Unit 2 Growing a Business:
• Introduces the issues involved in growing a business
• Looks at what businesses do grow
• Explores the different perspectives of the various stakeholders involved in a Business
• 1 hour examination, 60 marks, 35% of GCSE

Topics:
1. Expanding a business Page 2 - 25
• Starting

2. Marketing Page 26 - 38
• Conducting Market Research With Limited Budgets
• Using The Marketing Mix

3. Finance
• Finance & Support For A Small Business
• Financial Terms & Simple Calculations
• Using Cash flow

4. People in Business
• Recruiting
• Motivating Staff
• Protecting Staff Through Understanding Legislation

5. Operations Management
• Production Methods For Manufacturing & Providing A Service
• Customer Service
Expanding a business

Benefits of expansion:

- **Diversification** – larger firms can afford to produce more profits than smaller firms. They are able to sell into different markets, reducing the risk that a decline in sales of one product will harm the business, less threat to profits
- **Financial support** – larger firms are less likely to fail than smaller firms, they are able to borrow money easily from banks so they will find it easier to survive flow problems. More likely to get financial support
- **Personal vanity** – owners enjoy the power and status that comes from owning a large business
- **Domination of the market** – the larger the market share a firm has, the more it can control the price of its product and it has fewer threats
- **Economies of scale** – larger firms can produce at a lower average cost, they pass on economies of scale to customers, lower prices increases sales, increasing market share and increasing profits

Summarised: Increase profit, status, reputation, market share. Reduce competition. Achieve economies of scale. Expand into other markets

Risks of expansion:

- Owner could lose control
- Harder to remain close to customers
- Harder and slower to make decisions for the whole business
- More stakeholders to satisfy
- If a firm reduces its prices by too high a margin then it could result in no increase in profit

Methods of Expansion

**Organic/Internal Growth** – growing the business from within, increasing sales by using a business’s own internal resources

- Could produce more of its current products to sell into existing markets
- Can sell its current products into new markets
- Could launch a new product which is a similar product to existing – **line extension**
- Or they could launch a completely new product – **diversification**

**Inorganic/External Growth** – expansion outside of the business

- **Takeover** – when one business buys out another business
- **Merger** – when two separate businesses agree to become a single business
- **Franchising** – selling the right to use your businesses idea and brand name to another business
Different types of takeovers and mergers

Mergers/takeovers can be horizontal, vertical or conglomerate.

**Horizontal Integration:** This is a merger/takeover of when the business sells to the same good/service at the same stage of the chain of production

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapid growth</td>
<td>Clash of cultures</td>
</tr>
<tr>
<td>Higher revenue</td>
<td>Financing the deal</td>
</tr>
<tr>
<td>Higher profit</td>
<td>Diseconomies of scale</td>
</tr>
<tr>
<td>Greater market power</td>
<td>Regulatory problems</td>
</tr>
<tr>
<td>Reduce competition</td>
<td></td>
</tr>
<tr>
<td>Economies of scale</td>
<td></td>
</tr>
<tr>
<td>New markets</td>
<td></td>
</tr>
</tbody>
</table>

e.g.) Nissan and Ford // Bah Humbug and Sweet Thing

**Vertical Integration:** This is when a business merges with another business at a different stage of production.

**Forwards:** A merger/takeover of a business which is at a later stage of the chain of the production, it is the business distributor/customer

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduces transportation costs</td>
<td>Clash of cultures</td>
</tr>
<tr>
<td>Diversification into other markets</td>
<td>Financing the deal</td>
</tr>
<tr>
<td>Ensures a supplier and a customer</td>
<td>Diseconomies of scale</td>
</tr>
<tr>
<td></td>
<td>Regulatory problems</td>
</tr>
</tbody>
</table>

e.g.) Car factory takeover car dealership

**Backwards:** A merger/takeover of a business which is at an earlier stage of the chain of production, so it’s the businesses supplier

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td></td>
<td>Clash of cultures</td>
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<tr>
<td></td>
<td>Financing the deal</td>
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<tr>
<td></td>
<td>Diseconomies of scale</td>
</tr>
<tr>
<td></td>
<td>Regulatory problems</td>
</tr>
</tbody>
</table>

e.g.) A Beer manufacturer buying a Hop Garden

**Conglomerate Integration:** This is a merger/takeover between two businesses that sell different goods/services

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversification – wider range of products, spreads the risk of trading</td>
<td>More risky as business might make mistakes as it’s not familiar with new industry</td>
</tr>
<tr>
<td>Economies of scale</td>
<td></td>
</tr>
</tbody>
</table>

e.g.) Car factory takeover toy factor
Impact on Stakeholders

**Key Terms**

**STAKEHOLDER**: anyone with an interest in the business

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners</td>
<td>Increase profit, Reduce risk</td>
<td>Less control</td>
</tr>
<tr>
<td>Workers</td>
<td>Greater job security, More opportunity, Increased chance of larger wage/promotion</td>
<td>Less involved, Less personal, Less multitasking, More demanding</td>
</tr>
<tr>
<td>Customers</td>
<td>Economies of scale (lower prices), Bigger product range</td>
<td>Fewer competition, higher prices, Powerless to influence</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Increased sales, Increased profit, Opportunity to supply other things</td>
<td>Weaker position when regulating prices, More competitions want to supply larger firms, Pressure</td>
</tr>
<tr>
<td>Bank</td>
<td>Earn more interest, Receive more money as profit may be invested into bank</td>
<td>Bigger risk as larger amounts of money</td>
</tr>
<tr>
<td>Government</td>
<td>More taxes, Investigate large firms</td>
<td>Business could become so powerful that it becomes hard to pass laws that threaten the interests, Could prevent small businesses growing</td>
</tr>
</tbody>
</table>
Choosing the Right Legal Structure for the Business

