GCSE Business
Business Activity

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Why do people want to set up their own business?

- **Personal ambition / satisfaction ➔** always wanted to do it ➔ building your own business may help individuals reach higher goals in life ➔ challenge ➔ opportunity
- **Interest ➔** may be passionate about the product or service they provide
- **To keep a family business running ➔** taken over from family member
- **Reward for own efforts ➔** to make profits ➔ earn income
- **Can exploit an opportunity**/identify a gap in the market to increase wealth
- **Provide a service to local community/** social enterprise
- **Use skills ➔** learnt in previous job / experience / interests / hobbies ➔ knows own strengths/weaknesses
- **Be own boss /** to be in control ➔ this will give greater flexibility than employment ➔ to be able to make own decisions
- **No work available ➔** to get a job ➔ may be no similar business locally ➔ high unemployment in area
- **Use qualifications ➔** gained in school / college or in previous job
- **Encouragement by external/government agencies** to set up own business ➔ support and advice offered by agencies ➔ e.g. GO Wales, Careers Wales, Prince's Trust
- **To use redundancy pay to take advantage of the opportunity to set up a business**
- **Easy to set up ➔** no qualifications needed ➔ no formal documentation ➔ may need limited finance ➔ site available

Business Enterprise

Definition: The formation of a new business or development of a new good or service to be introduced to the market.

Business Enterprise

Entrepreneur

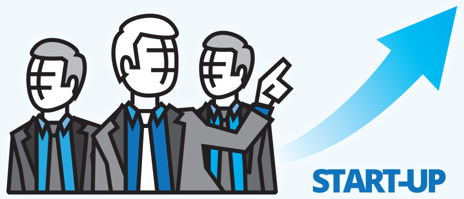
Definition: A person who sets up a business by taking on the financial risks in the hope of making a profit.

They are responsible for bringing together the other factors of production, land, labour and capital, to create a business.

This involves:

- Initiative ➔ Taking action
- Innovation ➔ Idea for a new good or service
- Identifying opportunities ➔ Spotting a gap in the market
- Organising resources ➔ Planning and using a range of resources e.g. raising finance, employing staff, buying materials

Functions of an Entrepreneur:



- They set up a business / they are the business owners / they run (manage) the business ➔ survival / success depends on their efforts
- They have the idea / show the initiative / innovation
- They take the risks / face the uncertainties / suffer the consequences of failure ➔ of e.g. not selling / low demand ➔ particularly with unlimited liability
- Qualities / characteristics of an entrepreneur ➔ determined / organised
- They invest / put money into the business
- They earn the profits / earn an income ➔ to fund their lifestyle ➔ to further invest

The Motives of Entrepreneurs

Financial
- Generate a profit
- Provide employment for self
- Financial security for self and family

Non-financial
- Self satisfaction/challenge
- Be own boss
- Fill a gap in the market
- Create employment for others

Social/community
- Social enterprises are those whose prime objective is to do good in society rather than to make a profit
- Surplus revenue is used to support a specific cause e.g. a children's charity or community group

REWARDS of being an Entrepreneur	RISKS of being an Entrepreneur
The potential personal and financial gains of being an entrepreneur	**The potential personal and financial losses facing an entrepreneur**
Be their own boss	Financial loss of income and money invested
Flexible working hours	Low sales
Pursue an interest	Unexpected costs e.g. rise in rent
Good customer feedback	Unexpected events e.g. new competitor
Earn more money (profit)	Potentially long hours and stress
Dissatisfaction with current job	Loss of security
Greater work life balance	Pressure on friends and family
Self- esteem from building something new	Damage to reputation if fail
Self- satisfaction	May lose home
Provide employment for self and others	

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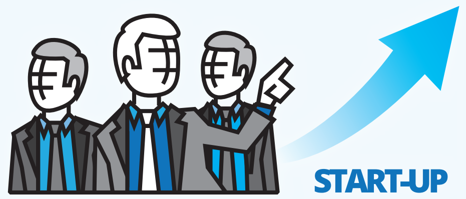

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Providing Goods and Services

Sectors of Industry

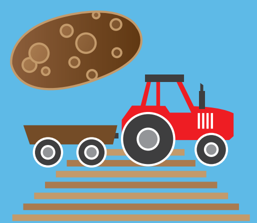
Primary: Where the *raw materials* are produced, e.g. farming, mining, forestry.

Secondary: Where the raw materials are *manufactured* into goods, e.g. factory.

Tertiary: Businesses in this sector *provide a service*, e.g. retailer, hotel, school.

Chain of Production: This process links the primary, secondary and tertiary sectors together in the production process.

PRIMARY → **SECONDARY** → **TERTIARY**



Factors of Production

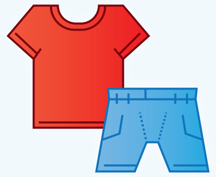
Land: The natural resources that are needed to produce goods.

Labour: Physical and mental element that is needed to produce goods and services.

Capital: The money (working capital) and fixed capital that is needed to produce goods and services.

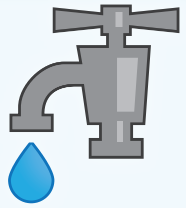
Enterprise: These people have the ideas to start a business and organise the other 3 factors of production.

Consumers



Definition: The final users of goods and services. They are at the end of the distribution channel.

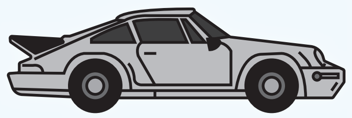
Needs



Definition: Items that you have to have in order to survive.

Examples: Food, Water, Warmth, Clothing, Shelter

Wants



Definition: Items that you would like to have but are not necessary to your survival. They enhance your lifestyle.

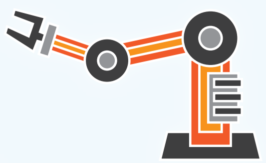
Examples: TV, mobile phone, holidays, cars

Goods

Definition: These are *tangible* items that you can physically touch.

Consumer Goods: Goods which are produced for the final consumer.
Examples: cars, food, clothes

Producer (Capital) Goods: Goods which are produced for other businesses to be able to produce other goods and services.
Examples: vehicles, computers, robots, furniture & fixtures



Durable Goods: Consumer goods which are not used at once and do not have to be bought frequently because they last for a long time.
Examples: TV, mobile phone, washing machine

Non-Durable (Single Use) Goods: Goods which are immediately consumed or which have a lifespan of less than three years.

Services

Definition: Things you cannot touch; they are non-physical intangible items.

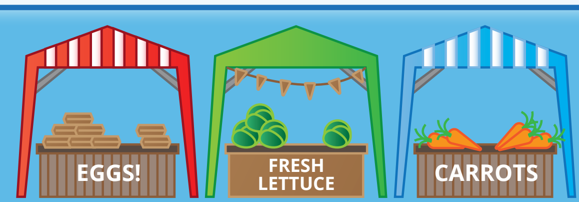
Examples: hairdressing, taxi service, education

Personal Services: Services provided for individuals.They include services for personal grooming, house maintenance, car repair etc.

