

**Collins**

**Cambridge IGCSE®**

# **Business Studies**

**STUDENT'S BOOK**

---

**Also for Cambridge O Level and Cambridge IGCSE® (9-1)**

Andrew Dean, Denry Machin,  
Mark Gardiner

Every day, people around the world aim to set up and run a business in all industries and sectors, but many do not succeed. While businesses may have different objectives or targets, the key to the success of any business is its ability to meet the needs and wants of its customers.

In this section, you will learn:

- about the purpose and nature of business activity, focusing on the importance of specialisation and adding value to achieve success
- how to classify the sectors in which businesses operate – primary, secondary and tertiary – with examples of each
- how enterprise and entrepreneurship play an important role in making a business successful
- what goes into a business plan and how governments help start-up businesses
- about the methods and problems of measuring the size of a business
- why some businesses grow and others do not, and about the causes of business failure
- about the different forms of business organisation, about unincorporated businesses and limited companies and the concept of risk, ownership and limited liability
- about the need for business objectives, the role of stakeholder groups in business activity and the different objectives of private sector and public sector enterprises.

## SKILLS BUILDER

### Good progress

**Knowledge:** You show sound knowledge of the key terminology detailed in the section's glossary.

**Application:** You demonstrate good understanding of the key terms that you have mentioned through explanations and application to businesses.

**Analysis:** You develop the consequences of the points that you have mentioned for the type of business in question, commenting on the advantages and disadvantages for the business.

**Evaluation:** You make reasoned judgements when they are required.

### Excellent progress

**Knowledge:** You define and identify all of the key terms relating to the business environment, using this terminology in your written answers.

**Application:** You show a clear ability to apply your knowledge to a given business situation, using detail such as the business aims, objectives and classification of the business.

**Analysis:** You show the ability to classify and comment on information presented in various forms, distinguishing between evidence and opinion.

**Evaluation:** You make judgements and suitable recommendations justifying your reasoning, where possible using data in your judgements in an accurate and logical manner.

## SECTION CONTENTS

**1.1** Business activity

**1.2** Classification of businesses

**1.3** Enterprise, business growth and size

**1.4** Types of business organisation

**1.5** Business objectives and stakeholder objectives



# 1

## Understanding business activity

### Starting points

You are about to start learning about the purpose and nature of businesses all around the world. To get started, identify your favourite organisation, which you can use as an example. (You could pick a large business such as Apple or a smaller local one near you.) Create a concept map that answers the following questions:

- Which features make this business so successful?
- Why is it your favourite?
- Has it grown in recent years? (Think about the number of outlets or products it sells.)
- What could the business do to improve further?
- What challenges is it facing? How might these affect it?

This business can now be referred to as you work through the section.

# Business activity

## The purpose and nature of business activity

### Aims (1.1.1)

By the end of this section, you should:

- Understand the concepts of needs, wants, scarcity and opportunity cost
- Understand the importance of specialisation
- Understand the purpose of business activity
- Understand the concept of adding value and how added value can be increased.

### Needs, wants and scarcity

A successful business will need to create a product or service that people actually want or need. There is a difference here. A need is for a product you could not live without, for example, heating, food or drink. In contrast, a games console is a want: you don't have to have it, nor do you really need it, but you would like it all the same. Usually, essential items (items you must have) are needs, whereas non-essential items are often wants.



#### Did you know?

Only 450 Bugatti Veyrons have been made. Each one takes six weeks to complete (compare this with the production time of one day for a normal car) and costs nearly \$1 million, so they are truly scarce.

Δ A Bugatti Veyron is a very desirable want for some, but not an essential need.

A Bugatti Veyron? Latest mobile phone? Concert tickets? Whatever it is you really want, there will often be a limited amount of it. This is because there is only a limited supply of the resources needed to make it. This could be a limited number of:

- seats in the arena for a concert
- diamonds to make rings
- parts and components that are needed to make a product
- employees with the skills that are needed to make a product.

**Scarcity** is the shortage of a resource, such as oil, wheat or land. The scarcity of resources can often make products more expensive, as the demand is greater than the supply.

Scarcity of a product is often caused by a limited supply of land, labour, capital or enterprise. These are called the **factors of production**. They are the key inputs that businesses need to produce goods and services.

### Key Term

**Factors of production:** the resources needed to produce a product or service – these include labour, land, enterprise and capital.

<b>Land</b>	The price of land is often more expensive the closer a business is to large cities. This is because land is scarce (in short supply). As businesses often wish to be close to city centres, the land that is available is very expensive. Some businesses also need large amounts of land (for warehouses), which reduces the options available.
<b>Labour</b>	Some parts of the labour force are scarce. For example, pilots are highly skilled employees who have undergone years of training. They are paid high salaries because their skills and expertise are scarce.
<b>Capital</b>	Capital refers to cash or goods that a business uses to generate income. This could be property or money used to purchase materials.
<b>Enterprise</b>	Karachi-born Gulu Lalvani set up Binatone, one of the world's largest manufacturers of cordless phones. His innovative (creative) mind and hard work allowed the product sales to grow. Without his enterprising attitude, it would not have succeeded. This set of skills is rare, and many businesses struggle to find employees who can help improve their performance.



### Analysis

Focus on your own needs and wants.

- Identify and then write down your top three wants and your top three needs.
- In pairs, discuss how your wants and needs might differ from those of people in other countries.

What do you notice about wants and needs around the world?

## Opportunity cost

Every day people go to work, earning money to help them buy a range of goods and services. There will be some essential items that they need to buy, such as food, but they will also choose to buy other items such as mobile phones, cars and jewellery. They have to decide what to spend their money on.

With so many wants and needs, businesses also need to make choices about what they spend their money on. This may be simply deciding to order a different product from a supplier or a decision about where to spend excess (extra) cash. The decision may be to stop spending money on one part of the business and focus it on another. Every decision has an **opportunity cost**.

Every day businesses experience opportunity costs. For example, a business may invest in a new machine rather than spend that money on a new TV advert. The opportunity cost here is the extra customers that might have resulted from the TV advert. With some resources so scarce, governments have to make the same sort of decisions.

Each year the governments in many different countries have to decide what they are going to spend the money on that they raise from tax or trade. For example, some people may feel that a new hospital is needed in a certain area, whereas the local businesses may feel that a new road system is more important. Whichever decision the government makes will mean an opportunity is missed, therefore creating an opportunity cost.

### Key Term

**Opportunity cost:** a benefit, profit or value that a firm has to give up in order to achieve or have something else.



△ The Dubai government chose to build the palm islands, creating new investment and tourism in the country. The opportunity cost was investment in the country's roads, sewage system and other upgrades. Every decision has an opportunity cost.

## CASE STUDY

## Change at Nokia

Nokia has seen many changes and decisions over its 150-year history. Having started out as a pulp mill, it became known for producing rubber products such as shoe soles. Over time, it has changed to become one of the of the largest communication businesses in the world. In 2013, it decided to sell its mobile phone business to Microsoft in order to focus on networks and new technology. The opportunity cost here was losing its place in the mobile phone market. However, despite these major changes, it seems Nokia is returning to this market with a new version of its famous 3310 phone. This could be the start of Nokia's return, so changing its long-term priorities.



### Analysis

Using your research skills, identify three different businesses or industries that are government-funded. Try to find out the exact amounts of funding and how the level of funding has changed over time.

Try using the following key words to help in your research: public sector, government support for business, government funding and government-run.

- Now analyse them. Discuss whether they are successful. Are they using the funding well? Does the funding achieve its purpose?
- Now try to describe each business or industry to your class, but only give them three clues.





## Specialisation

**Specialisation** is when a person, business, region or country focuses on producing a limited range (small number) of goods or services.

People all have different skills, so different people are best suited to do different jobs. A good business will understand this and will ensure that their employees work on the tasks that best suit their skills. This **division of labour** (dividing up the employees into groups) allows the employee to focus on performing a few tasks. For example, if you went into The Peninsula Tokyo Hotel, there would be a range of employees. Some work on reception, others in the kitchen. Employees are divided up based on their skills and which task they specialise in. This is a very important aspect of business activity, as it allows employees, businesses, regions and countries to focus on the products or services they are best at.

It is not only businesses that focus on one or two tasks – countries do too. Many countries only produce one or two products, because they are very good at making that specific product.

Some examples of specialisation, at the different levels, are shown in the table.

<p><b>Employee</b></p> <ul style="list-style-type: none"> <li>• A skilled carpenter who focuses on producing high-quality violins</li> <li>• A pastry chef who only makes the desserts and cakes for the restaurant</li> <li>• A mortgage adviser for a bank</li> </ul>	
<p><b>Business</b></p> <ul style="list-style-type: none"> <li>• Audi specialises in making cars</li> <li>• The local accountants who focus on doing other people's tax calculations</li> <li>• Nestlé specialises in chocolate production</li> </ul>	
<p><b>Region</b></p> <ul style="list-style-type: none"> <li>• The Champagne region in France specialises in making ... champagne!</li> <li>• The Santos region in Brazil specialises in coffee production</li> <li>• Nuwara Eliya in Sri Lanka produces some of the world's best tea</li> </ul>	
<p><b>Country</b></p> <ul style="list-style-type: none"> <li>• Saudi Arabia specialises in extracting oil</li> <li>• The Ivory Coast specialises in the production of cocoa</li> <li>• Japan specialises in technology and computing</li> </ul>	

	Benefits of specialisation	Drawbacks of specialisation
<p><b>For businesses</b></p>	<ul style="list-style-type: none"> <li>✓ By specialising, an improvement in quality and efficiency can lead to larger profits.</li> <li>✓ Businesses may develop a positive reputation for a particular product or service. For example, a wedding dress shop may become well known because of its specialist products.</li> <li>✓ A business may be able to charge higher prices if it is one of the only businesses to offer the product or service.</li> <li>✓ The employees become faster at producing the goods.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Training of employees will often be more varied and expensive.</li> <li>✗ The employees may become bored with the tasks they do each day, as they tend to be the same. This may cause them to leave the business.</li> <li>✗ The product or service in which the business specialises can become out of date or no longer required, causing it to close.</li> </ul>



	Benefits of specialisation	Drawbacks of specialisation
<b>For employees</b>	<ul style="list-style-type: none"> <li>✓ Employees may be paid more if their skill is in short supply.</li> <li>✓ The skills they have may mean they can choose the job they want and the benefits that come with it (for example, a car, flexible working hours).</li> </ul>	<ul style="list-style-type: none"> <li>✗ Machines that can do the same tasks more quickly and cheaply may replace employees.</li> <li>✗ The employee may become bored with only focusing on one or two skills.</li> </ul>
<b>For the world</b>	<ul style="list-style-type: none"> <li>✓ Scarce resources are used more effectively.</li> <li>✓ A country that specialises can trade (exchange) with other countries for goods and services that they don't or can't produce.</li> <li>✓ People benefit from the jobs and incomes that come from producing specialised products or services.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Some countries struggle to produce a product or service that is required globally.</li> <li>✗ Countries can suddenly become beaten on price, meaning that their entire workforce is no longer in demand.</li> </ul>

### Top Tip

Specialisation takes place at various levels, from that of a person up to a country. Remember to use examples from all appropriate levels.

### Knowledge check

Audi now has a global reputation for comfort and quality. Its range of cars can cost up to \$500 000 and is only targeted at the richest customers. Its products include the Audi R8 and Audi RS, two very exclusive cars with only a few thousand of each being made.

- 1 Define the term scarcity. (2)
- 2 Explain the opportunity costs to Audi of producing the R8 and RS cars. (4)
- 3 Explain how specialisation benefits an employee of Audi. (4)
- 4 Do you believe that specialisation will benefit Audi when making their cars? Justify your answer. (6)

Total 16 marks

## Purpose of business activity

All businesses exist to fulfil a need or want of a customer. Many businesses aim to make a profit from doing this, with the money going to the owners. There are also businesses that invest any profits they make into social activities and projects that try to help society. For example, UnLtd India helps people set up and run businesses.

However, a business cannot exist unless it has customers who want to buy what it sells, whatever this may be.

Some of the purposes a business may have are to:

- create new products
- generate large amounts of sales
- educate the local and global community to reduce pollution and damage to the environment
- create large brands across the world
- listen to the different **stakeholders**
- support community projects and social activities.

Different business structures have a direct impact on the aims and objectives set by a business (see 1.4 Types of business organisation). For example, a **sole trader** will decide on his or her own business aims and objectives, while in a **public limited company**, each business owner, **shareholder** and director will have her or his own ideas and aims for the business. How the business is organised therefore shapes the purpose and activity of the business.

Consider the following examples:

- **Walmart (USA)**. Walmart is one of the world's largest businesses, with an estimated revenue of \$485 billion. It meets the needs and wants of its customers by selling a wide range of goods in its stores. Its purpose is to provide these goods and make large profits.
- **Divine Chocolate (UK and Ghana)**. Its purpose is to sell its chocolate worldwide, but also to boost the Fairtrade production of cocoa and the communities that it works with.
- **UNICEF (global)**. UNICEF aims to support children worldwide, through donations and business activities that focus on promoting its cause, rather than generating large profits.
- **Chao Chung (China)**. This local family-run restaurant in China aims to support the local community by providing affordable meals. The business makes a profit but not at the expense of losing customers.
- **Tannura (Japan)**. Brian Tannura set up a vending machine business in Japan and runs it as a sole trader. His purpose is to generate enough revenue to do this full-time. He plans to bring in a variety of different vending machines and expand his business.



△ Fairtrade Divine ginger and orange dark chocolate.

## Adding value

Businesses sell on a product or service in order to add value. The key here is to create a product that is worth more than the cost of making it. If the business can encourage customers to pay more than the total costs, then it will be able to make a profit.

If the production of a new Mazda car costs \$6000 and each car is sold for \$12000, then Mazda is adding \$6000 value. Once Mazda has paid off all its overheads, marketing, insurance and other costs, the company will make a profit.



### Evaluation

In small groups or pairs, discuss the benefits for a business of adding value. You should aim to come up with four different benefits. Write each benefit on a separate sheet of paper.

- Now arrange the benefits in order of importance. Be ready to justify what you think is the biggest benefit.
- How could a business achieve some of these benefits?

**Extension:** Using your research skills, find out which business has the highest **added value**.

### CASE STUDY

## Samsung vs Apple

Samsung released the new Galaxy S8 in 2017 in an attempt to rival the iPhone 7. Using its brand image and new features to add value to its products, Samsung hopes to continue its growth in this market with a new range of phones that offer solutions to customer demands such as battery life and screen size.



## How to add value

Businesses can add value to their products in numerous ways: by design, quality and efficiency, marketing and convenience.

### Design

This can make your product unique and different to the competition. For example, Dyson uses 'cyclone' technology to maintain market leadership due to their innovative and effective product design, which customers will pay a higher price for.

### Quality and efficiency

'The better the quality, the higher the price.' Products that are of a high quality can often sell for more. In China, Omnia Luo is seen as a luxury clothing range. In contrast, Primark in the UK adds value through efficiency rather than quality. The lower the costs of making the product, the higher the value added.