Private Limited Companies (LTD)

Medium to large size business owned by private share holders

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited liability</td>
<td>Expensive</td>
</tr>
<tr>
<td>Better status</td>
<td>Register with Government and send them accounts</td>
</tr>
<tr>
<td>Continues after death of founders</td>
<td>Competitors can view your accounts</td>
</tr>
<tr>
<td>Controls who buys shares</td>
<td>Not full control</td>
</tr>
<tr>
<td>Can buy in bulk, economies of scale</td>
<td></td>
</tr>
</tbody>
</table>

Public Limited Companies (PLC)

Large business that sells shares to the public

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited liability</td>
<td>Media covers mistakes</td>
</tr>
<tr>
<td>Sells shares to the public</td>
<td>Can’t control who buys shares</td>
</tr>
<tr>
<td>Lots of shares that are regularly invested</td>
<td>Risk of losing business</td>
</tr>
<tr>
<td>Media coverage</td>
<td>Original owner may not agree with new owners</td>
</tr>
</tbody>
</table>

Changing Business Aims and Objectives

Corporate Objectives

About the business as a whole; usually set by the top management. Provides the focus for setting more detailed objectives. Focuses on the desired performance and results of the business. Covers a range of key areas where the business wants to achieve: big/main objective. E.g. market share of 12%

Functional Objectives

Set for each major business function and they’re designed to ensure that the corporate objectives are achieved. These help to reach corporate objectives. Business functions are different areas within the business: marketing, finance and human resources. E.g. sales per customer of £45

Ethical and Environmental Considerations

- Does the company recycle and if so how much?
- What does the company do to conserve energy?
- How does the company control its emission level?

Bigger businesses are more likely to have a large pressure placed upon them to behave in an ‘ethical’ way and make sure they protect the environment. They are better known than smaller businesses so people are more interested, the media also pay them more attention.

Business ethics: refers to whether a business decision is seen as morally right or wrong, an ethical decision is made on the basis of what you think is right.

Ethical issues consist of: animal testing, waste disposal, fair trade, child labour and pollution.
To be ethical, a business could; donate to charity, pay people fairly, use fair-trade materials and use renewable energy sources.

Choosing the Best Location

Why expand overseas?

- Transport costs to a minimum
- Local market conditions knowledge
- Avoid trade barriers by producing inside a country
- Reduce risk from foreign exchange fluctuations
- Gain access to raw materials/cheap labour
- Potentially could avoid paying tax (employ expert accountants and shuffle money between countries)
- Win subsidies from government and force workers to accept lower wages by threatening to relocate

Consider: passing trade, competition, plot size, cost of land, transport links, proximity to suppliers, target market, complimentary businesses

Disadvantages? Language barriers, increased transport costs, loss of UK jobs (unethical, receive bad publicity) and low wage country decision could be seen as unethical

Exam practice

June 2011

Fine Tune Aerials Ltd

*Fine Tune Aerials Ltd* is a private limited company that was set up in 1990. The company installs television aerials and satellite dishes for customers living in and around Preston in the north of England. There are four similar businesses in the town. *Fine Tune Aerials Ltd* has the objective of doubling its sales revenue in the next five years. It is considering relocating to a larger city, such as Manchester or Liverpool. The manager of the company believes that the move would help *Fine Tune Aerials Ltd* achieve this objective.

What does it mean if a company has limited liability?

How does having an objective help *Fine Tune Aerials Ltd*?

Explain the benefits to *Fine Tune Aerials Ltd* of growing in size.

Do you think that *Fine Tune Aerials Ltd* should relocate to a larger city? Use the above data to justify your answer.
Marketing

The Marketing Mix

Product

A product portfolio is the range of different products a firm sells, they may do this to compete or grow.
Wide portfolio: spreads risk, more sales, economies of scale, more marketing costs, reach more customers, management harder, one bad product could harm other products and high research/development costs.
Narrow portfolio: limited market, economies of scale, specialisation, limited customers and hard to get repeat sales.

Boston Matrix:

Market Growth: Are the numbers of potential customers in the market growing or not?

Market Share: Does the product being sold have a low or high market share?

![Boston Matrix Diagram]
**Product Life Cycle:**

- **Introduction** – researching, developing and then launching the product
- **Growth** – when sales are increasing at their fastest rate
- **Maturity** – sales are near their highest, but the rate of growth is slowing down, e.g. new competitors in market or saturation
- **Decline** – final stage of the cycle, when sales begin to fall

Extension strategies extend the life of the product before it goes into decline. Again businesses use marketing techniques to improve sales. Examples of the techniques are:

- Advertising – try to gain a new audience or remind the current audience
- Price reduction – more attractive to customers
- Adding value – add new features to the current product, e.g. video messaging on mobile phones
- Explore new markets – try selling abroad
- New packaging – brightening up old packaging, or subtle changes such as putting crisps in foil packets or Seventies music compilations

**Price**

Pricing decisions are based on: degree of competition, nature of the market and cost of production