Commercial Services: Services that provide mainly to businesses such as transport and warehousing, but they may also be available to individuals such as insurance and banking.

Markets

Definition: Where buyers and sellers meet in order to exchange goods and services, often for money.



Retailers

Definition: Sells goods to consumers. Small retailers buy their stock from wholesalers but large-scale retailers buy directly from manufacturers.

Functions of a Retailer:
- Display goods
- Promote goods
- Sell to consumers / sell goods and services
- Give customers advice / provide customer service
- Deal with faulty goods / complaints
- Distribute goods / deliver goods
- Buy from wholesalers / manufacturers / suppliers
- Break bulk / buy in large quantities and sell in small quantities
- Closer to consumer / Local
- Can offer credit

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Business Ownership

Public Sector

Definition: Organisations owned and controlled by the government.

Examples: NHS, Police, Education, Armed Forces

Aims & Objectives:
1. Provide a service
2. Improve accessibility to others
3. Avoid wasteful duplication of resources

Public sector	Private sector
Provides Public goods	Profit incentive to be efficient
Not affected by recession	Entrepreneurs create jobs where needed
Government jobs to protect environment	Less bureaucracy and scope for corruption
Helps reduce inequality in society	Doesen't require taxes to fund

Private Sector

Definition: Businesses run by private individuals

Examples: sole traders, partnerships, Ltd.'s and Plc.'s

Advice available to Start Up businesses

There are many places that people can go to when thinking of starting up a business. Examples include:

- **Business Wales**
  https://businesswales.gov.wales/
  This is a government run website-based information resource, for those individuals who are thinking of starting a business or wanting to grow their business and are seeking information, advice and guidance.

- **Commercial Banks**
  Many of the high street banks offer a dedicated service to small businesses and offer advice on how to construct a business plan and gain financial approval.

- **The Prince's Trust**
  https://www.princes-trust.org.uk/
  They work with 18 to 30-year-olds to turn big ideas into a business reality through their Enterprise programme and offer training and mentoring support to funding and resources.

- **British Chambers of Commerce**
  http://www.britishchambers.org.uk/
  They provide continued advice and support for local businesses. The BCC is a strong campaigning voice for the interests of business, delivers services that help business grow and is the premier private sector source of advice and support for international trade.

Unlimited Liability

Definition: Means that the owners of a business are responsible for all of the debts of a business. Personal belongings may need to be given up to pay the debts of the business.

Sole Trader

Definition: Businesses owned by one person who has unlimited liability. Other people can be employed but there is only one owner.

Advantages:
- ☑ **Profit** ➔ can keep all profit / no need to share
- ☑ **Making decisions** ➔ without consulting others / will be speedy
- ☑ **Own boss** ➔ free to choose / any example
- ☑ **Independence** ➔ can work at own pace
- ☑ **Easy to set up** ➔ few formalities ➔ therefore cheaper to set up
- ☑ **Have a job** ➔ may not be able to find one elsewhere

Disadvantages:
- ☒ **Unlimited liability** ➔ responsible for debts of the business
- ☒ **More responsibility** ➔ relies heavily on their own ability to make decisions ➔ may work long hours and have limited holidays, as there is no one to cover them
- ☒ **Limited sources of resources**

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Partnerships

Features:

- A business that is owned by between 2 and 20 people
- A business that is owned/run by at least 2 people
- An unincorporated business
- A business with unlimited liability

Advantages:

☑ **Raise more capital than sole traders** ➔ individuals may not be able to raise sufficient capital alone
☑ **Extra skills / expertise in business** ➔ may be able to specialise in aspects of business to provide a better service
☑ **More people to make decisions** ➔ more considered approach to running the business ➔ more ideas which may lead to success
☑ **Shared responsibility and more flexibility** ➔ reduce pressure on individuals such as duties / working hours ➔ able to take time off ➔ debts / losses can be shared
☑ **Easy to set up** ➔ may involve no legal requirements ➔ Deed of Partnership possible

Disadvantages:

☒ **Partners may disagree** ➔ time used up in discussion ➔ decisions take longer
☒ **Profits will be shared** ➔ compared to a sole trade where the owner can keep all profits to themselves
☒ **Some partners may not work as hard as others** ➔ may demoralise/ lead to arguments
☒ **Continuity** ➔ also applies to sole trader ➔ but effect on surviving partners if one leaves
☒ **The owners will still have unlimited liability** ➔ the partners will be held responsible for the debts of the business

Deed of Partnership

Definition: A legal document which is an agreement between partners that sets out the rules of the partnership, such as how profits will be divided and how the partnership will be valued if someone wants to leave.

It contains:

- Names of partners
- How profits are to be shared
- Suggests how it can help overcome partnership problems
- Shows proportion of ownership to determine distribution of profits
- Shows duties/responsibilities of partners indicating who does what
- Conditions for end of partnership to show distribution of assets
- Liability of partners in case of business debts

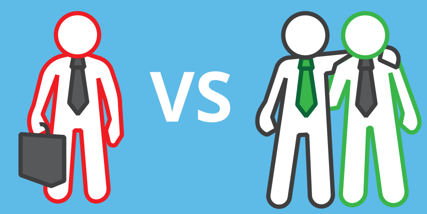
Suggest and explain two advantages to Sam and Mary of being in a business partnership

Suggestions comparing with sole trader might include:

- extra money to invest ➔ more people in business
- more skills/specialisation ➔ partners can do tasks for which best suited
- share workload ➔ share ideas ➔ two heads better than one
- can cover ➔ for holidays/illnesses etc.
- share risks/losses ➔ each can input own resources

Suggestions comparing with limited companies might include:

- business affairs kept private ➔ no need to publish accounts
- less chance of takeover ➔ no one can buy in without owner's permission



Why Move From A Sole Trader to a Partnership?

Arguments in favour of a partnership:

☑ **Potentially more capital** ➔ ideal for example if the business needs to find new premises as the current one is becoming too small
☑ **A new partner brings new skills**
☑ **Possibility of specialisation**
☑ **More ideas/problems can be shared**
☑ **Share workload** ➔ presents an opportunity to reduce working hours/take holidays
☑ **Avoids need to employ somebody** ➔ a risk ➔ new staff need training ➔ not sure of their capabilities

Arguments against forming a partnership (staying as a sole trader):

☒ **Original sole trader will lose their independence**
☒ **Will need to share profits** ➔ though possible to generate more
☒ **Could result in disagreements/quarrels.** Though many family businesses are successful others end in acrimony
☒ **Decision making potentially slower** ➔ need to consult/less flexibility
☒ **By employing a new worker the original sole trader could retain their independence** and also reduce their own working hours
☒ **If after a short time the new partner finds they want to leave the partnership, then the original sole trader is back to square one**

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Limited Liability

Definition: When the owners of a business are not responsible for the debts of a business. Personal belongings will not need to be given up to pay the debts of the business. The owners however will lose the money they invested in the business if it fails.

Private Limited Companies (LTD)

Definition: Businesses which are owned by shareholders who have limited liability. Their shares are not available to others except with the agreement of other shareholders. They are generally recognised with Ltd after the business name.