## Marketing

If you think of a product that you want to buy, it will be due partly to the marketing of the product. This has made you more willing to buy the product and perhaps even pay more for that brand. A brand is created through intense (a lot of) marketing, which allows the customer to recognise a product, logo or packaging and associate this with a business. For example, the Van Cleef & Arpels luxury retailer logo is recognised all over the Middle East. This adds value to the product.

## Convenience

If you go to a concert or sporting event, such as the Formula One Chinese Grand Prix, the food, drink and merchandise will always be more expensive than elsewhere outside the venue. This is because it is conveniently located for customers to purchase it. This means that those companies can add value because of their location. Customers will be forced to pay higher prices due to the lack of alternative products.

### Top Tip

Adding value through their brand is easier for larger businesses that have established and popular products, but it can be difficult for smaller start-up businesses.

### Knowledge check

- 1 Define the term added value. (2)
- 2 Explain two ways in which a business can add value. (4)
- 3 Explain why businesses can have different purposes. (4)

**Total 10 marks**

### Check your progress:

- ✓ I can explain the purpose and nature of business activity.
- ✓ I can outline the concepts of needs, wants, scarcity and opportunity cost.
- ✓ I understand the importance of specialisation.
- ✓ I understand the concept of adding value and can explain how businesses can add value.

# Classification of businesses

## Business activity in terms of primary, secondary and tertiary sectors

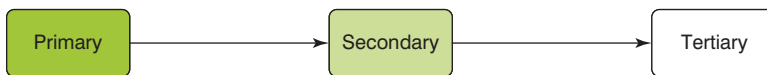
### Aims (1.2.1)

By the end of this section, you should:

- Understand the basis of business classification using examples to illustrate the classification
- Understand the reasons for the changing importance of business classification, for example, in more and less industrialised countries.

### The three sectors

There are three different sectors in which businesses operate: primary, secondary and tertiary sectors.



The **primary sector** is made up of businesses that extract raw materials from the land or sea ready to be used by other industries.

For example, Saudi Aramco is the world's largest oil producer, with up to \$1 billion revenue each day.



The **secondary sector** takes the raw materials and transforms them into a product. This can be sheets of metal, touch screens, bottles or clothing. A factory that makes a product, and the construction industry that produces a building, are also in this sector.

For example, oil extraction is then refined (changed/cleaned up) and eventually sold at petrol stations.

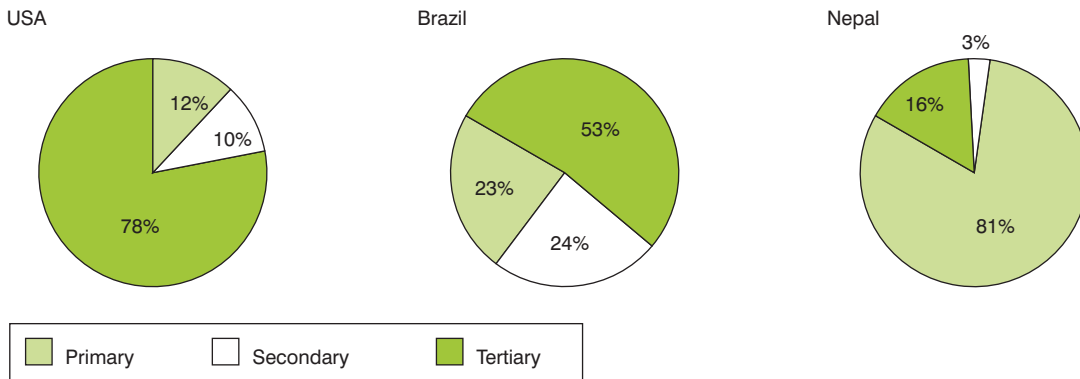


The **tertiary sector** sells finished products and services to the **consumer**.

For example, Chinese fast-food retailer Manfadu and the world's largest department store, Shinsegae in South Korea, are both in this sector. The tourism and entertainment industries are also tertiary.



The number of employees in each of these sectors differs from country to country. Here are a few examples:



Source: Central Intelligence Agency

It is very important for a country to have businesses in at least one sector that are doing well. Some countries have the majority of employment in one sector. As countries develop, they aim to change the structure of their economy. This will involve developing the tertiary sector, creating more retail outlets and other industries, which increase money being spent. Developing countries are often mainly primary and secondary producers, and so – through investment in airports, tourism venues, and events such as the Olympics – they try to move into the tertiary sector. This helps to boost the countries’ revenue and allows them to employ in all three sectors. However, many developing countries also try to increase other sectors, as this will help to secure the long-term production of goods and services.

CASE STUDY

## Indonesia’s growth is mobile

Indonesia is the fastest growing South Asian economy. With a population of 250 million, its GDP is nearly \$1 trillion. It is the third largest mobile phone market in the Asia Pacific region, where 25% of the current population has a mobile phone. This figure is expected to increase to 50% by 2020. This will enable payment platform websites such as eBay, Alibaba and Priceline to help consumers access goods from around the world, supporting Indonesia’s growth for years to come.



## CASE STUDY

## Coca-cola grows in Africa

Coca-cola will pay \$3.15 billion for the Anheuser-Busch InBev's stake of 54.5% in Coca-cola Beverages Africa. This move will see Coca-cola gain increased access to countries such as Tanzania, Ghana and Namibia. There is also potential for Coca-cola to own new bottling facilities in Zambia, El Salvador and Honduras. Operating its own secondary sector bottling factories will help the company to have increased control over its whole production process.



Analysis

Evaluation

Using your own country or one you have chosen, find out how the employment structure in the primary, secondary and tertiary sectors has changed in that country over the past 10 years.

You should then write a short statement, of no more than 100 words, which explains why your chosen country has that particular balance of primary, secondary and tertiary sectors. This statement should be very clear, so that others can fully understand your points.

Be ready to read your statement to the class. You may have to convince some of your classmates, so really emphasise the key points.

Finally, in pairs or small groups, discuss the following questions:

- Why does the number of people in each sector change?
- What does this mean for the economy of the country?

### Knowledge check

- 1 Define the term primary sector. (2)
- 2 Identify two businesses that operate in the tertiary sector. (2)
- 3 Explain two key differences between the primary and secondary sectors. (6)

Total 10 marks

### Top Tip

You should be able to give a range of different examples for each of the sectors. You should also be able to give examples of countries that operate mainly in one of the three sectors.

# Private sector and public sector

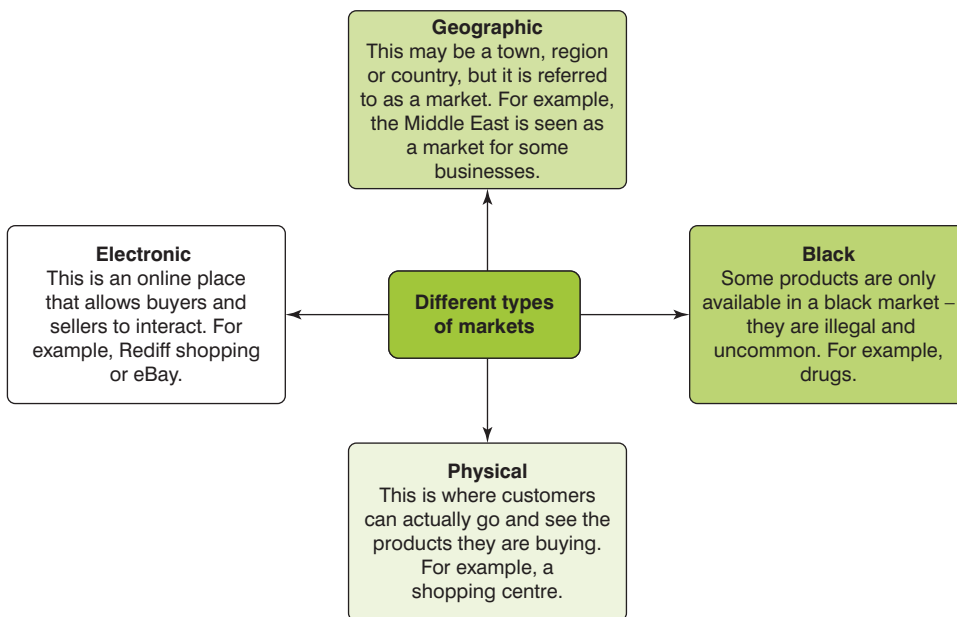
## Aims (1.2.2)

By the end of this section, you should:

- Be able to classify business enterprises between private sector and public sector in a mixed economy.

## Market economy and mixed economy

A **market** is where a seller and a customer come together to perform business activity. There are many different types of markets.



Often, the government will influence the market by creating rules and laws that structure the way in which buyers and sellers meet and interact. The government can do this by:

- imposing a ban on certain products, so there is no market for them
- putting a tax (extra charge) on certain goods or services to limit their supply and demand (for example, cigarettes)
- supplying them itself – for example, governments often supply medical care so that everyone has an equal chance of using it.

The level of government intervention determines in which type of economy the businesses and customers operate.

A market economy	A mixed economy
Here the government has no role at all. It is only the buyers and sellers who determine the price and make trading decisions.	Here the buyers, sellers and government all have an influence. This type of economy is common in nearly all countries.



There are no market economies, as the government often has to intervene. However, the degree (amount) of intervention varies between countries. For example, China and North Korea have a large amount of government intervention, whereas the USA has little. However, the US government has intervened in the motor industry, supporting US-based companies with grants (financial support that does not need to be paid back), to help the businesses to continue to trade.

Not all businesses are owned and run by private individuals. This is because some businesses are run by the government or state. This will determine whether they are in the private or public sector.

### The private sector

The **private sector** is formed of businesses that are run by private individuals or groups. They often have shareholders (people who own a part of the business) who want the business to generate (make) large amounts of money. Private sector businesses are often profit driven (aim to make large profits).

The following are all types of private enterprise:

- a sole trader
- a private limited company (Ltd)
- a public limited company (PLC)
- a partnership
- a social enterprise
- a charity.

(For more information, see 1.4 Types of business organisation.)

### The public sector

The **public sector** is very different. This is often run and funded by the country's government. In India, the government runs the train line, subsidising it (making it cheaper) so more people can afford to use it. Other examples are the police, education and the military. Governments use taxation to help fund these services, so they are often criticised if they are not spending money effectively.

### Different business goals

- Pfizer PLC is one of the world's largest pharmaceutical companies, and creates a range of medicines to sell around the world. Its goals are profit and shareholder returns.
- The Indian railway is run by the government as part of the public sector. The organisation's goals are to give affordable access to train travel and to link up the country via the train line.
- VisionSpring is an organisation that sells reading glasses to the developing world. So far, it has sold 3.5 million pairs. Its goal is to help developing countries improve reading.

- Oxfam is a worldwide charity that operates in over 90 countries. Oxfam’s goal is to give power to people in developing countries and reduce global poverty.

The reason why businesses have such different goals is mainly due to their structure. A public limited company, such as BP or Microsoft, has shareholders. These shareholders expect a return on their investment (money they have paid to buy shares) and so these companies strive (try hard) to make large profits. A charity or not-for-profit organisation tries to put all of its money into projects that help achieve its aim. Public enterprises such as the National Health Service in the UK are set up by the government to run organisations for the people; therefore they do not have to make a profit.

代码	证 券	昨收盘	今开盘	成交总量	最高价	最低价
805	皖能电力	9.92	9.95	149400	9.95	9.55
806	皖能电力	3.34	3.34	145700	3.35	3.31
807	皖能电力	3.97	3.96	264801	3.97	3.83
808	皖能电力	2.16	2.15	508800	2.16	2.13
809	皖能电力	4.47	4.48	110750	4.50	4.42
810	皖能电力	5.48	5.47	2392184	5.63	5.39
811	皖能电力	9.00	8.90	123800	9.00	8.80
812	皖能电力	2.57	2.58	312420	2.58	2.50
813	皖能电力	2.96	2.92	111800	2.93	2.82
814	皖能电力	6.35	6.36	146274	6.66	
815	皖能电力	5.19	5.19			
816	皖能电力					

△ PLC businesses use markets such as the Shanghai stock exchange to sell their shares.

## Private and public enterprises in a mixed economy

A mixed economy has both public and private sector enterprises. The majority of a mixed economy will be privately owned businesses, with the government regulating (monitoring) industries through policies (laws and regulations). Within a mixed economy, the government will often run the education, healthcare and military.

### CASE STUDY

## Indian government have the power

The Indian government set up the Ghogarpalli Integrated Power Co. Ltd to help support India’s energy system. Based in New Delhi, the organisation provides electricity for millions of people. The government set it up so that more people could access this service for a reasonable price. As the government does not aim to make large profits, they can lower their prices. This shows how, in a mixed economy, the government can intervene to run public sector businesses to provide goods or services for the public.



**Nationalisation** is the process by which the government takes over a privately run business or industry. During the recession of 2009, many countries used government money to support their banking industry but without taking it over fully. Nationalisation usually occurs when an important business or industry starts to fail. This may mean the loss of thousands of jobs and a large amount of income through tax. If the government wants to stop this happening, they take over the business.

For example, the Japanese government put 1 trillion Yen (\$12.5 billion) into TEPCO (Tokyo Electric Power Company). This industry has historically been a private one, so this government

intervention and nationalisation came as a surprise. The company is now government-run, which means that the government can change the company's board members, policies and aims.



### Analysis

Identify two businesses in your country. One should be from the public sector and the other from the private sector. How do the aims and objectives of these two businesses differ? Write these down in two columns – one for similarities and one for differences.

Then carry out research into a social enterprise in your area. What does this business do? How do its aims and objectives differ from those of large private enterprises?

Discuss your findings as a class and see what general conclusions you can draw. Then work in small groups to create a class display based on your research. You will need to think about how best to organise your findings and how to use images, captions and headings to good effect.

### Knowledge check

Savages is a leading clothing brand that sells mainly in its own country. However, it is looking to expand into new markets. To do this, Ali, its owner, wants the business to become a public limited company (PLC). Ali is keen to expand the business while maintaining the excellent reputation he has created with his management skills, high-quality products and happy employees.

- 1 Explain why Ali is operating in the private sector. (4)
- 2 Identify two differences between the public and private sector. (2)
- 3 Explain two benefits of Ali's business becoming a PLC. (4)
- 4 Explain why a government may nationalise an industry or business. (4)

**Total 14 marks**

### Top Tip

Make sure you can link the different types of businesses with the public or private sector. You should be able to explain the different aims and objectives businesses have and how these relate to the sector in which they operate.

### Check your progress:

- ✓ I can outline the different sectors that businesses operate in, in terms of the primary, secondary and tertiary sectors.
- ✓ I can explain the reasons for the changing importance of business classification.
- ✓ I can classify business enterprises between the private sector and the public sector in a mixed economy.

# Enterprise, business growth and size

## Enterprise and entrepreneurship

### Aims (1.3.1)

By the end of this section, you should:

- Know the characteristics of successful entrepreneurs
- Understand the contents of a business plan and how business plans assist entrepreneurs
- Understand why and how governments support business start-ups, for example, grants, training schemes.