Prices affect affordability, impression and competitiveness

**Pricing strategies:**

- **Competitive Pricing**: setting a price for a product based on prices charged by competitors
- **Price skimming**: setting a high price at a high level to create a high quality and exclusive image
- **Penetration Pricing**: setting price at a low level to gain greater market share
- **Cost plus Pricing**: setting a price by adding a profit market up to the total cost of producing a product
- **Loss leader Pricing**: making minimal profit on certain profits to get more profit on others
- **Psychological Pricing**: pricing at a trivially lower price to create the illusion of cheapness, e.g. 99p instead of £1
Key Terms

Promotion

Sales promotion: discounts, product trials, free gifts, bogof, competitions, point-of-sale advertising, and use of credit

Direct marketing: goes straight to customer, invited to make direct response, can measure success

Sponsorship: businesses can sometimes help to pay for events such as sport competitions, TV shows or exhibitions, arts-theatres, art galleries, concert halls, makes businesses look classy. Creates high profile, yet if what you're sponsoring gets bad publicity your company's image suffers too

Advertising: TV, radio, internet, billboards

Key Terms

Place

Channels of Distribution

1) Producer – retailer – consumer: e.g. food company sell through supermarket
2) Producer – wholesaler – retailer – customer e.g. book publishers selling worldwide
3) Telesales – selling via telephone e.g. double glazing firm calling people
4) Mail order – marketing through mail slots e.g. clothing retailer
5) Internet selling – sell wide range of goods e.g. Amazon

Exam practice

June 2012

Promotional Products Ltd

*Promotional Products Ltd (PP Ltd)* sells items such as key rings, pens, computer mouse mats and memory sticks in large quantities. These items are sold to other UK companies, who give them away as freebies to promote their own businesses. All of PP Ltd’s business comes from internet orders.

PP Ltd buys the items in bulk from suppliers based in China. The company uses Chinese suppliers because they are much cheaper than UK businesses. Once PP Ltd has an order, it prints the customer’s name, logo or slogan onto the items to personalise them. PP Ltd has seen a huge rise in the sales of computer memory sticks. However, its customers are buying far fewer computer mouse mats. PP Ltd’s managers believe that mouse mats have entered the decline phase of their product life cycle.

Overall, the demand for PP Ltd’s products has increased over the past five years. PP Ltd’s managers believe that the time is right to open a new factory. The managers would like the business to be based in one location, where the manufacture of the freebie items, the printing on these items and the office work would all take place. The Chinese government is very keen to get UK businesses like PP Ltd to move to China. PP Ltd’s managers have been offered rent free offices close to the suppliers.

Describe one advantage to PP Ltd of selling its goods only on the internet.
Explain why the demand for computer mouse mats bought as promotional freebies might have fallen.

Describe how PP Ltd might extend the life cycle of its products such as the computer mouse mats.

The demand for PP Ltd’s products has increased and the managers want to open a new factory. It is considering two possible locations in:

● the UK or
● China.

Advise PP Ltd’s managers on which is likely to be the best option. Give reasons for your advice.
Finance

Finance for Large Businesses

Why would an expanding business need to raise finances?

- Pay for new stores
- Pay staff wages
- Pay for promotion
- Develop new products

Internal sources

- Retained profits – liquidity suffers, shareholders unhappy (less dividends)
- Selling assets – what if they needed this in future
- Sell shares – lose control

External sources

- Bank loans – interest
- Share issue – lose control, dividends must be paid

Profit and Loss Accounts and Balance Sheets

Profit and loss account looks at all of the things that you have bought and sold across the year and takes away all of the costs you had to pay during that year.

If you make more money than you have to pay out you are in profit and if you pay-out more than you make then you are in a loss.

Trading Account

Calculates the amount of gross profit the business makes.

- cost of goods = opening stock + purchases – closing stock
- gross profit = revenue – cost of goods sold

Gross profit shows us the level of profit earned on the buying and selling of goods.

Profit & Loss Account

Expenses are extra costs that you have to pay for, things that help you operate as a business. This includes electric/gas/telephone bills, staff wages, rent for warehouse, van hire.

<table>
<thead>
<tr>
<th>Sales Revenue</th>
<th>35,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Stock</td>
<td>1,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>12,000</td>
</tr>
<tr>
<td>Closing Stock</td>
<td>2,000</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td><strong>24,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity &amp; Gas</td>
<td>2,950</td>
</tr>
<tr>
<td>Vehicles (Petrol)</td>
<td>500</td>
</tr>
<tr>
<td>Telephone</td>
<td>325</td>
</tr>
<tr>
<td>Rent</td>
<td>5,500</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td><strong>14,725</strong></td>
</tr>
<tr>
<td>Less Interest</td>
<td>2,500</td>
</tr>
<tr>
<td>Net Profit Before Tax</td>
<td>12,225</td>
</tr>
<tr>
<td>Less Tax</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Net Profit After Tax</strong></td>
<td><strong>9,225</strong></td>
</tr>
</tbody>
</table>

| Retained Profit | 2,000 |
| Dividends       | -     |
| Drawings        | 7,225 |
• **operating profit** = gross profit – total expenses

You always pay the banks back first if you owe them. Then the government in the form of taxes, sole traders/partnerships pay income tax and companies pay corporation tax.

• **net profit** = operating profit – interest - taxes

**Appropriation Account**

Net profit is entirely your own money to spend as you want to. Appropriation account shows us what the business decides to do with the net profit.