Advantages:
- ☑ **Limited liability** ➔ liable only for money invested ➔ if business fails ➔ the owner will not lose personal possessions
- ☑ **Continuity** ➔ business will not end if one of the shareholders / owners leave
- ☑ **More capital** ➔ by selling shares ➔ may be easier to get bank loans
- ☑ **Specialised management** ➔ shareholder / owners / managers can do the work they are skilled at
- ☑ **Divorce of ownership and control possible** ➔ the owner may not spend all time managing
- ☑ **Invited shareholders** ➔ able to maintain control

Disadvantages:
- ☒ **Legal procedure in setting up takes time and costs money**
- ☒ **Having to disclose the accounts** ➔ financial information filed with the Registrar can be looked at by the public/competitors
- ☒ **Profits have to be shared with the other shareholders**
- ☒ **Slower decision-making** ➔ especially if all shareholders have to be consulted

Public Limited Companies [Plc]

Definition: Businesses which are owned by shareholders who have limited liability. Their shares are available to others by selling to the general public often on the Stock Exchange. They are generally recognised with plc after the business name.

Advantages:
- ☑ **Limited liability** ➔ liable only for money invested ➔ if business fails ➔ the owner will not lose personal possessions
- ☑ **Continuity** ➔ business will not end if one of the shareholders / owners leave
- ☑ **More capital** ➔ by selling shares on the stock exchange ➔ may be easier to get bank loans
- ☑ **Specialised management** ➔ shareholder/owners /managers can do the work they are skilled at
- ☑ **Divorce of ownership and control possible** ➔ the owner may not spend all time managing
- ☑ **Invited shareholders** ➔ able to maintain control

Disadvantages:
- ☒ **Cost of setting up** ➔ with documents ➔ must have £50,000 share capital
- ☒ **Need to share profits** ➔ with shareholders
- ☒ **Affairs not kept private** ➔ need to publish accounts ➔ more expensive to produce
- ☒ **May lose control/may need to share decision making** ➔ if another shareholder gains majority control
- ☒ **Limited capital available** ➔ unable to use stock market/ reduced investors available
- ☒ **Restriction on share ownership** ➔ shareholders have to agree on sale of shares

Dividend

Definition: The term for the share of the profits of limited companies and Co-operatives.

Social Enterprises / Co-operatives

Social Enterprise: Businesses which operate for the benefit of the community, or its workers, or as a charity.

Co-operative: A business organisation that is owned by its customers / workers / producers / members ➔ they have a common purpose or aim ➔ they receive dividends ➔ they share /are consulted in decision-making

Examples: Big Issue, Eden Project, Co-operative, Devine Chocolate

Advantages:
- ☑ Community interested company
- ☑ Positive Public Relations
- ☑ Benefits society

Charities

Definition: Organisations set up to provide help and raise money for those disadvantaged in society.

NSPCC RSPCA WWF

They are not established to make profits but they can earn surpluses.

Charities can often have a narrow focus (single issue) in what they are trying to achieve.

Charities raise the majority of their finances through voluntary donations, but more and more charities now operate retail outlets as well.

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Business Aims and Objectives

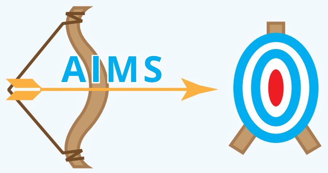
Aims and Objectives

Aims: Is the long term objective of the business. Its aim might be to become the biggest business in its sector.

Aims should be SMART:

<u>S</u>pecific – <u>M</u>easurable – <u>A</u>ttainable – <u>R</u>ealistic – <u>T</u>ime Manageable

Objectives: Is a short or medium term target of a business needed to reach its aim. An objective might be to increase sales by 20% in the next 5 years.

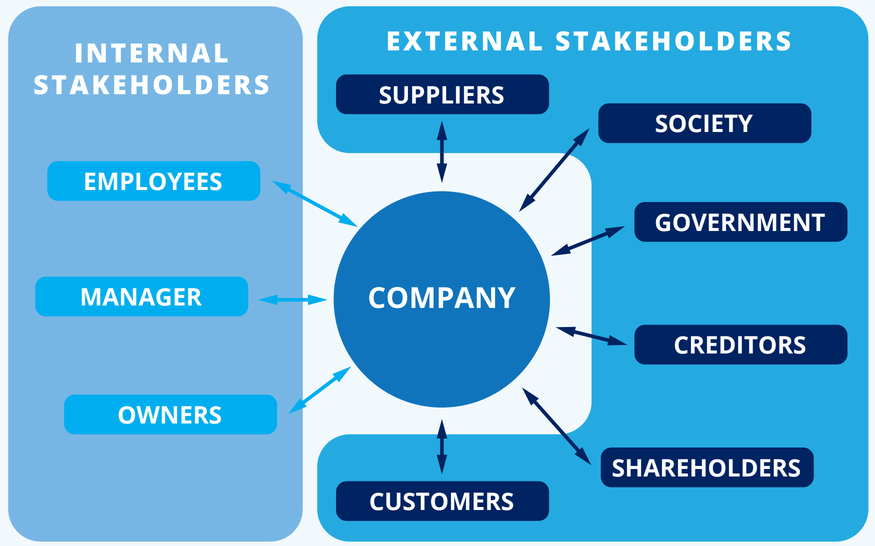


Aims of **For Profit** Organisations:
- Survival
- Profit maximisation
- Increase sales revenue / sales maximisation
- Increase market share / gain more customers / customer base
- Growth / expansion / diversification / multinational
- Improve reputation / increase brand awareness
- Improve quality / satisfy customers
- Environmental / ethical aims
- Provide jobs / community aims

Aims of **Not-For Profit** Organisations:
- To serve the community / ethical aims / environmental / social objectives / provide jobs
- To provide services
- To avoid wasteful duplication of resources where a natural monopoly exists, such as rubbish collection and beach cleaning
- To control strategic industries
- To prevent exploitation by monopoly suppliers
- To help people in need

Why do some businesses decide to remain small?

- **Some business owners do not want to grow / are content to operate as a small business ➔** without all the stresses and strains associated with a growing business ➔ examples such as; financial limitations, access to resources, management etc.
- **Small businesses can survive on a relatively low cost structure ➔** may operate from home ➔ have no stock holding costs etc.
- **Some serve niche markets and there is no scope for growth ➔** the market may not be possible to expand
- **Many services can be delivered more effectively on a small scale ➔** e.g. hairdressers, personal trainers, etc.
- **Some consumers like to purchase goods from specialist suppliers and outlets / small stores ➔** they may provide something unique / provide a personal service which some larger organisations struggle to achieve
- **Small businesses can adapt quicker than large businesses ➔** adapting to change quickly such as technology, fashion ➔ more able to satisfy customer needs effectively than a cumbersome plc



Stakeholders

Definition: Individuals and organisations who are affected by the decisions and actions of a particular business