### Characteristics of successful entrepreneurs

An **entrepreneur** is someone who sets up and runs their own business. Some examples are Carlos Slim Helú of Mexico (telecommunications), Christy Walton of the United States (supermarkets) and Mukesh Ambani of India (energy). All of these successful business people are now on the *Forbes* rich list (which lists the world's richest people). They are all entrepreneurs and got on the list because of their business skills and **enterprise**. As entrepreneurs, they took risks by setting up and growing their own businesses; between them they are now worth over \$120 billion!

#### Did you know?

The world's richest self-made billionaire is Bill Gates. Gates is the founder of Microsoft and has used his estimated \$80 billion fortune to fund research into ending poverty and disease around the world.

#### CASE STUDY

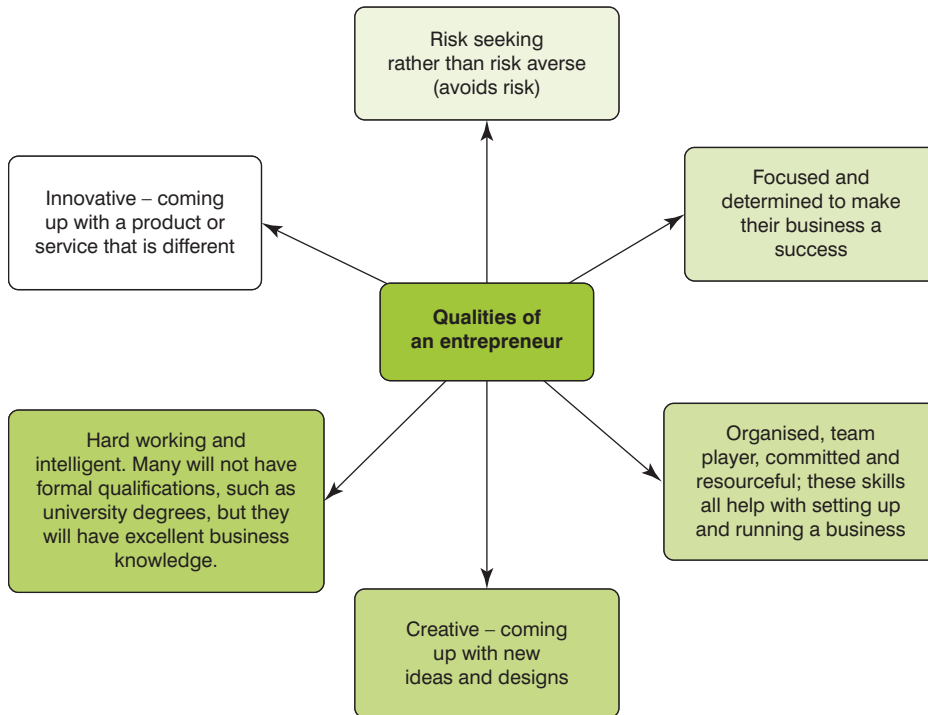
### Where to set up?

Malaysia is fast becoming one of the hot spots for start-up businesses. It is much cheaper in terms of cost of living than places such as China and Singapore. Firms are now taking advantage of the investment opportunities that come from registering in Singapore while operating from Malaysia. Start-ups also tend to prefer Malaysia because it is a good test market (larger than Singapore), with three different nationalities. This helps when reviewing and making improvements to products and services ahead of their release in the larger, more profitable nations of India and China.



Many people all over the world are entrepreneurs, but there are only a few who end up making billions of dollars from a business. There are many other private businesses set up and run by entrepreneurs – for example, the local shops, leisure parks and car dealerships in your area.

So what characteristics do entrepreneurs have?



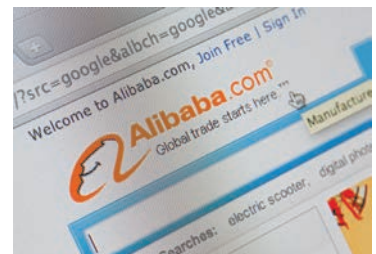
The reward for any successful entrepreneur is profit. The amount of profit will depend on the business, but many successful business people say that, to achieve this, they have to take risks. These risks may be investing personal savings, taking on extra employees or releasing a new or innovative product.

Setting up and running a business requires a large amount of time and effort, and the commitment of the owners. Many entrepreneurs fail and lose large amounts of money because of this. The balance between risk and reward is great and any entrepreneur needs to consider this before starting a business.

#### CASE STUDY

### Alibaba grows

Chinese businessman, Jack Ma, used \$60 000 of his own money to set up the Alibaba Group. This is the world's largest business-to-business e-commerce site. Despite the huge risk, he is now worth \$1.6 billion. The growth of this business has been impressive – within its first 10 years, Alibaba had 58 million businesses using its site. Last year, Alibaba achieved a 51% increase in its revenue, with its final quarter's results exceeding targets by 30%.





Application

Analysis

- In no more than 40 words, describe your favourite entrepreneur. Avoid using their name.

Now work in pairs. Read out your description to see if your partner can guess who it is.

- Using the characteristics of an entrepreneur, outline your own strengths and weaknesses. You should be realistic and honest and try to identify two or three of each.
- Now compare yourself to other students in the class. Which skills do most people have? Which characteristic do you think is most important for an entrepreneur?

## The business plan

Once someone decides they want to run their own business, they will often produce a business plan. This is a written document that outlines the business's aims and vision (plan for the future). Many entrepreneurs will use their business plan to attract (encourage people to give) finance, whether this is from a bank or investor, and to work out the timeline for the business.

The plan also gives the owner some idea of how the business needs to develop, in line with targets and goals, so that they can measure its success. Having some sort of plan helps keep the business on track and gives other people who are involved in the business – suppliers, customers and employees – some idea of what the business is hoping to achieve.

The business plan is also useful for the stakeholders involved in the entrepreneur's business. A stakeholder is an individual, group or organisation that is affected by, or interested in, a business. Each stakeholder will use the business plan in a different way.

The business plan will be divided up into different sections:

Section	Description of contents
Business summary	This gives a general description of the product or service and the ethos (day-to-day behaviour) of the business. It should give someone reading the plan a good idea of what is to follow. If the business is looking for an investor, then this section should capture their interest and make them want to read more.
Business details	This can be broken down into sub-sections such as business idea, goals, unique selling point (what makes the business different) and recruitment. In this section, there is more information on what the business will actually do on a day-to-day basis. It may also include the legal structure of the business.

Section	Description of contents
Market research	This section describes how the market research was carried out and includes evidence to support the business plan. This could be graphs and tables that demonstrate that the product or service is needed and would be a success. The research will usually involve a questionnaire (primary research) as well as the internet, books and reports (secondary research).
Marketing	This outlines the strategy the business will use to attract customers. This will include the four Ps of the marketing mix (Product design and features, Price choice, Promotion activities and Place of sale) (see 3.3 Marketing mix) and identify any areas the business may struggle with. It may also include pricing methods, promotion examples and costing.
Day-to-day running of the business	This describes areas such as production methods, suppliers, competitors and location choices. This section should also outline any equipment that might be needed – for example, computers, machinery or tools. It gives a more specific idea of what the business and employees do in their roles each day.
Finance	This is a vital part of the plan, especially if the business is looking for investment from an external source. This should show the costs of setting up the business in plenty of detail, as well as the cash flow forecast, predicted profit and loss, and statement of financial position. It is often the hardest part to write, as the owner will need to make informed estimates of the figures. The start-up funding will be clearly outlined, so any investor can see how they will make back their money ... and more.



#### Analysis

Not all businesses use a business plan to help set out their idea, although it can be much harder without the guidance that a plan gives.

In pairs, create the arguments for and against using a business plan. Try to use some of the business terms you have already learned – for example, opportunity costs.

- Now identify the key point for having a business plan and the key point against having one.

## Government support for business start-ups

The governments in most countries offer a wide range of support and finance to start-up businesses. It is in the government's interest to support businesses.

- Businesses reduce **unemployment**, as they create more jobs. This reduces the amount that the government needs to pay in unemployment benefits.
- The country produces more goods and services, therefore increasing its **gross domestic product (GDP)**. (This will be covered in more detail in 6.1 Economic issues.)

- The government receives more money from taxation. If businesses are taking on more employees, it is likely that a lot of their earnings will come back to the government through taxation on goods and services. Also, if the business is doing well and making a profit, in some countries the government will receive **corporation tax** (tax on a business's profits).
- Foreign businesses and investors are attracted to a country that is at the top of enterprise and entrepreneurship. When regions are seeing growth, foreign companies seek to take advantage of this by opening up new offices or shops in these areas. This is because the local people are likely to spend more money in that area, which means extra tax revenue for the government. The business will, in return, have access to higher-quality employees.

Some examples of different ways that a government might support business start-ups are as follows.

#### CASE STUDY

### Taiwan thinking ahead

The Taiwanese government has developed its support of start-up businesses in the ICT industry by creating the Institute for Information Industry (III). This runs as a think tank (that conducts market research and gives advice), which helps ICT businesses to develop products and systems that will drive forward innovation. A new batch of social media and gaming companies has already emerged. Taiwan is now highly regarded around the world as one of the best places to set up and run an ICT-based company.



### Grants

These are sums of money that are given to businesses to help pay for set-up costs or expansion. Businesses do not have to repay the money. Finance is often the reason why businesses do not start up, so this method is very important. In China, the National Development and Reform Commission (NDRC) gives money to start-up businesses.

### Advice

Having access to sources of advice is important. Many business owners do not understand tax, employee rights or aspects of finance, so they need extra advice and support.



## Training schemes

Providing courses for unskilled, unemployed or older people can help to get more of the population into work. Therefore, governments set up training courses, often for free, to help with this. In Bahrain, Tamkeen, the nation's labour authority, has schemes such as grants and training subsidies that support employers, not only to attract top graduates but also to train them.

## Loans

At times of economic recession, banks are less likely to lend to smaller businesses or those that are more of a risk. The government can help with this by providing small loans aimed specifically at businesses that are struggling to gain finance. This is risky but it can bring more employment and economic growth to the country.

## Tax relief

In some areas of a country, the government may offer tax relief. This allows businesses a set period of time (often a year) when they do not have to pay any tax.

## Mentors

Having access to people who have run a successful business is vital for future business growth. Using their advice and knowledge could be the key to a start-up business owner succeeding.



### Evaluation

In pairs, discuss why just giving financial support such as grants will not guarantee that a start-up business is successful. Go on to evaluate the other options a government might consider.

**Extension:** What else could a government do to help start-up businesses? Many businesses such as Google succeed without government support. Do you think that governments should have to provide support to start-up companies?

## Knowledge check

- 1 Identify two attributes that you would expect a successful entrepreneur to have. (2)
- 2 Identify two parts of a business plan. (4)
- 3 Explain two reasons why a start-up business should use a business plan. (4)
- 4 Outline two forms of support a government can offer a business. (6)

Total 16 marks

# The methods and problems of measuring business size

## Aims (1.3.2)

By the end of this section, you should:

- Understand the methods used for measuring business size, for example, number of people employed, value of output, capital employed
- Understand the limitations of methods of measuring business size.

## Business size

A business's size can be measured in a number of different ways. Choosing the correct method is a difficult task. No one measure can be used on its own – it depends on what you are trying to measure.

### CASE STUDY

## Is Subway bigger than McDonald's?

It depends on how you measure it! Subway now has 44 702 outlets worldwide compared to 36 899 for McDonald's. However, McDonald's had a profit that was \$9 billion larger than that of Subway. Subway only operates in 107 countries, whereas McDonald's operates in 119. The method used to decide on the size of a business is crucial. With smaller outlets and a wider product range, is Subway going to match McDonald's one day?



It is often hard to calculate the value of a company. To get a good idea of a company's value, many people look at the statement of financial position. This will give an approximate value, but it is not 100% accurate. For example, Google is very hard to value because of the intangible (cannot be touched or seen) assets such as reputation and logo.

The table lists some of the ways that a business can be measured. Each measure of the size of a business has its benefits and drawbacks.

Measure	Benefits	Drawbacks
<b>Capital employed</b> (The amount of money invested in the business)	The value of all the business assets added up shows how much the business could be worth. This gives a value for the business that reflects what it has invested and what it would be worth if sold.	It is difficult to value assets accurately. For example, DHL delivery vans may be worth very little but the business could give a high estimate of their worth in their accounts.

Measure	Benefits	Drawbacks
<p><b>Market share</b></p> <p>(The total amount of sales a business has as a percentage of the total sales in that market)</p>	<p>This provides a useful comparison against businesses in the same industry. It shows how much of the money being spent in the market is coming to the business.</p>	<p>You cannot compare one business's market share with that of a business in another industry. For example, you cannot compare Google's market share with Walmart's market share, as they have shares of different markets.</p> <p>The market itself may be very small, so even if a business has a large share, it doesn't necessarily mean it is a large business.</p> <p>This method does not show the other assets a business may have, such as employees, logos or patents.</p>
<p><b>Number of outlets</b></p> <p>(The number of shops the business owns and runs)</p>	<p>This gives a geographic idea, as each outlet will take up a certain amount of space. This can then be used to compare it with other businesses.</p>	<p>Outlets are not equal to sales or profit. A business can have lots of outlets but not many customers.</p> <p>Outlets do not show the number of products sold or the value of the products that have been sold.</p> <p>This method does not show how many of the outlets the business owns or rents. It also does not show a monetary value.</p>
<p><b>Number of employees</b></p> <p>(Total number of people who work for the business)</p>	<p>Shows the scale (extent) on which the business operates.</p>	<p>You cannot compare industries. For example, a factory may only employ a few people, whereas a supermarket employs a lot.</p> <p>Even if a business only has a few employees, their skills and knowledge could be worth millions of dollars. On the other hand, clothing businesses, for example, may require lots of employees, but still hold little value.</p>
<p><b>Value of the business</b></p> <p>(The price another business is willing to pay to own the business)</p>	<p>This can be a good reflection of the true worth in the market place, as many businesses are bought because of their potential to be worth a lot in the future.</p>	<p>This measure can be inaccurate, as sometimes a business will be bought for more than it is worth. For example, Instagram was bought for \$1 billion when it had yet to make a profit. The value may be different to a variety of people. Investors may see a lower value compared with a shareholder.</p>

Measure	Benefits	Drawbacks
<b>Value of output</b> (Often called sales or turnover, this is the value of the products or services sold)	This shows how much the business is producing and how much people are willing to pay for these products. It can be easily compared with competitors.	Revenue alone does not take into account the costs of the business. Large revenues are often reduced when costs are taken away. Revenues can vary depending on how well the economy is doing.

**Note:** Profit is not a measure of size, as it only shows a monetary value. Businesses can be very large and only produce small amounts of profit.



Application

Analysis

Using your research skills, choose a business from your country. Which method would you suggest for measuring its size?

If possible, produce some information, such as graphs, tables or article evidence, which show the business's size.