- **retained profits**: money saved, can be used for future investment and means they will need to borrow less money to the bank
- **dividends**: a company will need to give money to their shareholders
- **drawings**: owner of the business takes out money for their own personal use

**BALANCE SHEET** shows financial position of assets and liabilities of a business at specific moment

**ASSETS**: everything that is owned by a business which has value

**NON CURRENT ASSETS**: value of assets that the business has purchased and expects to keep for more than one year

**CURRENT ASSETS**: cash, cash equivalents, expected to be turned into cash during the next year

**LIQUIDITY**: how easy it is to turn current asset into cash

**LIABILITIES**: debts sum of money that is owed

**CURRENT LIABILITIES**: amount owed which are due to be paid within the next year

**NON CURRENT LIABILITIES**: long term liabilities that need to be settled in more than a years’ time

**EQUITY**: value of capital invested into the company by shareholders and the profits that have been retained

**LIQUIDITY RATIOS**: help assess is there is efficient cash or equivalent current assets to be able to pay its debts as they become due, if doesn’t have cash its debts becomes insolvent, focus on short term using current assets and current liabilities

**CURRENT RATIO** = **CURRENT ASSETS / CURRENT LIABILITIES**

This is how much business has for every £1 that is owed

**ACID TEST RATIO** = **(CURRENT ASSETS - STOCK) / CURRENT LIABILITIES**

When stock is harder and slower to be turned into cash
People in Business

Reorganising Organisational Charts and Management Hierarchies

**Key Terms**

**Organisational structure:** the way the people in a business are organized

**Span of control:** how many people you are directly in control of

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**Span of Control**

- The numbers of subordinates a manager is directly responsible for
- Narrow span of control: allow for closer supervision, more layers in hierarchy may be required, helps more effective communication
- Wide span of control: gives subordinates more independence, more appropriate if labour costs are significant, reduce number of managers factors:
  - experience and personality of manager
  - nature of business
  - skills and attitudes of employees
  - tradition and culture of organisation

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**Key Terms**

- vels in the organisational structure
- h through which messages are passed

**Delayering:** a company removing a layer of hierarchy in order to reduce costs, increase motivation or in case of a merger, in which two people would be doing the same job
Decision Making = Power & Authority

- centralised: authority rest with senior management at the centre of a business
- decentralised: authority given further down the hierarchy away from the centre
- most large business usually have decentralisation as it operates from several location, adding new business units and markets
- how much independence do business units/groups within a business have when it comes to the key decisions

Centralised Structures

Keep decision making firmly at the top of the hierarchy

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easier to enforce policies and rules</td>
<td>More bureaucratic, extra layers</td>
</tr>
<tr>
<td>Prevent parts of the business becoming too independent</td>
<td>Lack of authority down hierarchy</td>
</tr>
<tr>
<td>Easier to coordinate and control</td>
<td>May reduce manager motivation</td>
</tr>
<tr>
<td>Economies of scale easier to achieve</td>
<td></td>
</tr>
<tr>
<td>Greater use of specialisation</td>
<td></td>
</tr>
<tr>
<td>Quicker decision making, stronger leadership</td>
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</tbody>
</table>

Decentralised Structures

Decision making is spread out to include more junior managers in the hierarchy, as well as individual business units or trading locations

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decisions are made closer to the customer</td>
<td>More difficult to ensure consistent practices and</td>
</tr>
<tr>
<td>Able to respond to local circumstances</td>
<td>policies</td>
</tr>
<tr>
<td>Improved level of customer service</td>
<td>Diseconomies of scale</td>
</tr>
<tr>
<td>Consistent with aiming for a flatter hierarchy</td>
<td>Strong leadership is not present</td>
</tr>
<tr>
<td>Good way of training and developing junior management</td>
<td></td>
</tr>
<tr>
<td>Improve staff motivation</td>
<td></td>
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</tbody>
</table>
Recruitment and Retention of Staff

1. Business identifies a need
2. Job analysis – decide what job will be and person you’re looking for
3. Job description – what the job entails, duties and responsibilities
4. Skills/qualities/qualifications of a candidate
5. Short listing – going through applications and short listing
6. Interview of short listed people
7. Employ the best candidate

**Key Terms**

**Internal Recruitment**: looks to fill the vacancy from within the existing force

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>small recruitment costs</td>
<td>limited choice</td>
</tr>
<tr>
<td>know worker better: know the candidates strength and weaknesses</td>
<td>move problem</td>
</tr>
<tr>
<td>quicker</td>
<td>no new ideas</td>
</tr>
<tr>
<td>can be motivating to other staff</td>
<td>creates a new vacancy</td>
</tr>
</tbody>
</table>

**External Recruitment**: looks to fill the vacancy from any suitable applicant outside the business

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>bring in new ideas</td>
<td>more expensive longer process</td>
</tr>
<tr>
<td>wider range of experience</td>
<td>advertising and interviews</td>
</tr>
<tr>
<td>larger pool of workers to find the best candidate</td>
<td>selection process may not be effective enough to reveal best candidate</td>
</tr>
</tbody>
</table>

- Job centres
- Job advertisements – inform audience of potential candidates about opportunity, provide information, helps stop unsuitable applicants, obtain suitably qualifies applicants
- Recruitment agency
- Personal recommendation
Benefits of Interview
For Employer:
• Extra detail and information
• Conversational ability
• Natural enthusiasm and manners
• Reactions under pressure

For Candidate:
• Job/business right for them
• Culture of business is like
• Exact details of job

Employment Contract
• Legal document describing obligations of employee and employer to each other
Although she's been cooking since the age of 14, it was only when she launched her own restaurant in Belfast in 2006 that Natasha Ramdin sealed her reputation as one of the most exciting young chefs in the UK. Born in 1980 in Mauritius, Natasha’s early exposure to food came from her mother and grandmother, both of whom were keen cooks.