- **Customers ➔** best quality / design / material from products bought ➔ may not buy the product
- **Workers ➔** fair treatment / pay / conditions ➔ may not be able to find employees ➔ hard working ➔ skilful
- **The government ➔** payment of taxes / keeping to various laws may add to costs
- **Pressure groups ➔** ethical source of materials / treatment of workers / the environment ➔ may effect way business is seen / costs / profits
- **Local community ➔** pollution / congestion ➔ effect on demand
- **Suppliers ➔** prompt payment / ethical treatment ➔ may not be willing to supply
- **Lenders / investors ➔** repayment of debts / interest ➔ may call in debts ➔ closure of business
- **Owners ➔** decision making effects on the business/examples
- **Competitors ➔** price wars

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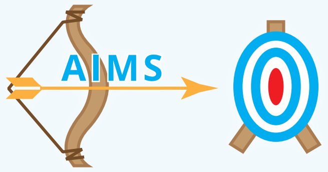

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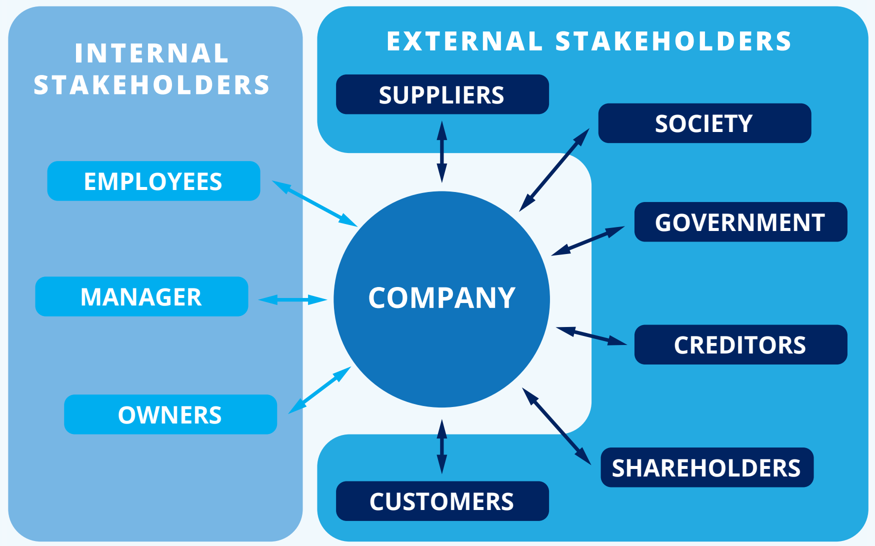

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- **The government ➔** payment of taxes / keeping to various laws may add to costs
- **Pressure groups ➔** ethical source of materials / treatment of workers / the environment ➔ may effect way business is seen / costs / profits
- **Local community ➔** pollution / congestion ➔ effect on demand
- **Suppliers ➔** prompt payment / ethical treatment ➔ may not be willing to supply
- **Lenders / investors ➔** repayment of debts / interest ➔ may call in debts ➔ closure of business
- **Owners ➔** decision making effects on the business/examples
- **Competitors ➔** price wars

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Business Location

Location and Site

Definition: Location is a geographical area where businesses may be found whilst the site is a specific place within a geographical area.

Factors to consider when deciding where to locate a business:

- Cost
- Availability of shop
- Suitability of shop / size of the premises / state of premises / facilities
- Infrastructure
- Closeness of shop to market / plenty of customers
- Ease of access for customers / for deliveries
- Passing trade / footfall

Footfall

Definition: The number of people passing close to the business. These are potential customers of that business.

Why locating near a competitor is not always a good thing

- **Similar businesses may be well known ➔** likely to have loyal customers ➔ who will not switch
- **Similar business may have wider range of goods ➔** customers more likely to visit competition
- **Similar business may have lower prices ➔** steal customers ➔ could start a price war
- **Potential for low sales ➔** difficult to attract customers

Factors to consider when locating a business

Positive factors to think about when deciding on a business location:

- **Cost of rent ➔** rent for out of town sites is often cheaper ➔ less than other sites e.g. in town centre
- **Transport links ➔** close to main road ➔ motorists will find location easily ➔ as will delivery vehicles
- **Easy access for customers ➔** is the entrance off a main road making it easy to find ➔ close to bus stops
- **Car parks ➔** enough space ➔ less congestion than town centres ➔ usually free parking in out of town sites
- **Easy access for delivery ➔** does not disrupt car parks/customers
- **Competition ➔** shops selling similar goods close by ➔ might attract customers looking for variety
- **Other businesses ➔** people shopping close by might be attracted to the business
- **Common services ➔** such as security, waste disposal

Negative factors to think about when deciding on a business location:

- **Competition ➔** similar businesses may be well known ➔ may have wider range of goods ➔ lower prices ➔ people may go to the town centre
- **Congestion ➔** with variety of businesses ➔ many people using centre ➔ car parks full ➔ customers previous bad experience
- **Distance to travel for customers** ➔ may be too far ➔ cost to travel ➔ availability of transport
- **Maybe more expensive ➔** than other locations
- **Must conform to standards of other businesses ➔** e.g. design of shop

Discuss the possible effects that a retail park shopping centre might have had on the nearby traditional local shopping area.

Positive Effects:

☑ **More customers attracted to area by the retail park shopping centre ➔** may want to visit traditional area
☑ **Lower rents in traditional area ➔** may be lower prices for customers ➔ new businesses attracted
☑ **Less congestion in traditional area ➔** may attract new customers ➔ better environment for locals
☑ **New businesses may open ➔** selling different products ➔ greater consumer choice
☑ **Locals may have greater range of goods ➔** lower prices
☑ **Employment opportunities ➔** may provide higher wages than local shops

Negative Effects:

☒ **Increased competition ➔** many businesses already in the retail park shopping centre
☒ **Centre larger ➔** greater range ➔ lower prices
☒ **May lead to closure of businesses ➔** empty shops appearance of traditional area ➔ more loss of custom ➔ locals may need to travel
☒ **More congestion on local roads ➔** more difficult for locals ➔ more difficult for businesses
☒ **Employment losses ➔** workers lost to new centre ➔ need to retrain

No Effect:

- **No loss of custom ➔** consumer loyalty ➔ service provided by local businesses ➔ village shops closer
- **Traditional area not close to main road ➔** no effect on traffic volumes
- **Different goods sold/speciality shops**

GCSE Business
Business Activity

Business Growth

Why do some businesses decide to grow?

- **Increase market share ➔** increase number of customers in comparison to competition ➔ increase sales revenue
- **Increase sales ➔** potential to increase profits
- **Potential economies of scale ➔** reduces costs ➔ increase profit ➔ examples such as purchasing, technical, financial and marketing
- **Gain competitive advantage ➔** example of how the business may gain an advantage such as; reducing costs, extensive advertising, access to more resources, etc.
- **Opportunity to spread risk ➔** selling a wide range of goods/services to wider market

Internal (Organic) Growth

Definition: Where the business grows by increasing the size of a business by increasing its sales, revenue, profits and workforce.

