel for the future market situation.

Laws are continually being updated in a wide range of areas, e.g. consumer protection legislation, environmental legislation, health & safety and employment law, etc. Businesses need to take a pro-active approach and be ahead of these changes, rather than hurriedly making alterations to products and processes in a reactive way.

Economic changes are closely related to social ones. The economy goes through a series of fluctuations associated with general booms and slumps in economic activity. In a boom nearly all businesses benefit and in a slump most lose out. Other economic changes that affect business include changes in the interest rate, wage rates, and the rate of inflation (i.e. general level of increase in prices). Businesses will be more encouraged to expand and take risks when economic conditions are right, e.g. low interest rates and rising demand.

Political changes relate to changes in government influence. In recent years these changes have been particularly significant because as members of the European Union we have to adopt directives and regulations created by the EU which then become part of UK law. Political changes are closely tied up with legal changes.

Changes in technology have also become particularly significant in the post-millennium world. This is particularly true in terms of modern communication technologies. The creation of databases and electronic communications have enabled vast quantities of information to be shared and quickly distributed in a modern company enabling vast cost reductions, and often improvements in service. Organisations need to be aware of the latest relevant technologies for their business and to surf the wave of change.

### **SLEPT analysis**

All industries are influenced by SLEPT factors. For example, some of the SLEPT factors affecting the airline industry in recent years include:

#### **Social**

Increased popularity of foreign travel leading to a boom in demand for air travel. However, this has been adversely affected by international terrorism.

#### **Legal**

There are increasingly tight rules about the materials that need to go into aircraft construction in order to make them safer and more resistant to fire hazards. This has had the impact of raising costs.

#### **Economic**

Lower interest rates, have meant that people have more disposable income to spend on luxuries like long distance air travel.

#### **Political**

The development of freedom of movement and trade in the European Union has led to greater levels of competition on

European routes coupled with increased movement of people.

Technological

Modern aircraft are safer and more economic to run than in the past making possible cheap air travel.

The interest rate is the cost of borrowing money. The interest rate is established each month by the Monetary Policy Committee, although there will be different interest rates for different types of credit, depending on such factors as risk and length of the credit arrangement.