After completing an advanced diploma in catering from the Norwich City Hotel School, she worked in a number of restaurants right across the UK before landing the job of head chef in the Cayenne restaurant in Belfast in 2002. After a disagreement with the owner of Cayenne she left and opened her own restaurant Ramdin’s in 2006 with the help of a loan from her father. The restaurant has proven a huge success and won the prestigious Michelin star award in 2008.

Setting up as a sole trader is a relatively simple process. All Natasha had to do to begin trading was to register herself as self-employed with Revenue and Customs and apply for a trading licence. A trading licence is only required for the operation of businesses such as nightclubs, nursing homes, pet kennels and restaurants such as Ramdin’s.

1. How are the profits divided in a sole trading business?

2. Why are sole proprietorships easy to set up?

3. Which type of sole trading business would require a special trading licence?

4. Natasha Ramdin had unlimited liability. What does this mean?

5. What would happen to Ramdin’s restaurant if Natasha died?

6. Why do sole traders often find it difficult to borrow money from banks?

7. A lack of expertise can hinder the performance of a sole trader. Explain why.

Nicola Lynch is a mother to three lively boys. The boys aged 6, 9 and 13 are very active and love skateboarding and mountain biking. When the last of the boys started school last year she began making clothes for young boys in her spare room. The designs and materials are inspired by her three sons who because of their active lifestyle, go through clothes very quickly. She currently operates as a sole trader, trading under the name Active Kids Clothing. Nicola designs and makes the products by hand in her spare bedroom and sells them over the internet and in two local stores. She always had high hopes that she could make a successful business selling her products but even she has been surprised to find that she now sells £35,000 worth of goods a year. Nicola is a talented designer but by her own admission she feels she could know a lot more about the other aspects of business.
1. Explain what is meant by the term sole trader.  (2 marks)

2. Analyse 3 advantages Nicola gets through operating as a sole trader.  
   (6 marks)

3. Analyse 3 disadvantages Nicola might experience through operating as a sole trader.  
   (6 marks)

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Active Kids clothing has been operating for the past 18 months as a sole trading operation under the ownership of Nicola Lynch. Nicola currently performs all the management functions of the business including, design, manufacture, sales and marketing. The business continues to grow from strength to strength and currently Nicola is finding it difficult to complete all the work she has to do. Nicola regards herself as a talented designer but by her own admission she feels she could know a lot more about business and recently one of her close friends suggested that she should either take on a partner or change the company to a limited company.

1. Explain why forming a partnership might be a good idea for Nicola.  (4 marks)

2. Analyse two difficulties Nicola might face as a result of taking on a partner.  
   (6 marks)

3. Nicola has been advised that if she does form a partnership she should draw up a partnership agreement. Explain which areas should be covered in this partnership agreement.  
   (6 marks)
Tom’s Travel is owned by Tom and Mary Gillen. Their business was founded in 1997 with the assistance of a further partner Tom’s brother Declan Gillen. Tom and Mary met on a cruise ship in the Bahamas where Mary was the travel rep. They married in 1992 and decided that they would like to open their own travel agents. In the beginning Tom kept his job in the bank while Mary ran the business. As the business expanded Tom left the bank to work full time in the business. In 2006 Declan decided he wanted to retire so Tom and Mary bought his share of the business. The business has gone from strength to strength and they now employ two full time sales representatives.

1. What is meant by the term partnership?

2. What is the maximum number of partners in a general partnership?

3. What is a deed of partnership?

4. If there is no Deed of partnership how will the profits of Tom’s Travel be divided?

5. What advantages do partnerships and sole traders have in common?

6. What advantages does a partnership such as Tom’s Travel have over a sole trading business such as Ramdin’s restaurant?

7. What disadvantages do partnerships and sole traders have in common?
Recent reports suggest that a large number of small business owners are converting their businesses to limited companies. The bulk of this increase is thought to have come from existing sole trader or partnership businesses such as taxi drivers and milkmen who have decided to incorporate their businesses to take advantage of new tax laws for limited companies. However, analysts are worried that many of those who have set up companies don’t understand the legal obligations of a limited company and the potential fines and prosecution they face for not complying with them. Failure to file accounts on time, for example, can lead to fines of up to £5,000 and in some cases to the winding up of the company.

1. Explain what is meant by a private limited company.

2. Analyse some of the advantages that a small business such as a self-employed taxi driver or milkman might gain from converting his business into a private limited company.

3. Explain some of the difficulties they might face after they incorporate their businesses.

Cafédirect is the UK’s largest Fairtrade hot drinks company. Their brands, Cafédirect, Teadirect, and Cocodirect are sold through most of the major supermarkets. They buy from 39 producer organisations in 13 countries, ensuring that over a quarter of a million growers receive a decent income from trade. The company was founded in 1991 by a number of charities including OXFAM and Traidcraft. Today, they work with 39 grower organisations across 13 developing countries, encompassing 264,666 farmers and directly improving the lives of more than 1.4 million people. In 2004, the company successfully executed the UK’s biggest ethical public share issue to become a publicly listed company, raising £5 million from 4,500 investors which allowed the company to put in place ambitious plans for growth.