Advantages:

☑ Less risk than external growth (e.g. through mergers and takeovers)
☑ Can be financed through internal funds (e.g. retained profits)
☑ Builds on a business' existing strengths (e.g. brands, customers)
☑ Allows the business to grow at a more sensible rate in the long run

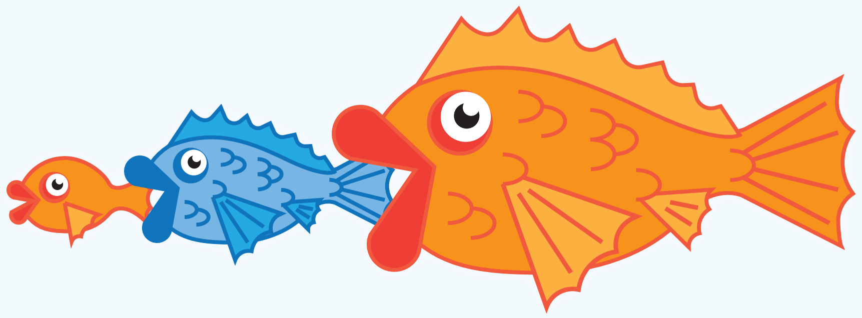
Disadvantages:

☒ Can take a long time ➔shareholders may prefer more rapid growth of revenues and profits
☒ Requires the owners to reinvest profits into the business
☒ Growth achieved may be dependent on the growth of the overall market
☒ Hard to build market share if business is already a leader

External Growth

Definition: Involves increasing the size of a business by buying other businesses.

1. **Merger ➔** When two or more businesses join together to form a new business.
2. **Takeover (or Acquisition) ➔** When one business gains control of another.



Advantages:

☑ Faster growth
☑ Speed of access to new products or markets
☑ Increase market share and market power
☑ Economies of scale
☑ Make use of the strengths of each business
☑ Invest in fast growing emerging markets

Disadvantages:

☒ The merger or takeover does not always work ➔ it is difficult to make two different businesses work as one
☒ A takeover can result in creating a bad feeling between the new workforce ➔ some takeovers are hostile (where the business being taken over does not want to be) ➔ the takeover can often result in redundancies
☒ The cultures of the two businesses may be very different ➔ it will be very difficult to agree on the new culture of the business

Diversification

Definition: Allows a business to enter a different market in addition to the one they are already involved in. This enables the business to spread its risks should the original business fail.

How can the size of a business be measured?

- **Value of sales ➔** the value of a firm's sales is also called its revenue or turnover ➔ the bigger the turnover, the bigger the business
- **Value of the business ➔** how much is the business worth ➔ has the value of the share price increased?
- **Number of employees ➔** how many employees do they employ ➔ has this number increased?

Effect of a takeover on various stakeholders

Workers:

- Loss of jobs ➔ if closure of factories/offices ➔ redundancies
- New skills may be needed ➔ need to retrain
- Higher incomes ➔ larger firm ➔ more responsibility posts ➔ promotion
- Relocation ➔ need to move to keep jobs ➔ e.g. problems of relocation
- Re-apply for jobs ➔ application forms/CV's ➔interviews

Customers:

- Bigger business ➔ economies of scale ➔ lower costs ➔ lower prices
- Less choice ➔ possible reduction in outlets ➔ higher prices
- Less development/innovation

Shareholders

- Economies of scale ➔ lower costs ➔ increased revenue ➔ greater profits
- Higher dividends ➔ higher share value
- Error in takeover ➔ may lead to lower profits
- Fall in share value ➔ lower dividends
- Increased market share ➔ resulting in larger profits

Types of Integration

Vertical Forwards Integration

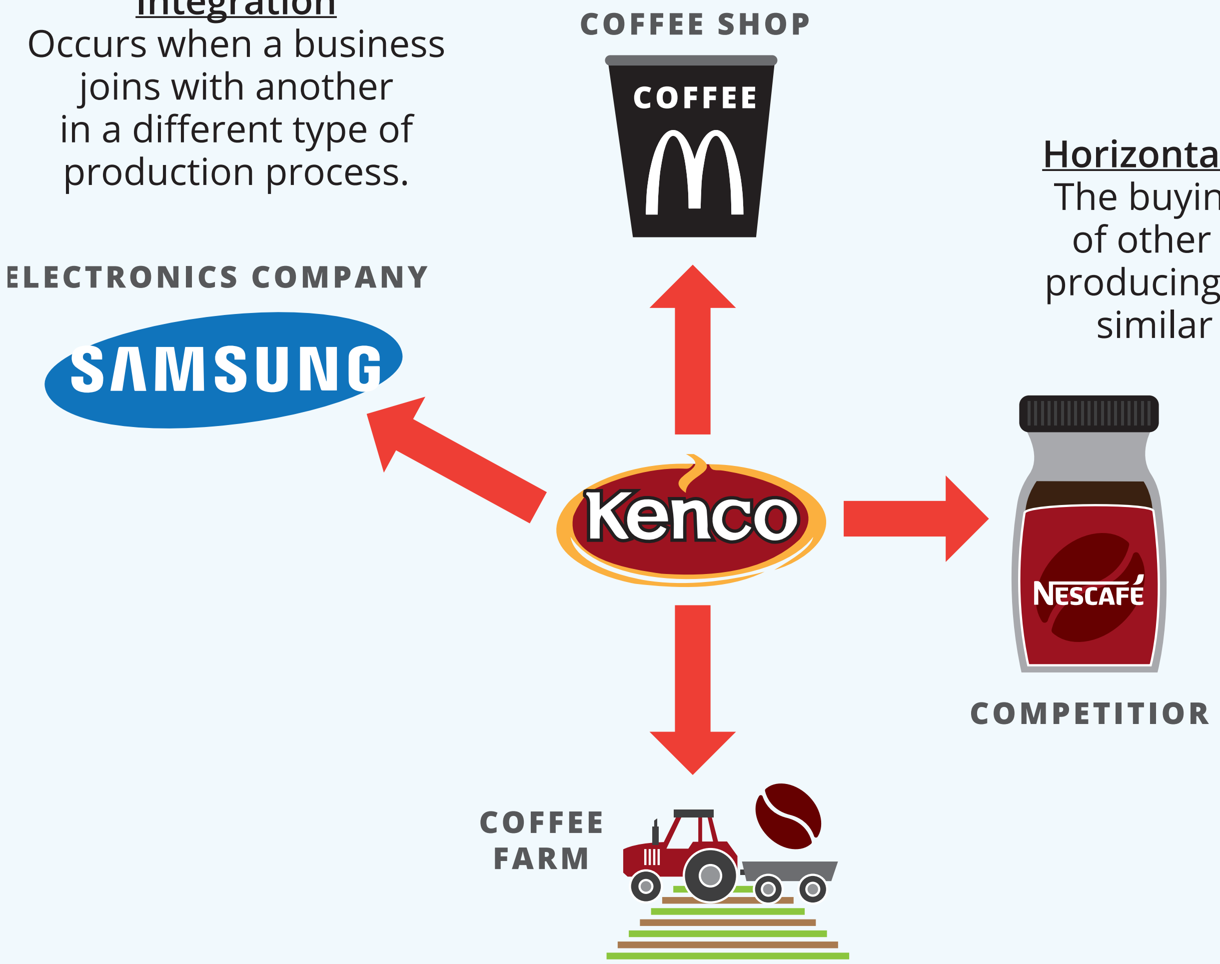
Occurs when a business takes over another business to control the direct distribution of a business' products.