Is it difficult to use just one method? Would you recommend using an additional method?

There is no one specific way to measure business size, but applying the different measures to an industry is important. Some industries, such as farming, are better suited to being measured by output. By contrast, supermarkets may wish to use the number of outlets or market share.

The best way to measure the size of a business is to use all of the measures described. This will give a clearer picture of the business size. For example, combining the number of employees and market share gives a more accurate idea of the size. This reduces the problem when measuring the size of businesses that use a lot of machinery.

### Knowledge check

- 1 Identify two ways in which a business's size can be measured. (2)
- 2 Explain why a business should use a variety of methods to measure its size. (4)
- 2 Identify two limitations of using the number of employees as a way of measuring the size of a business. (6)

Total 12 marks

# Why some businesses grow and others remain small

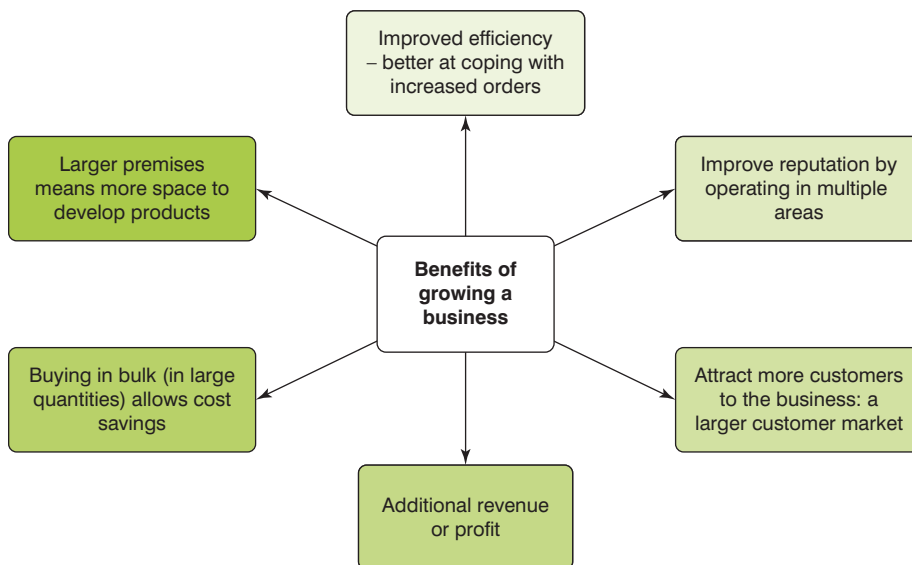
## Aims (1.3.3)

By the end of this section, you should:

- Understand why the owners of a business may want to expand it
- Understand different ways in which businesses can grow
- Understand problems that are linked to business growth and how these might be overcome
- Understand why some businesses remain small.

## Why owners may want to expand their business

Imagine you run a small beauty salon. It is producing a profit each year and is well established in the local area. Would you try to grow this business?



△ The potential benefits of growing a business

### CASE STUDY

## Valiram to scale up

Malaysia-based retail group Valiram is planning to upgrade its network significantly this year using its core brands, such as Michael Kors, to help fuel growth across the region. It aims to expand into New Zealand while increasing its presence in Vietnam and Malaysia. Led by the three Valiram brothers, the business now has 343 stores in nine different markets. As well as its home nation of Singapore, it also has stores in Australia, Thailand and Macau. Last year, the business made \$647 million, leading to company expansion, more stores and greater influence.





### Evaluation

Sammi runs a successful shoe brand in his home country of Iran. His brand has developed a good reputation, and Sammi is keen to see his brand grow by expanding the business into a second factory. This would be located in Egypt and would focus on a new range of products.

Divide a piece of paper into two columns. Create a 'For' and 'Against' list for Sammi's decision.

Now, in small groups, debate whether or not you agree with Sammi's decision.

**Tip:** Link your reasons to his business, the industry and the different countries to help improve your answer.

## Different ways in which businesses can grow

Once a business is up and running, it should naturally start to grow. However, businesses can grow in different ways.

### Internal (Organic)

This occurs when the business opens new outlets or factories, or moves into new markets abroad. This is a more natural process, as the business chooses when to open its next outlet or factory. In this case, the growth comes from within the business and is often funded and staffed by existing resources. For example, Jaguar Land Rover (JLR) has seen dramatic increases in sales in China due to its introduction of new models and showrooms. This internal growth has led to greater growth than its competitors.

### External (Inorganic)

This happens when a business buys another business through a **takeover**. This is a common practice for larger businesses, normally public limited companies that want to grow quickly by buying smaller firms. Often, the business that is being bought offers a new service or product that the buyer wants or needs.

### CASE STUDY

## Expanding outwards

India has a large number of small businesses — an estimated 48 million in 2015. Owners grow their business by registering with the online auction site eBay India. Indian sellers are estimated to sell a product through eBay India every 10 seconds, and comprise a third of all sellers on the site.



A **merger** combines two businesses that come together as one. This automatically grows the business. This process can be involuntary for some businesses, as larger businesses buy enough shares to force a takeover. However, mergers are often beneficial for both businesses.

- Split costs allow both businesses to reduce debt or borrowing.
- Sharing the risk between two firms makes it easier to justify decisions.
- The two businesses can share resources such as employees, office space and assets (for example, aeroplanes).

One of the most famous mergers around the world is between Disney and Pixar. Now working together, they have put their separate skills and resources together to improve their product (films). In 2016, the State Bank of India completed a merger with five subsidiary banks to become one of the top 50 banks in the world. It is now worth a combined value of \$463 billion and will have a customer base (number of customers) of 370 million people.

External growth is done outside the business and often requires large amounts of money to fund it. Adidas achieved growth by buying rival Reebok for \$3.8 billion. This gave it Reebok's products, stores and market share.

## CASE STUDY

## Tencent invests in games

In 2016, Tencent announced that it had signed a \$700 million deal with the NBA (National Basketball Association) to stream American basketball games in China. This year, Tencent has invested \$1.78 billion for a 5% stake in the car maker Tesla. These investments in new and growing markets are a sign that Tencent aims to continue its rapid growth and experience markets outside China.



### Application

You have been asked by your country's government to create a 'help leaflet' that will explain to business owners the dangers of growth and offer suggestions on how to avoid them.

Try to use images, graphs and tables to show the impact of your tips.

Growth can bring several rewards and boost the potential revenue of a business. However, it does not come without its problems.

**Production problems**  
 Eventually the business may struggle with large orders and maintaining stock levels. This can cause costs to go up, reputation to drop and quality to fall.

**Communication**  
 Many businesses find this a major problem. The business can get so big that communication between managers and other employees stops. This can cause orders to go unnoticed, decision making to stop and morale to become low.

**Morale**  
 Imagine you were one of a million employees. Would you feel valued or listened to? It can be very difficult to maintain motivation and employee happiness when the business grows.

**Clash of cultures**  
 If a business merges with another, often they can struggle to work well together. Would Google fit well with Microsoft? Probably not, as they have a very different ethos and working environment.

When Cadbury and Kraft merged, many people thought it would be a huge success. But the clash of cultures, between the employees and the new policies, caused Cadbury to see a drop in its revenue.

There are often problems with both internal and external growth. However, there are ways to overcome these problems:

<b>Training</b>	One of the main problems with growth is that it can cause some employees to be given new roles. They may lack the necessary training to allow them to do their new jobs properly. This could happen to existing employees (internal growth) or employees that the business inherits (external growth through merger or takeover).
<b>Management changes</b>	When a business buys another, it may need to replace or spread its managers to make sure all areas of the business are covered. It may also need to recruit new employees to make sure the two businesses work together.
<b>Incentives for employees</b>	When a business grows, its employees may need to work harder or more efficiently so that the growth is successful. Employee morale is a common problem for businesses when growing. In order to boost employee morale, the business may introduce incentives such as bonuses or extra days off work.
<b>Set realistic targets</b>	When businesses grow, they often set unrealistic targets for future revenue or profit. If this happens it may seem as though the business has not succeeded. By setting realistic targets, a business can be more successful.
<b>Invest in the business</b>	Once a business has grown, either internally or externally, it may need to spend additional money on equipment, training or other assets. This extra investment can help the business to succeed.



Production problems	With the right employees and production methods, a business can maintain production levels. Using IT to monitor stock levels will also help.
Communication	Making sure that the business continues to use all forms of internal and external communication will help to prevent messages from being lost.

## Lack of business growth

Some businesses remain small and do not grow. This could be for a number of reasons.

- **Operating at maximum.** Some businesses operate at their maximum, so extra space or outlets will not bring any benefit. In fact, it will only increase their costs and reduce profit. For example, a carpenter will not need to grow his or her premises.
- **Extra cost.** Some small businesses cannot afford to hire new employees or move location.
- **Economies of scale.** The business may be operating at its perfect output and any increase in this may result in **efficiency** dropping (see 4.1 Production of goods and services).
- **Neither time nor desire.** Some business owners do not want to grow their business, as they are happy with its current size.
- **Knowledge.** Some owners do not have the skills or knowledge to expand a business. It is unlikely that they will understand every aspect of running a business, so will need advice on how to do this.

### Key Term

**Efficiency:** the comparison between the output produced and the actual amount that could be made.



### Evaluation

'All takeovers will fail because there are no two businesses with the same ethos and work ethic.'

In small teams, use this statement as the centre of a debate. Do you agree or disagree with the statement?

## Knowledge check

- 1 Identify two reasons why a business might want to grow. (2)
- 2 Explain why larger businesses often choose external growth. (4)
- 3 Consider why some businesses choose not to grow. (4)
- 4 Identify one problem with a business expanding. (2)

Total 12 marks

# Why some (new or established) businesses fail

## Aims (1.3.4)

By the end of this section, you should:

- Understand the causes of business failure, for example, lack of management skills, changes in the business environment, liquidity problems
- Understand why new businesses are at a greater risk of failing.

## Why do businesses fail?

Despite all the hard work, capital and expertise, some businesses do fail. This can happen to businesses of all sizes. It can easily happen to a local takeaway restaurant. In 2017, executive search firm DHR Global's UK operation was forced into liquidation, as it was unable to pay debts of more than £2.3 million. This was because the business had run out of cash to pay its bills on a day-to-day basis. This was a well-established and long-standing business that struggled to maintain sales. So why do businesses fail?

### Liquidity problems

To make a profit in the long term, a business needs to be able to run day-to-day. Regular cash inflows are crucial for a business to pay its daily costs, such as employees, electricity and suppliers. Costs such as those for advertising, running offices or shops, paying employees' wages and making up for production mistakes are often very hard to estimate accurately. This can also be the case for well-known businesses that overspend; for example, a South African business, 1time Airline, filed for liquidation (arranged for closure) because it ran out of money to continue to run the business. The airline was an established business but, because it didn't monitor its expenditure closely enough, it saw its cash flow drop.

### Initial errors

Many start-up businesses make mistakes early on, which can cause failure – for example, by choosing the wrong products. These mistakes can often be hard to solve, especially when the business has spent its start-up cash. However, even existing businesses make errors later on. Adidas was criticised for launching a line of new trainers that had 'shackles', which were made to be attached via a chain to the wearer's ankles. Adidas received many complaints from people who said that the shackles were a symbol of slavery.



△ There are various reasons why a business may fail.

### Lack of management skills

Some businesses, no matter how old, can fail because of the poor decisions of managers. As managers make the more important decisions, they can choose the wrong product, pricing method or market to sell in. An American company, FirstEnergy, was criticised because its managers responded slowly to power failures during Hurricane Sandy in 2012. This can have damaging effects on a business, potentially causing closure if it fails to respond more quickly to future crises.

### No reputation

Establishing a reputation can be hard for a business. If a market has well-known brands, start-up businesses may fail. For example, with AirAsia and Malaysia Airlines dominating the Malaysian air travel market, a start-up business may struggle. Yet even businesses that have a strong reputation can lose business very quickly by making errors.

### Market conditions

Some markets can be harder to enter than others – for example, the banking market. During the recession in 2008–09, the banking market was targeted as one that needed to reduce its barriers in order to allow more businesses to enter and succeed. The business environment can cause problems for a business. As the economy moves from **boom** to a recession, people will spend less money. This can cause a business to lose orders and income.

### The economy

During a recession, many businesses of all sizes fail. This is due to a lack of customer spending, which causes a reduction in a business's revenue. The South Korean SsangYong Motor Company struggled during the 2008–09 global recession, until it was taken over by Mahindra in 2011.

As governments change, so do their policies on taxation, business support and trade deals. If a government increases the tax placed on businesses' profit, reduces the amount of financial support or increases the cost of employing, then some businesses will suffer liquidity problems and close.

### Large competitors

As other businesses grow, smaller businesses can often be squeezed out of the market. This is because larger businesses can often afford to invest in developing new products, reducing their prices or using large advertising campaigns.

### Why are new businesses more likely to fail?

New businesses have a higher risk of failure than older, more established businesses. This is because they do not have the reputation or loyal (regular) customers to support them

through the early stages. New businesses struggle to compete with larger, more established competitors because of the size of their budgets. Where larger businesses can spend millions of dollars on advertising, smaller start-ups may only have a few hundred dollars to spend.

Customers are very brand loyal. A brand is a name, symbol or feature that identifies a seller or product. For example, many customers will choose Apple if they want an MP3 player. Apple have created an 'i' brand by placing this before its product names; for example, iPhone, iPad and iPod. Once a business creates a reputation, it is less likely to fail.

CASE STUDY

## Training needs

During the recession in 2008–09, the Middle East saw a 22% increase in business failures. This resulted in a massive injection of money into training. The governments aimed money at those who had lost jobs in industry, so they could retrain and find new jobs.

Since the recession, global unemployment has increased, with France having around 10% unemployment compared to India's 3%. The change in the market and economic conditions has had a damaging effect on businesses everywhere.



Application

Despite using a business plan and receiving help from the government, businesses can still fail. What are your top three tips for a business owner who is starting up a new business? Produce a poster that highlights these tips.

You may wish to apply these to a specific type of business or industry.

Can you justify why you think these three tips are the most important?

Top Tip

Make sure you understand the key terms used to talk about the economy and business environment: recession, boom, growth, unemployment and stability.

### Knowledge check

- 1 Identify two reasons why a start-up business may fail. (2)
- 2 Explain why poor management decisions can cause a business to fail. (4)
- 3 Explain why start-up businesses are more likely to fail than established businesses. (4)

Total 10 marks

Check your progress:

- ✓ I can outline the characteristics of a successful entrepreneur and the different parts of a business plan.
- ✓ I can analyse the methods and problems of measuring business size.
- ✓ I can explain why some businesses grow and others remain small, and the problems they face.
- ✓ I can understand why some businesses fail, what the causes are and why new businesses are more likely to fail.

# Types of business organisation

## Main features of different forms of business organisation

### Aims (1.4.1)

By the end of this section, you should:

- Understand the key features of sole traders, partnerships, private and public limited companies, public limited companies, franchises and joint ventures
- Understand the differences between unincorporated businesses and limited companies
- Understand the concepts of risk, ownership and limited liability
- Be able to recommend and justify a suitable form of business organisation to owners/management in a given situation
- Understand business organisations in the public sector, for example, public corporations.