1. What type of company was Cafédirect when it was formed in 1991?

2. What type of company was Cafédirect after 2004?

3. What do you think are the main reasons why Cafédirect would have wanted to make this change to its legal status in 2004?

1. What do the letters Ltd indicate?
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<tr>
<td>2.</td>
<td>What documents does a business have to complete before it can be registered as a company?</td>
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<td>3.</td>
<td>Using the yellow pages, name 5 private limited companies who operate in your local area.</td>
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<td>4.</td>
<td>If Ltd was to go bust leaving debts of £500,000 how much would the owners have to pay as a result?</td>
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<td>5.</td>
<td>What advantages does a Private limited company have over a sole trader or partnership?</td>
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<td>6.</td>
<td>Explain why the business affairs of a private limited company are not as private as those of a sole trader.</td>
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<tr>
<td>7.</td>
<td>What do the letters PLC represent?</td>
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<tr>
<td>8.</td>
<td>Where does a PLC sell its shares?</td>
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<tr>
<td>9.</td>
<td>What advantages does a PLC have over a private limited company?</td>
</tr>
<tr>
<td>10.</td>
<td>List 5 PLC’s that operate in your local area.</td>
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</table>
11. What is meant by the divorce of ownership and control?

12. How much would the shareholders of a PLC lose if the company was to go bust?

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<thead>
<tr>
<th>Type of Business Ownership</th>
<th>Ownership</th>
<th>Control/Decision Making</th>
<th>Finance</th>
<th>Liability</th>
</tr>
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<tr>
<td>Sole Trader</td>
<td>Only 1 owner can have any number of employees</td>
<td>Sole Trader has complete control and is in charge of all the decision making</td>
<td>Money is raised by the sole trader, typically from own funds, borrowing from family/friends</td>
<td>Unlimited Liability – sole trader is personally liable for all debts of the business. Personal possessions may be at risk if the business cannot pay debts.</td>
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<tr>
<td>Partnership</td>
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<tr>
<td>Private Limited Company</td>
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<tr>
<td>Public Limited Company</td>
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Fish 'n' Chips 4 U
Marco has been running successfully the local fish and chip shop, Fish 'n' Chips 4 U, for over 20 years. However, he noticed last year that his revenue was falling. He thinks that the cause of this may be a new pizza takeaway that has opened nearby which also offers a delivery service. Due to the competition, Marco has had to reduce the hours of the six part-time staff that he employs. He is wondering whether he should now change his business objectives. In order to compete with the new pizza takeaway, Marco is considering reducing the price of his best-selling cod and chips meal. He is also considering whether he should offer a delivery service and, if so, whether this would increase demand for his traditional range of meals.

Marco is considering whether he should offer a delivery service. In order to see whether this would increase demand for his traditional range of meals, Marco knows that he must undertake some reliable market research. His options include: ● interviewing some of his current customers or ● giving out questionnaires in the local shopping centre. Advise Marco on what he should do. Give reasons for your advice.

Activity

1. What happens during the development stage of a product life cycle?

2. List the 5 stages of the product life cycle.

3. For each of the 5 stages identify one product which is currently at that stage.

4. What is an extension strategy?
5. Explain the difference between rebranding and repackaging.

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**Bernard Matthews** Norfolk turkey producer Bernard Matthews has begun a rebranding exercise which the firm hopes will restore its fortunes. The company saw a fall in sales after TV chef Jamie Oliver had singled out the company’s Turkey Twizzlers for criticism in a series about healthier eating for children, and an outbreak of bird flu was discovered on its farm in Holton in January. Simon Middleton, from Turton Middleton advertising agency in Norwich, said: “It’s been a very grim period. “They really needed to go almost back to basics and review what Bernard Matthews stood for, because that essentially is what a brand is about - and it looks, on the surface, as if they’ve done that.” The company is also creating a range of products, called “Big Green Tick”, which have no artificial colours and flavours and have lower levels of saturated fats and salt. It is also changing the company logo.

**Guinness** is one of Britain’s best loved brands, yet sales of the famous black stout have been falling year after year both in the UK and Ireland. In the last two years Guinness sales have declined by 13% in the UK and things are even worse in Ireland, where sales are down nearly 30% since 2001.

In the UK and Ireland, a growing taste for wine and other more refreshing drinks, and a long term shift to entertaining at home, have taken their toll on Guinness’s sales. (Source: BBC News 23rd Nov 2007)

1. Identify the stage of the product life cycle reached by Guinness in 2007.

2. Explain some of the reasons why Guinness might have reached this stage.

3. Evaluate some of the strategies Guinness GB could use to reverse the decline in sales and extend the product life cycle.
Advertising gives Diageo a boost Successful marketing campaigns and a focus on premium spirits helped drinks giant Diageo to report a small profits rise for the last six months of 2007. A new advertising campaign helped to revive Guinness sales in the UK and the Irish Republic, which lifted overall sales in Europe by 4%.