Conglomerate Integration

Occurs when a business joins with another in a different type of production process.

Horizontal Integration

The buying or merger of other businesses producing the same or similar products.



Vertical Backwards Integration

Occurs when the suppliers of a business are taken over by that business.

Benefit from owning businesses at different stages of production

- Control over production ➔ type e.g. petrol or diesel ➔ quality and quantity ➔ can decide on how much to produce ➔ control over costs
- Control over sales ➔ where to sell ➔ type of advertising ➔ amount of advertising ➔ price ➔ based on competition or market
- Take money at each stage of production ➔ added value ➔ earn greater profits
- Economics of scale ➔ lower unit costs, example in context
- Rationalisation
- Diversification ➔ reduced risks

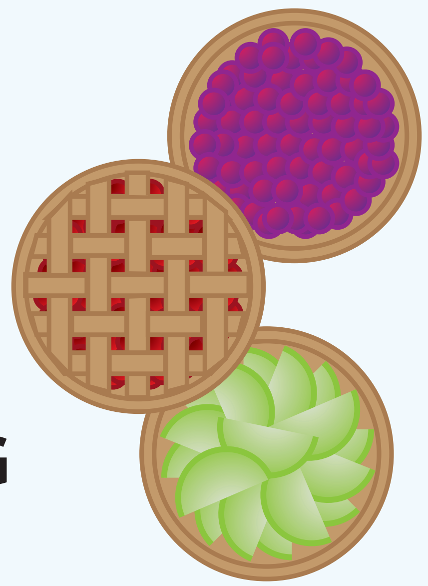
Internal Economies of Scale

Definition: The benefits a business gains as a result of being large. All costs can be spread between the large number of goods produced so the cost per good is lower than for smaller businesses.

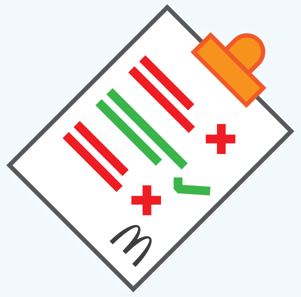
- Risk Bearing ➔ selling the product to wider / more markets ➔ if one market fails then they can still get sales from other markets
- Financial ➔ can borrow large sums of money ➔ can negotiate lower rates of interest ➔ obtain more investment reducing costs and increasing profits
- Managerial ➔ as a business increases its output there is a need for large administrative / hierarchy / specialist departments so can spread cost over all goods sold / produced
- Technical ➔ can use machinery 24/7 ➔ efficient costs spread over all goods produced so cost of each good produced is lower
- Marketing ➔ as a business increases its output it can afford more expensive advertising campaigns e.g. on TV which are seen by more people, so sales increase or cost of advertising can be spread over more goods so the cost per view is lower
- Purchasing/Bulk Buying ➔ the more goods bought the lower the average cost of each good / cost per unit

INTERNAL ECONOMIES OF SCALE

REALLY — RISK
FUN — FINANCIAL
MUMS — MANAGERIAL
TRY — TECHNICAL
MAKING — MARKETING
PIES — PURCHASING



Franchise



Definition: The right given by one business to another to sell goods or services using its name. They should be seen as a method of growth for the franchisor and a business opportunity for the franchisee rather than a type of business organisation.

Franchisor

Definition: A business which allows a franchisee to sell using their processes, experience and name in return for royalties.

Advantages:
- ☑ **Enables growth** ➔ with less risk to franchisor ➔ becomes more widely known ➔ quicker than internal growth
- ☑ **Franchisor receives money** ➔ as franchisees pay royalties ➔ start up fees
- ☑ **Franchisee must buy stock from franchisor** ➔ increased revenue/profit for franchisor
- ☑ **Franchisee may be more enthusiastic than company manager** ➔ benefits sales ➔ profits ➔ reputation ➔ of franchisor
- ☑ **Franchisee organises outlet** ➔ finds location/site ➔ planning permission ➔ pays rent ➔ pays for fittings/decoration ➔ so costs lower
- ☑ **Franchisee organises workforce** ➔ recruits ➔ pays wages ➔ complies with employment law etc.

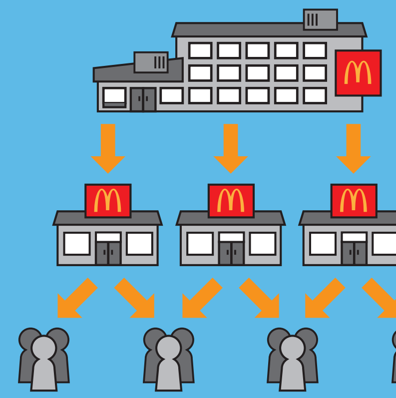
Disadvantages:
- ☒ **Franchisor pays some costs** ➔ training ➔ advertising ➔ design
- ☒ **Less control over franchised outlet** ➔ as run by franchisee
- ☒ **Franchisor may suffer** ➔ badly run by franchisees ➔ bad publicity for one affects all

Franchisee

Definition: A business which pays royalties for the right to sell goods or services using established processes and under the name of another business.

Advantages:
- ☑ **Business model** ➔ well-known name ➔ more customers for franchisee based on reputation of franchise
- ☑ **Training received** ➔ franchisor able to pass on knowledge / skills to franchisee ➔ to give quality of service
- ☑ **Advertising by franchisor** ➔ sometimes on national scale ➔ franchise becomes better known
- ☑ **Well known name** ➔ means more customers for franchisee ➔ based on reputation of franchise
- ☑ **Equipment provided by franchisor** ➔ to have quality / corporate image
- ☑ **Advice** ➔ from franchisor with experience in the business
- ☑ **Finance may be provided** ➔ sometimes at favourable interest
- ☑ **Exclusive area** ➔ so franchisee does not face competition from similar business
- ☑ **Goods to sell bought from franchisor** ➔ so no need to find supplier ➔ common standard
- ☑ **Process of making** ➔ as efficiently as possible/ expertise

Disadvantages:
- ☒ **Set up cost paid to franchisor** ➔ to be able to join franchise
- ☒ **Monthly royalties / fee paid to franchisor** ➔ may reduce profits
- ☒ **Little freedom to operate** ➔ as area ➔ and goods sold chosen by franchisee
- ☒ **May suffer from bad reputation of other franchisees** ➔ who may provide bad service
- ☒ **Difficult to go through qualification** ➔ selection process



Expanding via franchising or opening own stores

Benefits of expansion through franchising:
- many businesses already have a large number of franchises ➔ evidence suggests that they are successful
- receipt of royalties
- no need to find finance to set up ➔ role of franchisee
- no need to find sites ➔ role of franchisee
- able to expand the market and sales quickly
- expansion can be achieved relatively cheaply
- employees are responsibility of franchisee
- can take advantage of enthusiasm/ commitment of franchisees
- do not suffer losses of individual outlets
- do not have effort/cost of running individual outlets
- spreading of risks
- statistics tend to suggest that franchise businesses generally do well

Benefits of expansion through opening of own shops:
- retain independence and in control of expansion
- will keep all profits
- if set up franchises less control over quality ➔ need to monitor
- operations of franchisees
- avoids training and administration associated with setting up franchises
- can reap benefits from economies of scale

Suggest and explain one benefit and one problem the business has from owning its own shops rather than selling through shops owned by other businesses.