---

### *Unincorporated businesses – sole traders and partnerships*

Unincorporated businesses are not legally registered as companies (corporations). The two main types are sole traders and partnerships.

#### **Sole traders**

Sole traders, or sole proprietors (as they are sometimes called), are individuals who own their own business. A sole trader does not have to work on their own – they can employ people to work with them or for them – but they are the sole owner of the business. Businesses that are easy to set up and require little start-up finance are often sole traders. A hairdresser requires few items of equipment to get started; therefore being a sole trader is the best form of legal ownership, especially as they require very little paperwork before they can start trading.



◁ A sole trader is the ideal legal ownership for a sole proprietor, as they need very little finance to set up.

Advantages of being a sole trader	Disadvantages of being a sole trader
<ul style="list-style-type: none"> <li>✓ <b>Make all the decisions</b> – Sole traders can make all of the business decisions themselves. This means that decisions can be made quickly and without any conflict of interest.</li> <li>✓ <b>Keep all of the profit</b> – As sole traders are the sole owners of their business, they can keep all of the profit for themselves. Larger organisations, such as partnerships and companies, have to split the profit between partners or shareholders.</li> <li>✓ <b>Easy to set up</b> – Sole traders are often very small operations and therefore require very little paperwork to set up. In most cases, having a bank account and registering with the tax office is enough.</li> <li>✓ <b>Requires little capital</b> – As they are small operations, sole traders often require little capital to start their business.</li> </ul>	<ul style="list-style-type: none"> <li>✗ <b>Unlimited liability</b> – This means that the sole trader is personally liable (responsible) for all of their business's debts.</li> <li>✗ <b>Difficult to raise finance</b> – Although sole traders do not often require much capital, they find it difficult to raise large amounts. This is because they are small, so banks are unwilling to lend them large amounts of money.</li> <li>✗ <b>Long working hours</b> – Sole traders do not earn money when they are not working, and therefore they often have to work long hours.</li> <li>✗ <b>No holiday pay or paid time off</b> – When sole traders do not work they do not get paid; also they do not receive benefits such as holiday pay and sick pay.</li> <li>✗ <b>No continuity</b> – The sole trader and their business are the same, so when the sole trader decides to stop working, the business will also stop unless somebody is willing to take it over.</li> </ul>

## Partnerships

**Partnerships**, like sole traders, are unincorporated businesses. This means that, in the eyes of the law, the owners (partners) and the business are the same legal entity. For example, if a partnership of accountants wished to take out a loan to expand their business, the partners themselves would be liable (responsible) for the loan.

Partnerships are small organisations that traditionally used to have between 2 and 20 partners. However, English Partnership Law has allowed businesses to have as many partners as they like. Small local businesses, such as a firm of lawyers, often choose to be partnerships, as they don't have to do as much paperwork as larger companies and can keep all of the profits themselves.

Advantages of being a partnership	Disadvantages of being a partnership
<ul style="list-style-type: none"> <li>✓ <b>More expertise</b> – Partnerships have more owners (partners) than a sole trader, so can normally call on more expertise.</li> <li>✓ <b>Less financial risk</b> – Liability or risk is shared among all the partners.</li> <li>✓ <b>More access to capital</b> – There are more partners to invest in the business.</li> <li>✓ <b>Can attract investment</b> – Partnerships can attract investment from sleeping partners (people who invest in the business but take no active role in running the organisation).</li> <li>✓ <b>More continuity</b> – If one of the partners dies or resigns, the business can still continue.</li> </ul>	<ul style="list-style-type: none"> <li>✗ <b>Lack of capital</b> – Despite having more access to capital than a sole trader, partnerships still find it difficult to raise large amounts of capital.</li> <li>✗ <b>Sharing the profit</b> – As a partnership has more than one owner, profits are normally shared out between the different partners.</li> <li>✗ <b>Unlimited liability</b> – All partners, with the exception of sleeping partners, are jointly liable for the partnership's debts.</li> <li>✗ <b>Conflict of interest</b> – Partners may have disagreements over business decisions.</li> </ul>

### The deed of partnership

The **deed of partnership** is a legally binding document, drawn up by partners. If a conflict arises between the partners, they can refer to the deed of partnership. A deed will normally include details of the:

- finance provided by each partner
- salary entitlements
- percentage of profit to be received by each partner
- holiday entitlements
- registered address.

#### Key Term

**Salary:** employees on a salary system are paid an agreed sum for a year's work.



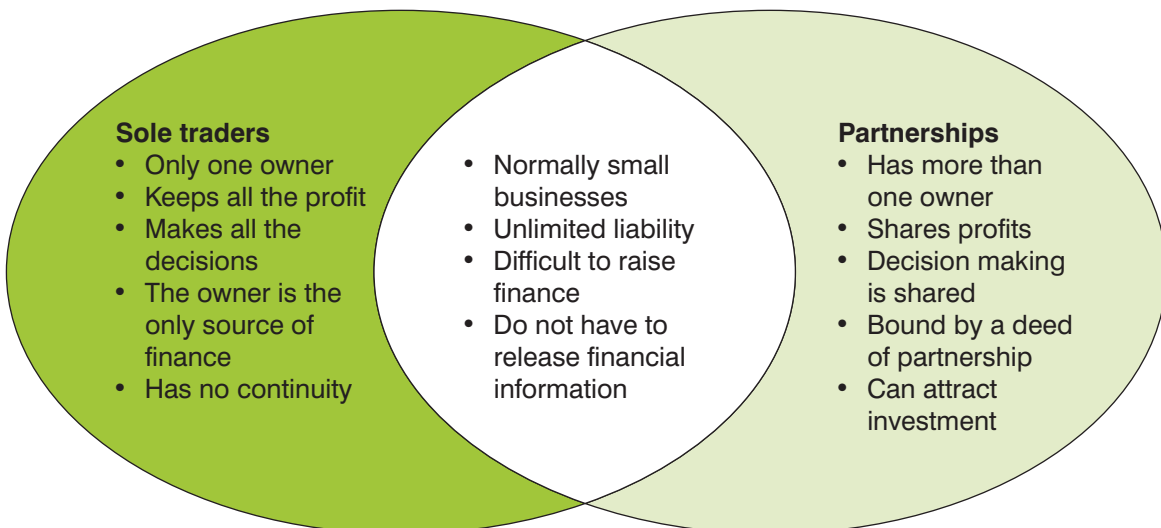
◁ A deed of partnership is a legal document that binds the partnership together.

## A profitable partnership

In 1934, two electrical engineering graduates from Harvard University, Boston, USA, Bill Hewlett and Dave Packard, started working on a device to test sound equipment. After Walt Disney bought eight devices, they formalised their partnership and formed Hewlett-Packard (HP) in 1939. Throughout the 1940s and 1950s, the business grew. Its innovative approach to providing technological products soon led to an annual (yearly) revenue of over \$500 000. By 1960, growth was so large that they formed a company that was listed on the New York Stock Exchange. Now Hewlett-Packard is one of the world's biggest computer companies with an annual revenue of over \$100 billion.



### Summary: Unincorporated businesses



#### Application

Use the internet to research a famous business partnership. Create a presentation describing how their business started and why they might have formed as a partnership. You should aim to make your presentation five minutes long, with at least three slides. Use headings such as: 'How did they start?' 'Why did they become a partnership?' 'Where are they now?'

If they are no longer a partnership, include when and why they changed legal ownership. Try to include terms such as finance, growth, control and continuity.



## Incorporated businesses – private and public limited companies

Incorporated businesses, or **companies**, have a separate legal identity to their owners. This means that incorporated businesses are registered with the company registration institute of the country they are based in. The actions and finances of the company are now considered to be separate from that of their owners. For example, when a company such as Fragrance Hotel Management Ltd (a chain of eight hotels in Singapore) wished to take out a loan to open a new hotel, it was the company, and not the owners, that was held responsible for paying back the loan.

### CASE STUDY

## Where in the world?

Where a company is registered depends on the country in which the company is based. The table shows various authorities around the world where companies have to be registered.

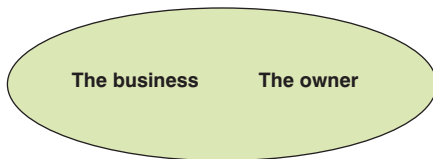
Country	Company registration authority
Brazil	DNRC (Departamento Nacional de Registro do Comércio)
Cambodia	Ministry of Commerce
Germany	Trade Register
Hong Kong SAR	Companies Registry
India	Ministry of Corporate Affairs
Malaysia	Companies Commission
Pakistan	Securities and Exchange Commission
Singapore	Accounting and Corporate Regulatory Authority
United Kingdom	Companies House
USA	US Securities and Exchange Commission

Although there are many differences, there are two main features of incorporated businesses (companies) that differentiate them from unincorporated businesses (sole traders and partnerships): limited liability and the ability to sell shares.

## Limited liability

As companies are legally registered, they are **separate legal identities** to the identities of their owners. This means that the company, and not the owners, is liable for all of its debts. If the business was to face legal action, it may lose all of its possessions (assets), including money invested by its owners, but the owners' personal possessions would not be at risk, as they are protected by **limited liability**.

### Unlimited liability



In the eyes of the law, the business and its owners have the same legal identity. Therefore, the owners are liable (responsible) for the business's debts.

### Limited liability



Companies have their own legal identity. This means the owners' personal possessions are protected (this is known as the 'veil of incorporation') and their liability is limited.

## Issuing shares

As companies have their own legal identity, their ownership is allocated (divided up and given out) by issuing shares. Shareholders invest money in the company and, in return, they own a part of the business called a **share**. The number of shares that a shareholder has determines how much of the company they own. How shares are bought and issued depends on the type of company.

- **Private limited companies (Ltd)** issue their shares to private investors who they choose, which means that the ownership of the business is kept private. They have to prepare two documents, called the articles of association (the legal document detailing the responsibilities of the internal members) and the memorandum of association (the legal document detailing the registered name, address and share structure). In addition, the law requires private limited companies to hold an annual general meeting (AGM), a yearly meeting with shareholders and company directors. Fragrance Hotel Management Ltd is a privately owned company in Singapore. This means that it chooses who it wants to become a shareholder; the price of the share is agreed by both parties; and there is no limit to the number of shareholders it can have.
- **Public limited companies (PLC)** issue their shares to the general public, meaning that anyone can become a shareholder and they are then free to openly trade their share in the business on one of the world's stock exchanges

(depending on where the company is registered). This process is called floatation (also spelled flotation). Nokia PLC, the communications company, is a public limited company. This means that shareholders purchase shares via the Helsinki Stock Exchange (Finland).

## CASE STUDY

## Floating Facebook

Facebook, the worldwide social media site, floated its shares (made its shares available for purchase) on the Nasdaq Stock Market (based in New York). Each share was initially offered at \$38. A few days after floatation, traders must have felt that the business was over priced, as the value of each share fell by as much as 11%.

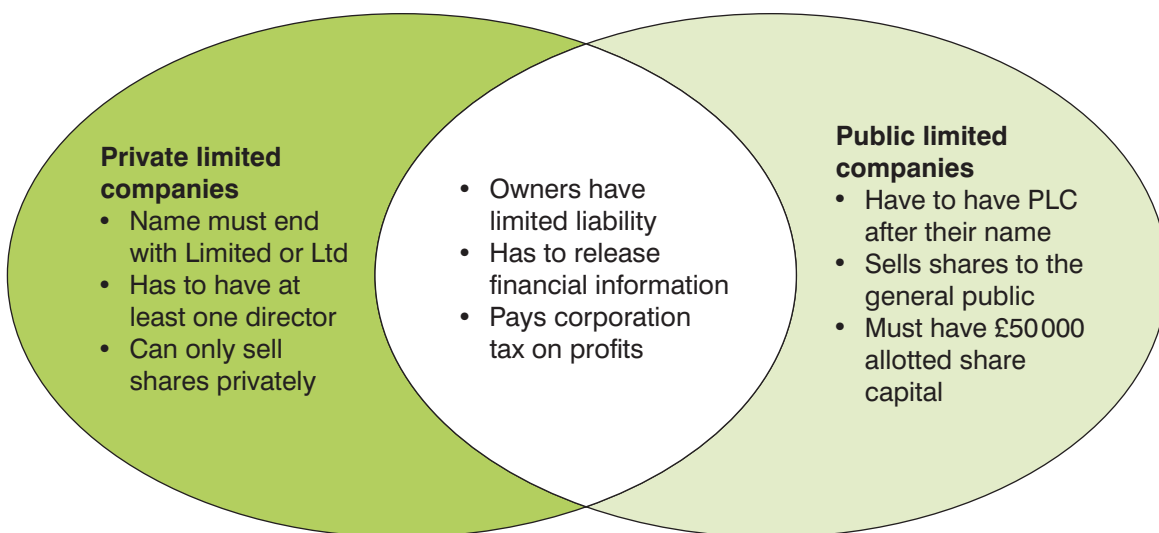
After the initial public offering, however, Facebook's sale on the Nasdaq Stock Market made its founder, Mark Zuckerberg, an instant billionaire and the 29th richest person in the world.