The latest in the series of “Good things come to those who wait” Guinness adverts helped to revive the fortunes of the stout in the UK and the Republic of Ireland, lifting sales there by 4% after sales fell last year. Part of a £10m marketing campaign, the advert, which features hundreds of villagers creating a massive domino effect, was the most complex and expensive yet. The boost helped the Irish Republic reclaim its position as the stout’s second biggest market, after its popularity in Nigeria saw the African nation temporarily take its place last year. The UK remains the world’s largest Guinness consumer. (Adapted from BBC News Feb 2008)

1. Explain 3 alternative forms of sales promotion which could be used by Diageo to promote sales of a new brand of Vodka.

Online advertising on the rise Money spent on UK television adverts fell last year for the first time since 2001, according to new research. TV advertising spend declined 4.7% from 2005 levels to £4.59bn - but still accounted for the second largest advertising medium after the printed press which has by far the largest share of total advertising expenditure at 43.7%.

At the same time UK spending on internet adverts increased by 47% to over £2bn. “I believe online spend could overtake TV within the next three to four years,” said Guy Phillipson, chief executive of the Internet Advertising Bureau, the trade association for the internet marketing industry.
Apart from the internet, the largest gainer was outdoor advertising. Spend on Outdoor advertising also increased 4% to £1bn, overtaking radio which dropped 7.7%. (Adapted from BBC News May 2007)

<table>
<thead>
<tr>
<th>1. What is meant by the term advertising</th>
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<th>2. The article suggests that radio advertising has fallen by 7.7%. Explain 2 factors which might account for this fall</th>
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<tr>
<th>3. Analyse two reasons why internet advertising is becoming increasingly popular with UK businesses.</th>
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Activity

Answer the questions below.

1. What is meant by competitive pricing?

2. Explain why penetration pricing might not be an effective strategy for selling cars.

3. Calculate the price of a product if its costs of production are:
   - £10 and the mark up is 10%
   - £25 and the mark up is 50%
4. Why might predatory or destroyer pricing be seen as a risky strategy for a firm such as O2?

5. Explain how the level of competition a firm faces is likely to impact on the price it charges for its products.

**Activity**

**Radiohead** English rock band Radiohead have caused a massive stir in the music industry by turning their backs on the long established music business model. The band who have been described as the best rock band in the world, have decided to drop their record label EMI and distribute their new album exclusively through a specially designed website.

Lead singer Thom Yorke explained the band's motivation in a recent interview with TIME magazine: “I like the people at our record company, but the time is at hand when you have to ask why anyone needs a record company. In the past bands needed recording companies to distribute their music to the music retailers; however advances in technology mean that bands can now sell their music directly to the listener”.

The new album “In rainbows” will only be available from the bands website and will not be available through any of the traditional channels. Interestingly the band are also letting customers choose how much they want to pay for the album.

1. What is meant by the term channel of distribution?

2. What are the advantages to Radiohead of distributing their music in this way?

3. Explain why it might be unwise for Radiohead to use only this method of distributing its music.
Exam practice

January 2012

Meals for All - has recently been set up as a local social enterprise. It prepares and cooks quality hot meals five days a week for elderly people. The meals are collected from Meals for All by volunteers, who deliver them within the local area. The premises are provided free of charge by the local council.

To satisfy its customers' needs, Meals for All offers a wide choice of meals, which changes each day. Customers telephone each morning to find out the menu for the day and to make their choice. This means that sometimes one choice runs out but others go to waste and meals are often delivered late. The cost of ingredients is likely to increase over the next few months. The cook is considering many options to reduce the costs of the meals including buying cheaper ingredients. Another way would be to offer less choice and to ask customers to order a day in advance. This would mean that the exact amount of ingredients could be bought and there would be less wastage. However, some of the customers have indicated that they would not like this and would prefer to give their first and second choice of meal.

Calculate the weekly profit or loss made by Meals for All if it receives 950 orders a week. Show your workings in the space provided.

January 2013

Trading Fair was set up five years ago as a local enterprise to raise money and to help provide better prices and working conditions for farmers and workers in Africa. Trading Fair is run by a group of friends who decide how the enterprise should operate. The enterprise imports products such as jewellery, toys and shopping bags. These are then packaged and labelled by local volunteers. The products are sold directly to the public at charity events and stalls at local markets. Trading Fair sells good quality products at prices that are similar to charity shops and has many loyal customers.

One volunteer has suggested that Trading Fair should raise the price of its jewellery to enable it to make more money for the African workers. It could also introduce an online service by selling through a website. There would be extra costs to start up this service. Some members of the group are not in favour of the website as they believe that it would be risky. It would turn their local enterprise into a big business which they would not recognise or feel part of. Other volunteers believe it would mean more customers from a wider area.

Trading Fair currently sells 1000 products a week at an average price of £8 per product. It spends £5000 a week on importing these products, and the packaging and labelling costs are 50p per product. Calculate the weekly profit.
Fish 'n' Chips 4 U

Marco has been running successfully the local fish and chip shop, Fish 'n' Chips 4 U, for over 20 years. However, he noticed last year that his revenue was falling. He thinks that the cause of this may be a new pizza takeaway that has opened nearby which also offers a delivery service. Due to the competition, Marco has had to reduce the hours of the six part-time staff that he employs. He is wondering whether he should now change his business objectives. In order to compete with the new pizza takeaway, Marco is considering reducing the price of his best-selling cod and chips meal. He is also considering whether he should offer a delivery service and, if so, whether this would increase demand for his traditional range of meals.