Benefits might include:

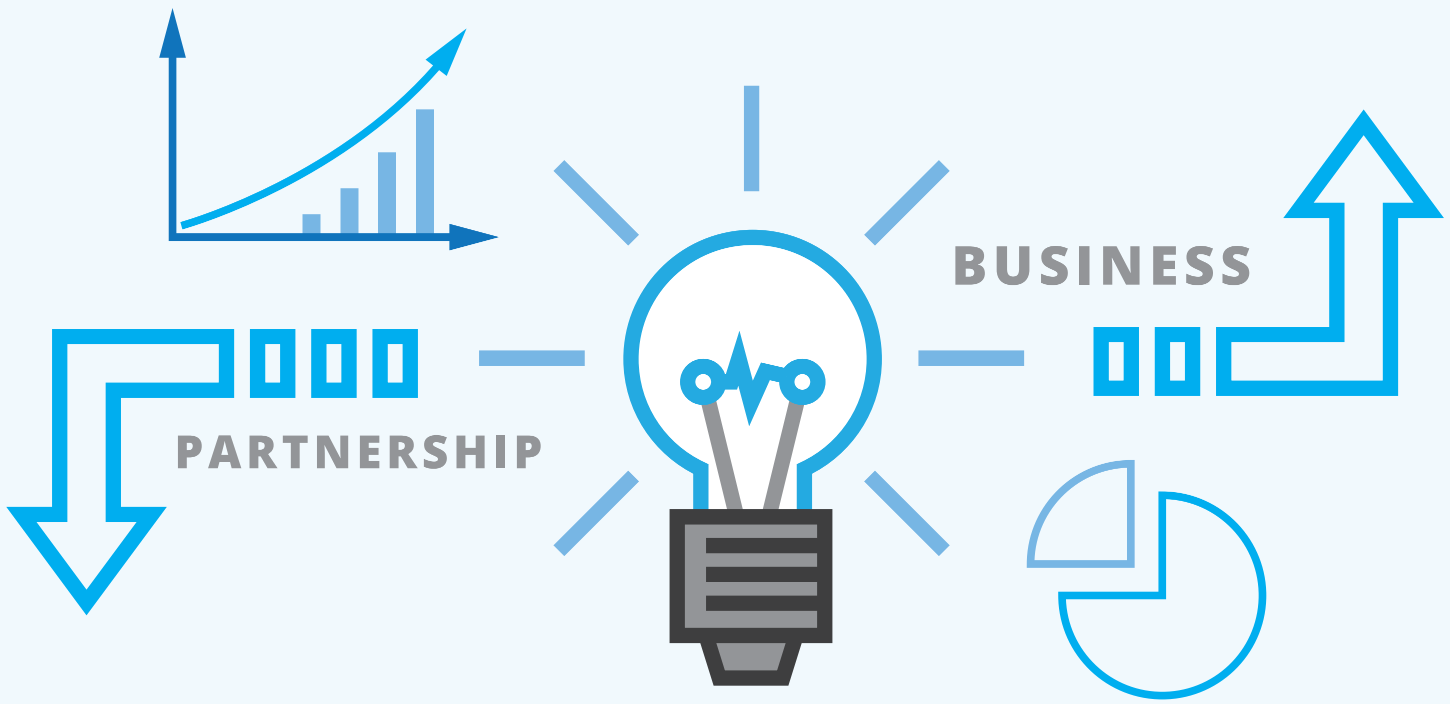
- ☑ **Control over how products are sold/ displayed** ➔ marketing /image
- ☑ **Control over selling price** ➔ customers not being charged too much ➔ or being charged too little
- ☑ **Maximise profit** ➔ made from sales ➔ as well as production
- ☑ **Immediate feedback from customers** ➔ on what is required ➔ on what is sold
- ☑ **Staff trained** ➔ on specific products ➔ and will promote own products

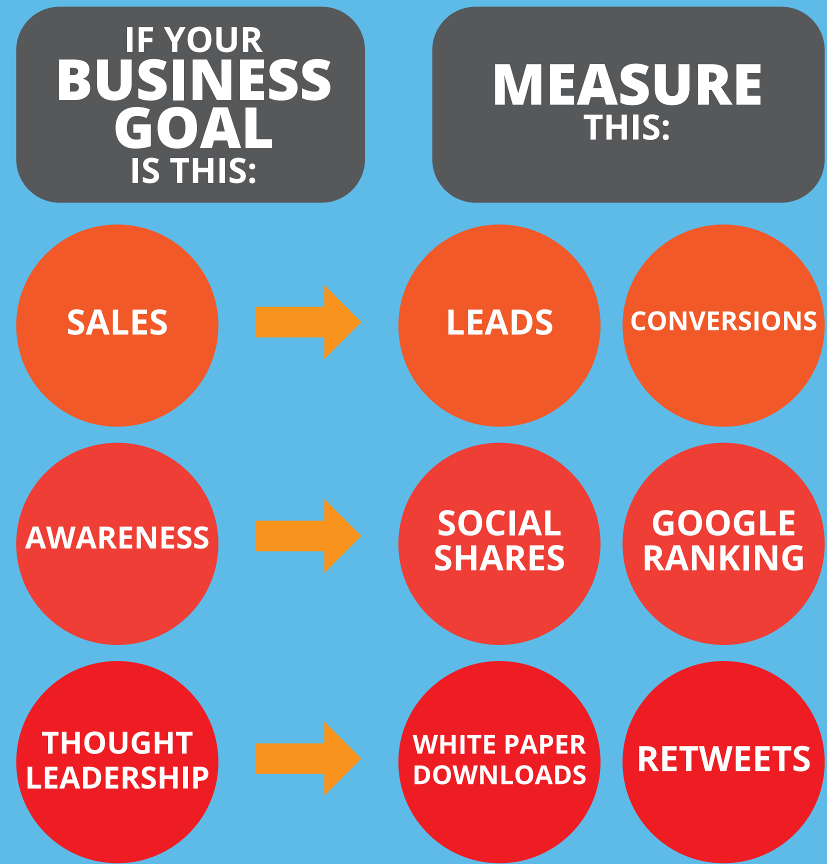
Problems might include:

- ☒ **Fewer customers** ➔ fewer selling opportunities
- ☒ **Extra costs of setting up** ➔ renting/buying shop ➔ fixtures/fittings
- ☒ **Problems in finding premises** ➔ suitable location ➔ planning permission
- ☒ **Staff training** ➔ expertise ➔ cost ➔ recruitment
- ☒ **Owners skills** ➔ in production rather than retailing ➔may not be so efficient
- ☒ **Leftover stock** ➔ problem for producer
- ☒ **Selling costs borne by manufacturer** ➔ e.g. rent/electricity/business rates, promotion costs

How can the success of a business be measured?