Advantages of being a private limited company	Disadvantages of being a private limited company
<ul style="list-style-type: none"> <li>✓ <b>Shares</b> – Private limited companies (Ltd) can select shareholders to help them raise more capital.</li> <li>✓ <b>More expertise</b> – Private limited companies are often large enough to have directors who specialise in a particular area (they are often shareholders).</li> <li>✓ <b>Maintain control</b> – Because a private limited company selects its shareholders, it is able to keep control of the business more easily than a PLC. If a shareholder wishes to sell up (sell all their shares), their shares are offered to the existing shareholders first.</li> <li>✓ <b>Limited liability</b> – Shareholders (owners) are protected by limited liability. This means they only risk what they have invested in the company.</li> </ul>	<ul style="list-style-type: none"> <li>✗ <b>Releasing financial information</b> – All private limited companies have to register their accounts with the relevant registration authority. The accounts have to be audited (checked and agreed) by external accountants, adding to the running costs of companies.</li> <li>✗ <b>Legal restrictions</b> – Private limited companies have more legal restrictions than unincorporated businesses.</li> </ul>

Advantages of being a public limited company	Disadvantages of being a public limited company
<ul style="list-style-type: none"> <li>✓ <b>Selling shares to the general public</b> – Public limited companies (PLCs) can sell shares to any member of the public, both individuals and other companies. This allows them to raise considerable amounts of capital – far more than for any other type of legal ownership.</li> <li>✓ <b>Limited liability</b> – Like those of private limited companies, shareholders of PLCs have limited liability, which limits the risk involved with a potential investment.</li> <li>✓ <b>Managerial economies of scale</b> – PLCs are normally very large organisations that can afford to employ specialist directors to run the business on behalf of the shareholders. These specialists improve the efficiency of the company.</li> </ul>	<ul style="list-style-type: none"> <li>✗ <b>Releasing financial information</b> – As members of the general public are shareholders in a PLC, the company has a duty to supply them with up-to-date information about its performance. It has to produce an annual report, which is normally available via its website and therefore visible to competitors.</li> <li>✗ <b>Dividends</b> – PLCs are obliged to pay their shareholders dividends. Finding the right balance between retaining enough profit to reinvest in the business and satisfying shareholders is difficult. If shareholders are not happy, they can vote to replace the company’s directors.</li> <li>✗ <b>Losing control</b> – As shares are available to anyone in the general public, existing shareholders can be subject to hostile takeover bids and can lose control of the business if an individual or business purchases 50% or more of the available shares.</li> <li>✗ <b>Legal issues</b> – Public limited companies are bound by more legal constraints than a private limited company, and this can make them more complicated to run.</li> </ul>

### Summary: Incorporated businesses



## Knowledge check

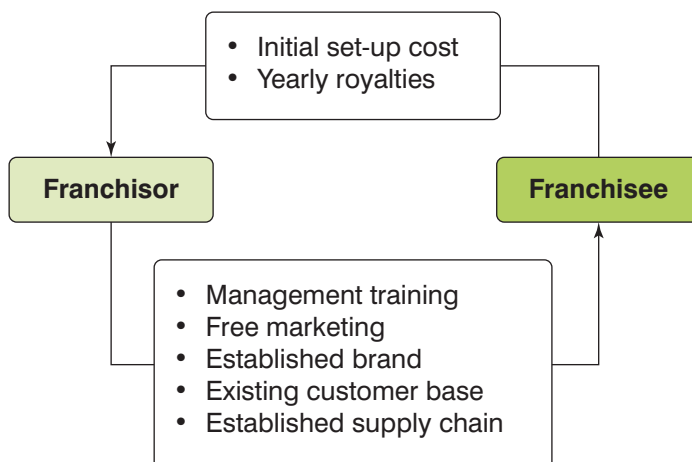
- 1 Define the term sole trader. (2)
  - 2 Identify and explain two advantages of being a partnership rather than a sole trader. (4)
- Brothers Chahel and Pavel are an Indian-based legal partnership. Since forming the partnership, they have taken on four new partners, each specialising in a different area of law. Chahel is concerned that the partnership is stopping the business from growing.
- 3 Define the term unlimited liability. (2)
  - 4 Explain one reason why Chahel and Pavel might want to draw up a deed of partnership. (2)
  - 5 Explain one advantage and one disadvantage of being a public limited company rather than a private limited company. (4)
  - 6 Chahel has recently considered forming a private limited company. Do you think this is the best form of ownership for his business? Justify your answer. (6)

Total 20 marks

## Franchises

A **franchise** is an arrangement between two existing organisations, normally a public limited company and a private limited company. A franchise arrangement is when a new business (**franchisee**), although a separate legal entity, trades under the name of an existing business (**franchisor**).

### The franchise arrangement



### Did you know?

In the United States, franchises contribute 3% of the total GDP (total amount of goods and services in the economy) each year. That is \$552 billion!

Entrepreneurs often favour a franchise arrangement, as it allows a new business to trade under an established brand name, which reduces the risk of failure. In return, the franchisee has to pay an initial set-up cost and yearly **royalties** (an agreed percentage of the franchisee's profit).

For example, an entrepreneur wishing to start their own restaurant may choose to enter into a franchise arrangement with an existing restaurant, such as Subway. Although the entrepreneur will have to pay an initial fee and pay yearly royalties, they will have the benefit of the Subway brand and will therefore be far more likely to succeed. This is why many banks are more willing to lend to entrepreneurs entering into a franchise arrangement.

### The benefits of a franchise arrangement

Benefits to the franchisee	Benefits to the franchisor
<ul style="list-style-type: none"> <li>✓ It is much easier to obtain finance, as banks view franchises as less risky than independent businesses.</li> <li>✓ There is no need to build a customer base by spending heavily on advertising.</li> <li>✓ Stock control (of raw materials and finished goods) and accounting systems are often provided by the franchisor, which makes the business more efficient.</li> <li>✓ Being able to offer established products reduces the risk of failure, as there is already an existing customer base.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Franchisors can grow at a much faster rate by allowing people to buy into their business through a franchise arrangement.</li> <li>✓ The franchisee has to pay the start-up costs, which means the franchisor can grow the business at low cost.</li> <li>✓ The franchisee will run the franchise on behalf of the franchisor, which reduces the time spent on day-to-day issues by the franchisor.</li> <li>✓ The franchisor receives yearly royalties from the franchisee.</li> </ul>

### The disadvantages of a franchise arrangement

Disadvantages to the franchisee	Disadvantages to the franchisor
<ul style="list-style-type: none"> <li>✗ Being part of a franchise can limit an entrepreneur's freedom to make decisions about how the business operates.</li> <li>✗ Decisions made on pricing and products offered will be made by the franchisor, yet this may not always suit local market conditions.</li> </ul>	<ul style="list-style-type: none"> <li>✗ The franchisee will keep most of the profit. Although they will normally have to pay a yearly royalty, the franchisee can sometimes keep up to 95% of the profit.</li> <li>✗ Poorly run franchises can risk the reputation of the franchisor.</li> </ul>

## CASE STUDY

## Fast-food franchise

In 2017, McDonald's shareholders voted against giving franchisees the chance to vote on who should be on the board of directors of the world's biggest fast-food chain. This would have placed considerable power in the franchisees' hands, which is why the shareholders voted against it. Currently 85% of McDonald's restaurants are franchises, and the company is aiming to increase this figure to 95% in the coming years.

Franchisees use the products, branding and marketing of McDonald's, and gaining a vote on board nomination would be an added bonus.



Application

Evaluation

Using the internet, research franchise opportunities available in your area. When you have found a suitable opportunity, make notes explaining the benefits of entering this franchise opportunity. In order to give a balanced argument, you must consider the alternative of setting up a similar business on your own. When you have completed this task, you will need to get into groups of three.

**Role play:** One of you must act as the entrepreneur wishing to start up the business on his or her own; another person must act as the entrepreneur wishing to enter into the franchise arrangement. The third member of your group should act as the bank manager and choose, based on your arguments, which of you they would lend money to, explaining why. Act out all three examples, changing roles for each one.

## Joint ventures

Like a franchise, a joint venture is an agreement between two existing organisations to start a jointly owned third company. A common situation for a joint venture is when a business wants to expand into a new market (such as a new country) and has little knowledge of that market. Rather than setting up on its own and risking failure, it forms a joint venture with a local business that has knowledge of the market and an established brand. Alternatively, some businesses decide to form a joint venture to share resources and expertise.

Advantages of a joint venture	Disadvantages of a joint venture
<ul style="list-style-type: none"> <li>✓ Risks are shared by both organisations.</li> <li>✓ Expertise can be offered by both organisations.</li> <li>✓ Capital is normally invested by both organisations.</li> </ul>	<ul style="list-style-type: none"> <li>✗ There can often be a conflict of interest between the two organisations involved.</li> <li>✗ Decisions have to be made by both parties, which slows down the decision-making process.</li> <li>✗ Profits are split between both of the parties involved in the joint venture.</li> </ul>

#### CASE STUDY

### Joint venture in China

Jaguar Land Rover (JLR), the British-based car manufacturer, formed a joint venture with Chery Automobile in China to start the production of Jaguar and Land Rover cars in China. The joint venture saw the two companies set up a jointly owned new company, which allowed them to share manufacturing expertise. Chery's knowledge of the local market was the driving force behind the joint venture, and has seen the demand for JLR cars increase in the region.



### Public sector organisations

Public sector organisations are different from all the other organisations or arrangements previously mentioned. This is because private individuals (such as sole traders, partners and shareholders) do not own them. Instead, public sector organisations are owned and run by governments. The most common forms of public sector organisations are schools, hospitals, police stations and fire stations.

### Differences between the private sector and public sector

	Private sector	Public sector
<b>Ownership</b>	Private individuals own organisations: they can be sole traders, partners in a partnership or shareholders in a company.	The government owns organisations. Central government or local authorities can own them.
<b>Funding</b>	Customers paying for a product or service fund private sector businesses.	Public sector organisations are funded using taxpayers' money.
<b>Objective</b>	Private sector businesses have the objective to make as much profit as possible.	Public sector organisations exist to provide a service to the general public and to provide value for taxpayers' money.

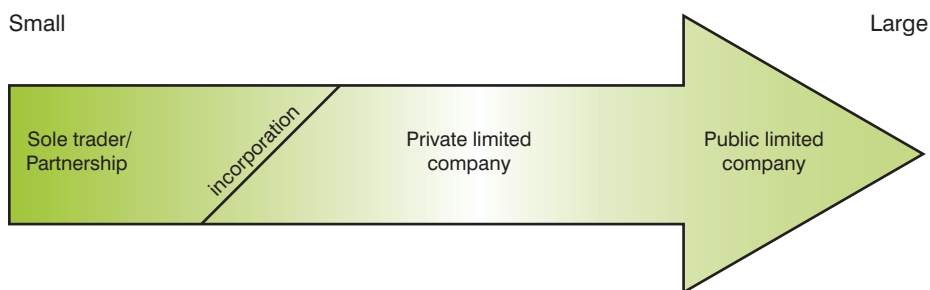


## Public corporations

These legal entities are owned by the **state** (government) and act on their behalf. Examples include the Russian Railways, the Nigerian Television Authority and the Bank of China. Unlike privately owned businesses, state-owned organisations have very different goals. Their focus is delivering a necessary service for the benefit of the country. For example, when a government owns and operates a railway network, it may reduce ticket prices in order to help employees travel around the country. Their focus is non-financial, with money raised going back into the running of the business.

## Choosing the right type of ownership

Choosing the right ownership depends on a number of different factors, including risk, control, size and ambition.



### Risk

The smaller the business, the more risk there is involved. Sole traders have to cope with unlimited liability and a lack of expertise. As sole traders are solely liable for the business's debt, one bad decision can mean that their business closes and they lose their personal possessions. Owners of larger companies have more expertise available to them, as they can employ specialist directors who are less likely to make poor decisions and are protected by limited liability.

### Control

The more owners a business has, either partners or shareholders, the less control each individual has. However, the more owners a business has, the more access to finance they have. This is one of the problems when deciding to become a public limited company: while the business will raise much more money through selling shares to the public, the original owners will eventually lose some control of the business.

### Size

Businesses that wish to grow in size and become large organisations normally have to become public limited companies. Unless the owners have significant private wealth,



△ The smaller the business, the more risk it has. However, some entrepreneurs keep operations small to maintain control.

the ability to borrow large amounts of money from banks and raise millions through selling shares is exclusively available to public limited companies. The larger the business gets, the harder it is to control. As larger businesses branch out into different product lines, with thousands of employees, communication and decision making become harder.

### Ambition

Many entrepreneurs want to start a business for more than just financial gain. They gain a feeling of satisfaction and enjoyment from running their business. Therefore, many businesses choose to stay small so that the entrepreneur can control what happens and make their own business decisions.

### Size vs ambition



◁ Staying small means the owners can run the business as they want to, for more than just financial gain. Massive businesses such as KFC exist to make profits for their shareholders, often sacrificing their original business principles.

### Knowledge check

- 1 Define the term franchisor. (2)
  - 2 Explain two benefits to a franchisee of entering a franchise arrangement. (4)
  - 3 Explain two disadvantages to a franchisor of entering a franchise arrangement. (4)
  - 4 Explain the differences between public and private sector organisations in terms of their:
    - a) ownership (2)
    - b) objectives. (2)
  - 5 Define the term joint venture. (2)
- Safesave PLC is a UK-based supermarket wishing to expand into China.
- 6 Explain two benefits to Safesave PLC of forming a joint venture with a Chinese business in order to help their expansion. (6)

**Total 22 marks**

### Check your progress:

- ✓ I can outline the main features of different forms of business organisation.
- ✓ I understand the differences between unincorporated businesses and limited companies, and the concepts of risk, ownership and limited liability.
- ✓ I can recommend and justify a suitable form of business organisation to owners or management in a given situation.
- ✓ I can describe business organisations in the public sector.

# Business objectives and stakeholder objectives

## Business objectives and their importance

### Aims (1.5.1)

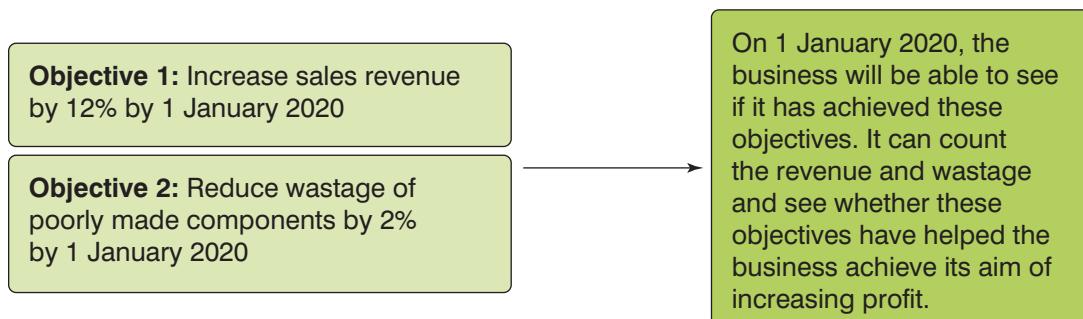
By the end of this section, you should:

- Understand the need for business objectives and the importance of them
- Be able to outline different business objectives, for example, survival, growth, profit and market share
- Understand the objectives of social enterprises.

### Why a business needs objectives

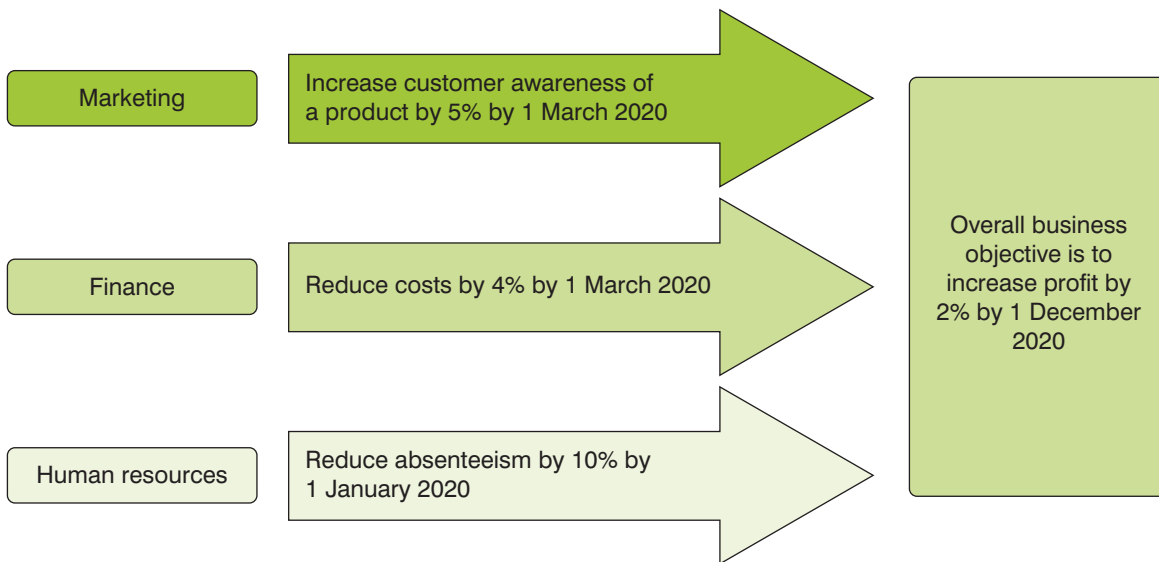
It is important that businesses set objectives, and that everyone involved knows what they are. This is because they act as a target or goal that the business needs to reach if it wants to achieve its overall aims. A business can use the objectives to judge whether it has achieved the targets it set.