Marco currently sells cod and chips meals for £5 and sells 100 a week. If he reduces the price to £4, he is sure he can sell 150 meals. Calculate his weekly revenue if he does sell 150 meals at the new price.
1 (a) Explain one suitable method to promote the opening of the factory shop. (2 marks)

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Item A: Dotis Ltd

Dotis Ltd is a long-established glassware business that makes luxury crystal glasses and bowls. The company, which is based in an area of high unemployment, employs about 200 local people. Many of the workers have been at Dotis Ltd all their working lives and their parents and grandparents also worked there. Currently, many of Dotis Ltd’s employees are over 50.

The quality of the glassware is checked at the end of the production process. Dotis Ltd has noticed recently that the percentage of glassware items rejected for being below standard has risen from 5% to 13%. The manager believes that some of the older employees are not as skilled as they used to be. The below-standard items are sold to wholesalers at about a third of the normal price, or scrapped if they are very poorly made.

Dotis Ltd is thinking of opening a shop at the factory to sell its products directly to the public. The shop would sell both quality and below-standard glassware. This factory shop would need a manager to supervise the 16 employees who would be working there. The plan is to use older employees as shop assistants.
1 (b) Briefly explain two advantages to Dotis Ltd of opening a factory shop to sell its glassware directly to the public. (4 marks)

(Extra space)

1 (c) Explain how Dotis Ltd might reduce the percentage of below-standard glassware that it produces. (4 marks)
1 (d) Dotis Ltd needs to recruit a manager for the factory shop. It is considering two ways of doing this:

- promoting an existing employee
- recruiting somebody new to the business.

Advise Dotis Ltd on which would be the better option for the business to take. Use Item A to support your answer. (9 marks)

(Extra space)

Total marks for this question 19 marks.

Item B: Hey Presto Ltd

Parcel delivery company, Hey Presto Ltd, started in 1987 with just three vans. Over the years the business has been successful and now has 120 vehicles which operate in the London area. Most of the journeys the vans make are through busy city streets. A number of smaller competitors have recently entered the parcel delivery market. These new businesses charge lower prices in order to attract the customers from bigger organisations such as Hey Presto. Often these companies own very old and unreliable vans.

Major shareholder, Christine, would like to expand the business and to provide a national service. Christine has been in talks with the owners of Birmingham-based Fast Track Ltd, a similar sized business to Hey Presto. Fast Track’s owners are keen to merge with Hey
Presto. Christine is unsure if merging is the best way for Hey Presto to expand. She believes that continuing to buy new vans each year from Hey Presto’s profits might be a better idea.

Christine would also like to make the business more environmentally friendly. She is considering replacing several diesel vehicles with electric vans, which are more expensive to buy, but are cheaper to run and are less polluting.

2 (a) List two stakeholders of Hey Presto. (2 marks)

(Extra space)

2 (b) Briefly explain one advantage and one disadvantage to Hey Presto of growing in size. (4 marks)

(Extra space)

2 (c) Explain a benefit to Hey Presto of choosing to replace diesel vans with more expensive electric vehicles. (4 marks)
2 (d) Christine is considering two ways in which Hey Presto might expand:
• continuing to buy new vans from the profits the business makes
• merging with its competitor, Fast Track Ltd.

Advise Hey Presto on which of these two methods of expanding the business would be more suitable for the business. Use Item B to support your answer. (9marks)

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**Item C: Carpets 2 U**

Carpets2U plc is a nationwide carpet retailing business with stores in many UK cities. Unlike many other carpet retailers, Carpets2U carries a large amount of stock which reduces the time its customers have to wait for their carpets to be delivered to them. Sales have been falling during the recession and the business has developed a cash flow problem.

Customers come to Carpets2U because of the personal service they receive at the stores. Carpets2U's store assistants are currently paid a basic wage and a monthly bonus, depending on how many sales they make. Falling sales have meant the assistants' wages have gone down. The company directors are thinking of replacing this bonus system with a higher basic wage and using an annual appraisal interview as a way of motivating staff.

The company directors are also thinking about increasing the range of products that Carpets2U sells, such as offering tiles and wooden flooring. The directors are even considering starting to sell household furniture.

**Figure 1: Extracts from Carpets2U's 2013 and 2014 Statements of Financial Position (Balance Sheets)**

<table>
<thead>
<tr>
<th>Current assets</th>
<th>2014 (£ million)</th>
<th>2013 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories (Stock)</td>
<td>21</td>
<td>14</td>
</tr>
<tr>
<td>Receivables (Debtors)</td>
<td>33</td>
<td>38</td>
</tr>
<tr>
<td>Bank and cash</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>57</strong></td>
<td><strong>56</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables (Creditors)</td>
</tr>
<tr>
<td>Bank overdraft</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
</tr>
</tbody>
</table>

**Acid Test ratio** = \(\frac{\text{Total current assets} - \text{Inventories (Stock)}}{\text{Total current liabilities}}\)

The Acid Test ratio for 2013 is 1.05.

3 (a) What is a statement of financial position (balance sheet)? (2 marks)

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(Extra space)
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3 (bi) Calculate Carpets2U’s acid test ratio for 2014. (2 marks)

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3 (bii) Explain how the change in Carpet2U’s acid test ratio might affect the business. (3 marks)

(Extra space)

3 (c) Explain two advantages to Carpets2U of introducing staff appraisals. (6 marks)

(Extra space)
3 (d) Carpets2U is thinking of increasing the range of goods that are sold in its stores. Advise Carpets2U whether you believe that this is a good idea. Use Item C to support your answer. (9 marks)