- **Profits / profit and loss account** ➔ compared with previous time period ➔ against targets ➔ compared with competitors ➔ is net % profit greater
- **Increase in sales/turnover/rate of turnover** ➔ due to improved marketing ➔ was cost worth it?
- **Increase in the number of customers** ➔ indicating greater customer satisfaction
- **Increase in scale of production** ➔ growth ➔ more workers ➔ organic/ internal ➔ acquisitions ➔ possibly leading to economies of scale
- **Ask customers opinions** ➔ customer satisfaction/customer feedback
- **Compare financial results with targets** ➔ is business performing better than expected ➔ Increased market share ➔ how much of the total market does business supply ➔ has it increased?
- **Low staff turnover** ➔ employer loyalty ➔ job satisfaction
- **Meet objectives**





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Business Activity

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Business Planning, Revenues and Costs

The Business Plan

Definition: Helps in decision-making by showing the aims and objectives of a business and the strategies and requirements needed to achieve these. It also provides information to banks and other possible providers of finance to persuade these to grant loans and other monies to the business.

Why draw one up?:

- It will be needed by banks before lending money
- It shows how the business will be run
- It shows the business has been researched and thought through
- It shows opportunities and problems

Contents of the business plan:

- **Aims of business / mission statement ➔** give the business direction / goal ➔ motivate workers / management
- **Cash flow forecast / projected sales / projected costs ➔** banks / suppliers can see if business can pay them back ➔ management / owners can make decisions from them
- **Owners CV ➔** identify if they have the skills / experience to make business work
- **Type of ownership ➔** assess the liability v assess the advantages and disadvantages for the running of the business
- **Marketing ➔** outline the marketing mix /how the business will set price / product/ range/ attract customers / market research
- **Location / premises ➔** to assess suitability in relation to main factors / examples
- **Financial information ➔** how much is needed ➔ cash flow ➔ balance sheet / assets and liabilities ➔ profit and loss account / profit ➔ anticipated sales / revenues / earnings ➔ any reference to costs /e.g. wages ➔ available / alternative finance e.g. personal savings ➔ existing debt

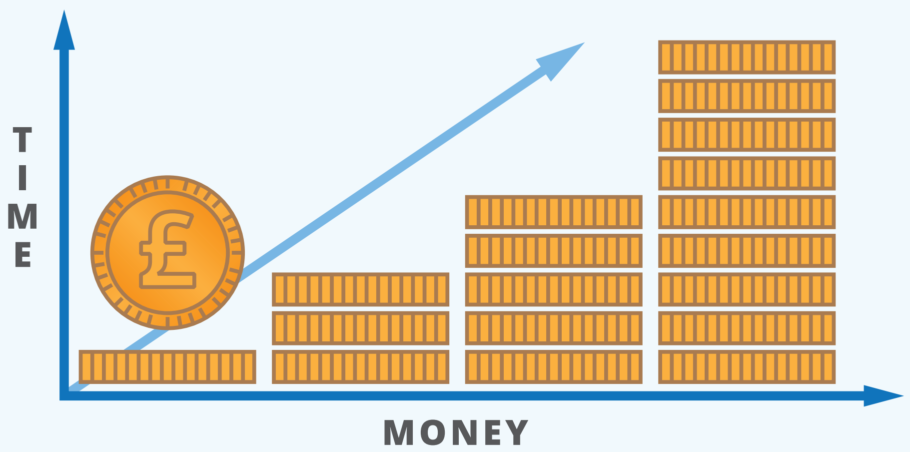
Turnover (Revenue)

Definition: The amount of money taken in by a business when selling a good or a service.

Calculation: Selling Price × Quantity Sold

Ways to improve turnover:

- **Increase price ➔** make more revenue per item sold
- **Reduce price ➔** may create demand / sell more goods to increase total revenue
- **Increase promotion / advertising ➔** may attract more customers / sales



Fixed Costs

Definition: Costs which always stay the same no matter how many goods are produced.

Examples:

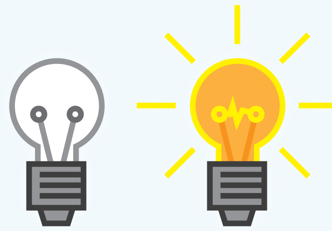
- Rent for the shop
- Monthly lease on equipment and machinery
- Payment of business rates on premises

Variable Costs

Definition: A cost that changes with the number of goods produced / sold / output

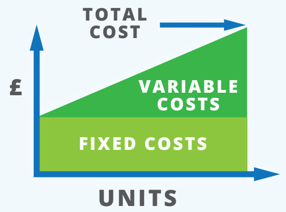
Examples:

- Raw materials
- Electricity and gas



Total Costs

Definition: Is the full amount of money spent by a business when producing the goods sold in a particular period. It is calculated by adding its fixed costs to its variable costs.



Calculation: Fixed Costs + Variable Costs

Profit

Definition: Is the difference between the total revenue of a business and the total costs of a business, when revenue is greater than cost.

Calculation: Total Revenue – Total Costs

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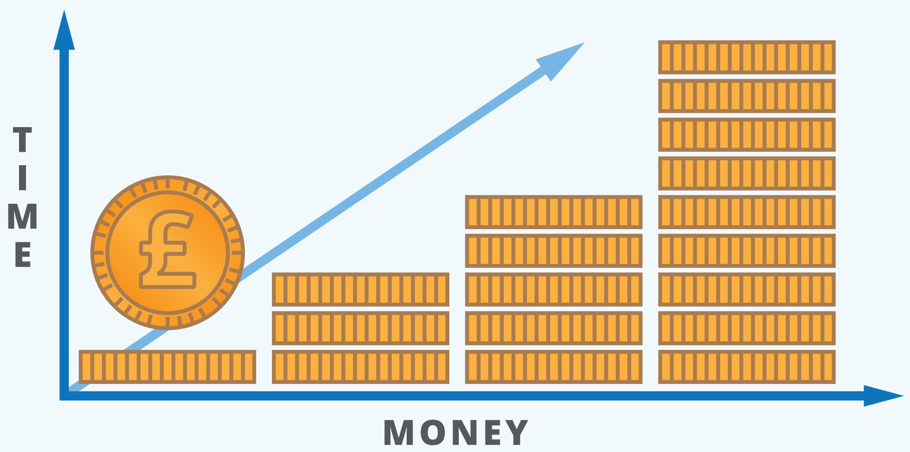

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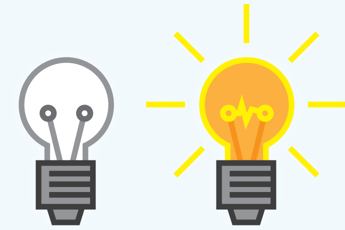

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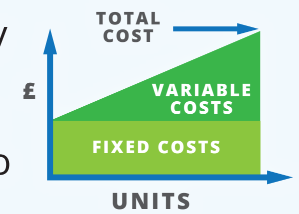

Calculation: Fixed Costs + Variable Costs

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