For example, a small firm that sells computer parts to large producers sets itself an aim of increasing profit. To achieve this, it sets itself a range of objectives:



Objectives give employees a sense of direction and a target against which they can be judged. Objectives are also important for different stakeholders to use as a means of judgement. The business owners will be able to judge if the workforce have done what they should have, and perhaps identify where any problems are within the business.

Most businesses have overall objectives that everyone contributes to, as well as separate ones for each department. The diagram on the next page shows an example of how the departmental objectives link in with the overall company objectives.



## SMART objectives

Businesses should use the SMART approach to set their objectives.

<b>S</b>	<b>Specific</b> – The objective should focus on a particular area. For example, a sweet shop may set sales targets for a specific bar of chocolate.
<b>M</b>	<b>Measurable</b> – Each objective should have a quantifiable way to measure it; for example, 'Increase hot dog sales by 20% by 1 December'. Normally it is sales, revenue or profit that is measured.
<b>A</b>	<b>Agreed</b> – The people involved should agree on the objectives. For example, the sales team agree on their new sales targets.
<b>R</b>	<b>Realistic</b> – The objectives should be realistic and actually achievable. There is no point setting targets that could never be achieved by the employees. 'Increase sales by 1000% in two weeks' is an example of an objective that is unlikely to be achieved.
<b>T</b>	<b>Timed</b> – The objective should state a clear time frame in which it is to be completed. This means that it can then be measured.

## Setting business objectives

There are many different objectives that a business could set. These can change over the business's journey. They can include the objectives of survival, improving the business's image, increasing employee motivation, selling abroad, growth, making a profit or gaining market share.

## Survival

Many small businesses will start with this objective. This might involve setting departmental objectives that focus on cost management and sales revenue. These are very important objectives for many businesses, especially those that enter competitive markets.

## Improving their image

Some businesses experience problems with the quality of their product, or perhaps they may cause large amounts of pollution. Therefore, they try to improve how stakeholders see them as a business. For example, businesses may set targets to reduce wastage or pollution.

## Increasing employee motivation

If employees are motivated and happy, they are more likely to work hard and remain with the business. The business then saves money on recruiting (such as time taken to interview and the cost of adverts). Larger businesses often set these objectives, as employee productivity (how much each employee produces) is very important.

## Selling abroad

Larger businesses may set objectives to expand their business into new markets or countries so that they can increase sales. As businesses grow, a key objective may be to continue to increase their market share and sales.

## Growth

Businesses may then look to grow in different ways – for example, by increasing sales or the number of employees. Growth is often a key objective for many businesses, as it shows that the business is moving forward. If a business starts to shrink, it could eventually become bankrupt (unable to pay its debts so it has to close down).

## Making a profit

Many private sector businesses aim to make a profit. This is because it is often the primary target for shareholders. Without profit, businesses will struggle to stay open. This aim could focus on reducing costs across the business, as well as increasing sales. Businesses may wish to focus on one of these aspects to improve profit.

## Increasing their market share

This means increasing the business's proportion of sales within the industry in which the business operates. Some businesses

aim, simply, to maintain their share, because the market in which they operate is so competitive, while others try to increase their sales and therefore their market share.

## Objectives of social enterprises

**Social enterprises** have very different objectives. As with many businesses, social enterprises still aim to make a profit. However, they differ from other types of business, as any profits are then used to support parts of the global community. Social enterprises also have objectives that are linked to their moral aims. For example, the business may wish to donate a certain amount of money each year to support a particular cause or initiative.

Social enterprise objectives may focus on social issues such as improving education, health or wealth.

### Did you know?

Globally, it is estimated that 50% of social enterprises have posted a profit since their start, with a further 26% breaking even.

#### CASE STUDY

### Getting the balance right

Martin Fisher and Nick Moon founded KickStart in 1991. It produces water pumps, irrigation systems and brick presses that help developing countries increase farming yields (amount of crops). The business now turns over \$2.5 million. Despite its relatively small turnover, KickStart still follows its principles of giving back to the global community. It aims to help reduce global poverty and to make a profit at the same time. Without this profit, KickStart would not be able to carry out its social activities and would close.



Application

Analysis

Carry out research into a social enterprise near you.

- What are its objectives?
- Why is it important that it sets objectives?
- How does the business give back to the community?
- Discuss whether you think it achieves its objectives.
- Present your findings as a written report.

### Knowledge check

- 1 Identify two ways in which a social enterprise is different from a private limited company such as your local shop. (2)
- 2 Identify the ways in which a business might change its objectives over time. (4)
- 3 Explain why it is important to a business to set SMART objectives. (6)

Total 12 marks

# The role of stakeholder groups involved in business activity

## Aims (1.5.2)

By the end of this section, you should:

- Be able to describe the main internal and external stakeholder groups
- Understand the objectives of different stakeholder groups
- Be able to explain how these objectives might conflict with each other, using examples.

## Main internal and external stakeholder groups

A stakeholder is a person or group who has an interest in the business. Stakeholders can be both internal (within the business) and external (outside the business).

### Internal stakeholders

Stakeholder	Interest in the business	Objectives for the business	Example
<p><b>Business owners</b></p> <p>These are the people who own the business. They could be the sole owner (sole trader), joint owners (partnership) or shareholder (private or public limited company).</p>	<p>They have money invested in the business so are keen to see it make a profit, or at least break even.</p>	<p>These stakeholders will often want to see the business making increased profit and expanding its sales. Smaller business owners may settle for lower profits and may just look to break even each year while paying themselves a wage.</p>	<p>Petrobras (Petróleo) of Brazil is one of the world's largest oil and gas suppliers. Their owners will want to see an increase in sales so that they receive a large return on their investment.</p>
<p><b>Employees</b></p> <p>An employee is someone who works for the business. They could be in a shop, a factory, an office or work from home.</p>	<p>They hold a stake in the business as they earn their living through the business's performance. Therefore, they want the business to do well and continue to employ them.</p>	<p>They will want higher wages, promotion opportunities and to be valued by the owners.</p>	<p>The employees of Burger King will want the business to continue to do well so that they can ask for a rise in wages. They may also look to see if the business offers promotions within it.</p>



△ Employees are internal stakeholders in a business. It is in their interests for the business to do well so that it can continue to employ them.

## External stakeholders

Stakeholder	Interest in the business	Objectives for the business	Example
<p><b>Customers</b></p> <p>These are the individuals or businesses who buy a product or service from a business.</p>	<p>Customers do not want to see the business struggle with costs, in case prices increase. Customers will also be keen for the business to continue to trade, so they do not have to travel too far for a product or service.</p>	<p>Customers would like objectives that focus on improving the quality of the product or service, and to receive it at a low price, with value for money.</p>	<p>Customers will want price guarantees and reward cards.</p>
<p><b>Suppliers</b></p> <p>These are businesses that sell goods that other businesses use to make their own products. For example, a farmer may supply milk to a food producer.</p>	<p>They want the businesses they supply to do well so that they will receive payment on time.</p>	<p>A business will want to secure long-term contracts with suppliers. Suppliers would like growth and expansion as business objectives.</p>	<p>IBM supplies technology companies all over the world. They would expect to see their invoices paid on time.</p>



Stakeholder	Interest in the business	Objectives for the business	Example
<p><b>Government/ sovereign</b></p> <p>The government is in charge of running the country and makes decisions on tax and spending. It is often elected.</p> <p>A sovereign is the head of the royal family of the country.</p>	<p>They expect businesses to treat employees according to the laws and regulations that they have set, to recruit new employees and continue to grow.</p>	<p>They want the business to grow and expand so that they can receive taxation from employee income and business profit.</p>	<p>Governments all over Africa have supported the laying of internet cables to help support other businesses and attract investment from other countries. This should help create jobs and taxation income in the long term.</p>
<p><b>Local community</b></p> <p>These are the people who live in the local area that surrounds the business.</p>	<p>They have an interest in the business, as they may rely on the local businesses for jobs and products or services. They will also be interested in the impact of the business on the local area, for example, how the business's activities impact on pollution and transport.</p>	<p>They expect employment opportunities from the business, as well as a reduction in pollution and traffic.</p>	<p>Jaguar Land Rover (JLR) is opening a factory in China and the local community want to make sure they get the jobs in the factory.</p>
<p><b>Trade unions</b></p> <p>These groups represent employees in discussions with businesses and the government over pay and working conditions.</p>	<p>Their interest is in the owners and managers treating the employees well. They also have an interest in the way the government sets its employment laws.</p>	<p>They expect objectives that support employees and their wages, conditions and job security (keeping their job).</p>	<p>There have been protests against the government in Prague, Czechia (Czech Republic), because of poor conditions and employees' rights.</p>
<p><b>Pressure groups</b></p> <p>These groups try to influence policy in the interest of a particular cause or issue. For example, Greenpeace protests for a cleaner environment.</p>	<p>They have an interest in the business's activities and what its products or processes do to the world. They may also put pressure on the government to encourage them to step in and make changes in the business environment.</p>	<p>They want objectives that aim to reduce any negative effects on the environment or population.</p>	<p>The Urgenda pressure group in Holland is threatening to sue both the government and businesses if they do not start to reduce their CO<sub>2</sub> emissions as promised.</p>



△ Members of the local community are external stakeholders in a business. They are often worried about the impact of business activities on the local environment and show this in a protest. Here the community are protesting against the use of the land by larger businesses.

## Objectives of different stakeholder groups

One of the major problems that a business faces is keeping its stakeholders happy. Each stakeholder will have their own needs and wants (their own objectives) in relation to the business. At times, the objectives of different stakeholders will conflict. For example, Chevron has a huge range of stakeholders who have conflicting objectives. Some of these stakeholders, and their conflicting objectives, are described below.

Customers would like petrol prices to decrease. The general increase in prices is a major cause of concern for customers.

Shareholders like high prices, as this means revenues can increase. This will mean they receive a large dividend payment.

The local community wants to see Chevron reduce its impact on the environment by spending more on renewable energy and reducing pollution.

Employees may want an increase in wages rather than Chevron spending the money on renewable sources of energy.

## CASE STUDY

## Working together

As part of its funding changes, the International Federation of Red Cross and Red Crescent Societies has signed partnership deals with major businesses all over Africa. This is to make it easier to improve services for the most vulnerable people on the continent. The influence of local communities also played a role in the new agreement – they raised concerns that local resources, such as water, were being used to produce alcoholic drinks, which were then sold to other countries. The agreement shows how different stakeholders can work together and not conflict.



## Evaluation

You have been given the responsibility of deciding whether your country should build a new airport in the heart of its capital city. This airport will have more runways than the existing airport and will be twice as big.

- Design a table that outlines the different sides of the argument. You should include details of the different stakeholders' positions and outline how they may conflict.
- Assign a stakeholder to each point, to show which stakeholder supports it.
- You should now make a judgement on whether a new airport should be built.

### Knowledge check

- 1 Define the term internal stakeholder. (2)
- 2 Define the term external stakeholder. (2)
- 3 Identify a possible objective for two stakeholders of a local convenience store. (2)
- 4 Identify two stakeholders of the Exxon oil company. (2)
- 5 Using an example, explain why stakeholders will often conflict in their objectives. (4)

Total 12 marks

# Objectives of private and public sector enterprises

## Aims (1.5.3)

By the end of this section, you should:

- Understand the differences in the aims and objectives of private sector and public sector enterprises.

## Defining private and public sectors

There is a huge difference between the private and public sectors:

- The private sector is made up of businesses run by private individuals or groups, often with the aim of producing profits.
- The public sector is made up of government-funded and government-run organisations that often offer services to the public.

## Private sector aims and objectives

The aims (overall goals of the business) and objectives (short-term targets) of private sector businesses will be mostly decided by their owners. A start-up business will begin with survival as its aim, as the business has no reputation or customer base. Once this is achieved, the business's aims and objectives may be to increase revenues, profits and market share.

Some of the possible aims and objectives are to:

- **build a strong reputation**, perhaps without even earning a profit – this is how Google started out
- **innovate and develop** – be the first business to produce new products
- **gain customer and brand loyalty** – keep customers coming back
- **increase revenue and profit** – increased revenue and profit become important, especially to the company's shareholders.

The private sector is heavily influenced by the economic climate. This is because, if the economy is doing well, customers have more money to spend on products being sold by private businesses. However, if the economy is doing badly, spending will drop and private businesses will struggle to keep running. This means that they may alter their aims and objectives very quickly.

### Key Term

**Brand loyalty:** the regular purchase of one brand of a product by a consumer.



### Application

Produce a poster that clearly shows the aims and objectives of a local private sector business. This can be a small or large business. You may wish to use the internet for research.

## CASE STUDY

## Ethical aims

Ben & Jerry's has been producing ice cream since 1978. The business started as a partnership in the private sector, and grew rapidly.

As Ben & Jerry's is a private business, they have the ability to set their own aims and objectives. While the company's main aim is to make a profit, they have also remained true to the company's social mission, which focuses on the business's role in society and its impact on a local and international scale. They also have to focus on maintaining their customer loyalty, as the ice cream market is extremely competitive. By creating their own product range, Ben & Jerry's have attracted new customers and improved their reputation.



### Public sector aims and objectives

One of the key aims of the public sector is to provide jobs. The public sector provides goods and services for the wider community, often without a profit.

Public sector organisations usually run facilities such as:

- hospitals
- police
- army
- ambulance services.

These organisations provide services that many businesses in the private sector would not wish to be in charge of. This is because there may be little profit to be made from them or because the government wants to make the service available to all.

Public sector aims may include:

- providing a service such as healthcare to all citizens
- offering support and advice to the population – for example, advising on taxation
- improving education.

By using government funding, the services can be offered on a large scale without the pressure of making a profit.

Today, some services provided by the public sector are under pressure to improve and meet targets, often without the necessary funding. In countries all over the world, governments are under pressure to account for all the money they have spent. This is money that may have been spent on politicians' personal expenses, wages or activities.

For example, the Penang state government has been heavily criticised for spending millions of dollars on producing magazines that highlight its political agenda. Many people have complained that this is a poor use of the people’s money, which has been raised through taxation.




Δ The railway system in China is government-funded and is having a \$292 billion investment to maintain its services.

CASE STUDY

Managing water in South Africa

Following the launch of the United Nations World Water Development Report 2017, South Africa started to use private–public sector partnerships to help solve the country’s water shortages. Around the world, the private sector supplies over one billion people with drinking water and treats their waste water. The private sector is already developing new initiatives with the government to improve the amount of water available as well as efficiency, so that less water is wasted. For example, a new irrigation system is has saved 55 million m<sup>3</sup> of water each year.





Analysis

Evaluation

In pairs, debate the following: ‘All businesses should be managed by the government in some way.’

Write down at least three key points for each side of the argument, emphasising the most important points.

### Knowledge check

---

- 1

Define the term public sector.

(2)
- 2

Outline why businesses in the same industry set different aims and objectives.

(4)
- 3

Explain why the government may set up and run businesses.

(4)

Total 10 marks

Check your progress:

---

✓ I can identify the different objectives a business may have and explain why they are important.

✓ I can explain the role of stakeholder groups and how their objectives can conflict with each other.

✓ I can outline the differences in the objectives of private and public sector enterprises.

## Exam-style questions: short answer and data response

1. Eduardo set up a magazine business last year. The sports magazine *Global Sport* uses articles written by people all over the world, which helps to give the magazine a global audience. When Eduardo was starting up, he received a small loan from the government. He has seen the number of customers increase by 20% in the last six months. As the sole owner of his private sector company, Eduardo is keen to make a profit in the next two years.

a) **Identify** two ways in which Eduardo could add value to his product. (2)

b) **Identify** two characteristics that Eduardo may have as a successful entrepreneur. (2)

c) **Explain** one reason why the government supports small start-up businesses. (4)

Eduardo wrote an in-depth business plan before setting up his business. He shared this with his journalists and it is displayed on the company's website so that all the other stakeholders can read it.

d) **Outline** two advantages of Eduardo using a business plan. (6)

The company employs four full-time employees, and sells in over 40 countries. The company's revenue is more than \$400 000 and the company has 2% market share. The magazine's success is due to its excellent coverage and specialisation in global sports.

e) Eduardo is now considering expanding the business into new titles such as cars and business news, so it can be more profitable. Do you think Eduardo should expand his business in this way? **Justify** your answer. (6)

2. Top Gym has recently taken over rival company Healthy Place Ltd. Chris, the owner of Top Gym, changed his business objectives from break even to expansion. He wanted to use external growth methods that would give quick results. He decided to take over Healthy Place Ltd, the main competitor in his local area. Healthy Place Ltd has close links with a large number of stakeholders. The local community forms the basis of its workforce.

a) **Define** external growth. (2)

b) **Define** the term stakeholder. (2)

c) **Explain** two reasons why external growth is the best option for Chris if he is to achieve his aim of quick expansion. (4)

A year after the takeover, the business has started to lose money. Chris believes this is because of differences in approach between the two companies. Top Gym has recently spent large amounts of money on new television and radio adverts, in the hope that this will increase its revenue to fund an expansion. The business received advice from mentors who were employed by the government to help local businesses.

**d) Explain** two possible problems Chris might face when expanding. Explain how could he overcome each problem. (6)

**e)** With Top Gym not progressing as he would have liked, Chris is considering bringing in a partner and changing the business structure to a partnership. Do you think this will benefit the business? **Justify** your answer. (6)

**3.** Adam wants to set up his own ballet school. He is looking at two options: Option A, open a ballet school as a sole trader called 'More Ballet'; Option B, open a ballet school as a franchise as part of 'Top Ballet Ltd'. Adam was keen to set up as a sole trader until a friend, Ani, suggested that he should become a franchisee.

**a) Define** the term franchisee. (2)

**b) Define** the term sole trader. (2)

**c) Outline** one reason why Adam should set up his ballet school as a sole trader. (4)

Adam looked into the costs of becoming a franchisee of 'Top Ballet Ltd'. The initial costs would be \$10 000, followed by costs of \$15 000 each year. However, he would receive national advertising for free, as well as free training and support from 'Top Ballet Ltd'. As a sole trader, Adam would not have to pay these costs, but has been quoted \$25 000 per year in advertising, as well as \$3000 for each employee he gets trained.

**d) Analyse** two advantages of Adam becoming a franchisee. (6)

**e)** Do you think Adam should set up his ballet school as a sole trader or as a franchise? **Justify** your answer. (6)

*Note: The exam-style questions, answers and commentary in this book were written by the author; in examination the number of marks awarded to questions like these may be different.*



## Exam-style questions based on case studies

### Horizon Hotels enjoy Dubai's growing market

Horizon Hotels have been operating in Dubai for over 10 years. Because of the large investment in attractions such as the Palm Islands, it has seen its revenues increase from tourists staying at its hotels.

The change in fortunes for its location has come about very quickly – now the economy is very much built on tertiary services and the tourism industry.

Horizon Hotel Group has been one of the businesses to benefit from this increased growth. Owning many of the top hotels, it specialises in luxurious accommodation.

The hotel chain is now considering expanding the business into other countries.

#### Government advert

The government intends to support businesses of all sizes by offering:

- loans
- advice
- training for employees.

We are here to help boost your business and our economy so that we achieve growth for years to come. Even if you want to enter a new market, we can help!

Contact us today!

*Appendix 1: Government advert about supporting business*

#### Memorandum

**To:** Managing director

**From:** Sales director

**Subject:** Growing abroad

Date: 13/4/18

I am currently looking into the new proposed growth into a new country. I believe that opening, as planned, the 5 new hotels will help boost the company's revenue and increase our global reputation. I understand the high costs associated with this project have increased and are now estimated at \$12 million. However, I believe that this growth will benefit Horizon Hotels in many ways. Not only will revenue increase, but our global reputation will be improved.

*Appendix 2: A memo from the sales director to the managing director outlining the cost and benefits of the expansion into other countries*

Option 1: China	Option 2: Japan
Potential revenue per year: \$34 million	Potential revenue per year: \$23 million
Cost to set up: \$12 million	Cost to set up: \$10 million
Average wage per year: \$23 000	Average wage per year: \$12 000
Number of employees needed: 2300	Number of employees needed: 1800
Other issues: Government support is low and Horizon would have to pay 10% more tax	Other issues: The tertiary sector is growing each year in this country by 6%

Appendix 3: The two options for expansion

**To:** finance@horizonhotels.com

**From:** managingdirector@horizon.com

**Subject:** Government loan

Thank you for the information on the government loan that has been offered to help us expand the business abroad. I have had a look over the details and I am a little worried about the length of the loan (paying it back over 5 years). I think this could put a lot of pressure on the business's cash flow. I am also concerned that money is not the issue. Perhaps we should look at alternative ways in which the government could support our expansion plans. I feel that we need help with training and employee recruitment rather than financial aid.

Appendix 4: Email from the managing director to the finance department

1. The managing director of Horizon wants to expand the business into China or Japan.
  - a) Using Appendix 4 and the other information, **explain** one potential advantage and one disadvantage of this growth for Horizon. (8)
  - b) Using the appendices and the other information, advise Horizon Hotels on the best way to grow. **Justify** your answer. (12)
2. a) Using Appendix 3, **outline** two reasons why the government is encouraging business growth. (8)
  - b) Consider the two options for expanding Horizon outlined in the case study. **Recommend** which one of the two options the company should choose. **Justify** your choice using appropriate evidence. (12)
3. a) Using Appendix 3, **explain** two aims Horizon may have after expanding into China or Japan. (8)
  - b) Horizon is a registered public limited company (PLC). Is this the most appropriate type of ownership for this company? **Justify** your answer using the appendices and your own knowledge. (12)

*Note: The exam-style questions, answers and commentary in this book were written by the author; in examination the number of marks awarded to questions like these may be different.*

## Exam-style questions based on case studies

### Fizzle Ltd dominating the market

Fizzle Ltd is one of Europe's leading TV manufacturers. Based in Turkey, it holds 20% of the market. The company specialises in TVs, personal computers and monitors, and is Turkey's largest exporter. Starting as a sole trader, Fizzle Ltd has grown rapidly and now operates as a private limited company.

Fizzle Ltd adds value through a superior brand and an excellent supplier and manufacturing method. Fizzle Ltd is growing quickly. Employing over 3000 people worldwide, Fizzle Ltd generates over \$200 million each year in revenue.

Fizzle Ltd has seen dramatic growth over the past 10 years, mainly through internal growth. The company now has three main offices around the world and has also bought smaller manufacturers.

Fizzle Ltd has recently targeted foreign schools as an area to grow the business. With only 10% of classrooms in Country X using interactive whiteboards, Fizzle Ltd has targeted this market as one for growth. It aims to sell thousands of TVs and whiteboards abroad over the coming years. However, it has come up against conflicting stakeholders.

Dear Board of Directors,

I represent the local community and I am writing to highlight our concerns about your recent expansion into our country. We would like to see our own companies selling the products to our schools, helping to secure jobs for the future.

We are also worried about the damage to the environment and have joined up with 'Fresh Air' pressure group to voice our concerns.

*Appendix 1: Part of a letter to Fizzle Ltd from the local community in Country X where Fizzle Ltd is selling its products*

#### Managing director:

I believe we should become a PLC in order to raise large amounts of money very quickly. By doing this, we will not have to pay any interest on a loan, or have to worry about the potential issues with paying it back.

#### Finance director:

I believe we should use a bank loan to fund the expansion abroad, because we do not have to lose control of the business and we will see bigger financial profits in the future.

*Appendix 2: The different viewpoints of the managing and finance directors*

1. a) Using the information in the case study and Appendix 1, **identify** two stakeholders who may have conflicting views on the expansion abroad. **Explain** their differing views. (8)
- b) Fizzle Ltd is expanding abroad. Identify a problem that Fizzle Ltd may face. **Recommend** a solution that will help Fizzle Ltd to overcome this problem. (12)
2. a) **Identify** and **explain** one benefit and one drawback of Fizzle Ltd being a private limited company. (8)
- b) The directors of Fizzle Ltd need to raise \$5 million to fund the expansion abroad. Using the appendices, do you believe that Fizzle should become a private limited company? **Justify** your answer using information in the case study and appendices. (12)
3. a) **Identify** and **explain** two methods that could be used to measure the size of Fizzle Ltd. (8)
- b) Fizzle Ltd has experienced internal growth. To what extent do you think the company should rely on internal growth to secure its future? **Justify** your answer. (12)
4. a) **Identify** and **explain** two ways in which Fizzle Ltd may add value to its products and services. (8)
- b) Fizzle Ltd adds value to its products through marketing. To what extent is marketing the most important method for Fizzle Ltd to add value to its products? **Justify** your answer. (12)

*Note: The exam-style questions, answers and commentary in this book were written by the author; in examination the number of marks awarded to questions like these may be different.*

## Past paper questions

### Paper 1

#### Section 1

Rafa is the Managing Director of Cambridge Fencing (CF), a limited company that makes fences and gates. The business employs 100 workers. They are paid a low basic wage but can earn high bonuses for good productivity. Recently a large number of employees have left to work for other companies. However CF finds it easy to recruit new workers. The business has been successful but last year its sales and profits fell. Rafa wants this to change.

a) What is meant by a 'limited company'?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (2)

b) Identify two reasons why profits are important to CF.

Reason 1: \_\_\_\_\_  
\_\_\_\_\_  
Reason 2: \_\_\_\_\_  
\_\_\_\_\_ (2)

*Cambridge International IGCSE Business Studies 0450 Paper 13, Q1 a & b Nov 2014*

Dmit is a partner in a small retail clothing business. The business has been successful, but it is finding it difficult to compete against larger retailers. The partners are thinking of converting the partnership into a private limited company.

Consider the advantages and disadvantages of converting the partnership into a private limited company. Recommend whether the partners should do this. Justify your answer.

Advantages: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Disadvantages: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Recommendation: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ (6)

*Cambridge International IGCSE Business Studies 0450 Paper 11, Q5e Nov 2013*

## Paper 2

### Section 1

The following case study is taken from past papers created by Cambridge Assessment International Education. We have only provided extracts of this case study, and it does not reflect the full case study that you may be provided with in your examination.

#### Rafael's Reliable Motorbikes (RRM)

RRM was set up by Rafael in Downtown, a town 100 km from Main City in country X. Rafael is a sole trader. He started the business 15 years ago. RRM sells new and used (second-hand) motorbikes to local people who live in Downtown. Rafael is going to pass the control of the business to his son next year. He wants to keep the business owned by the family and does not want anyone else to own part of it.

RRM customers are mainly young men. Many of them are married with families and they cannot afford to buy a car. Rafael thinks he could increase his sales by using market segmentation. Rafael imports some of the motorbikes he sells and buys others from local manufacturers. Imported motorbikes are of higher quality than locally produced ones.

Rafael employs 10 workers to repair, sell and deliver motorbikes. They have worked for Rafael for many years. They are paid high wages and receive health and safety training. The leadership style used by Rafael is democratic, but the workers are worried that things may change when Rafael's son takes control. Rafael has told his son that having well motivated workers is important to the business. Rafael is considering opening another showroom in Main City.

#### Appendix 1

##### Downtown population data in 000's

Age	0–16	17–40	41–65	66+
Number of people	125	250	500	125

- 1 a) RRM is a small business. **Identify** and **explain** two reasons why RRM might remain small. (8)
- b) Rafael thinks he could increase his sales by using market segmentation. Consider the advantages and disadvantages of each of the following methods to segment the market. Recommend which method he should use. **Justify** your answer. (12)
- i) Age
  - ii) Income group
  - iii) Gender

Cambridge International IGCSE Business Studies 0450 Paper 22,  
Q1 Nov 2015

## Skills Builder

---

### AO1: Knowledge and understanding

You need to recall the knowledge you have learned. For example, you should be able to define specialisation and its basic advantages and disadvantages. You simply need to outline a point. This may be a benefit or a drawback. Remember to consider the size, industry and structure of the business.

### AO2: Application

You need to **apply** your answers to the example given and focus solely on this example. Your answers must relate to the type of business given. When answering questions based on case studies, refer to the information in the case study and appendices, quoting numbers or information where needed. For example, when answering question 1a on the Horizon Hotels case study, the advantage and disadvantage must **apply** specifically to Horizon as a hotel chain.

### AO3: Analysis

You need to demonstrate whether you can look at both sides of the argument and then draw a conclusion. In the second case study, question 2b, you need to look at arguments for both sides: 'Yes, Fizzle Ltd should become a PLC because ... However, perhaps it should remain as it is because ...' There will be evidence you can use for both sides of the argument and this needs to be brought out of the case study. Remember, you can't just outline your own personal opinion here – your statements must be based on evidence.

### AO4: Evaluation

Evaluation requires you to give a judgement. This means that once you have analysed the points you have mentioned, you should make a decision based on what you have considered. Overall, what is your verdict on the question? Is there one point that you think is more important? Do you have all the necessary information to make a judgement? If not, what other information do you require? It is also useful to look at whether your judgement is likely to change in the short or long term. Whatever you use, you must show a clear judgement.