GCSE Business Studies

The Business Framework

Support Materials

These documents are part of a larger blended learning pack, developed to support GCSE Business Studies. Each document is complemented by a range of digital resources.

These digital resources could be used for whole class stimulus and discussion before directing the students to the corresponding work in the PDF documents, or the students could be asked to work in groups on the paper resources found in the packs and then the digital resource used for feedback and to check understanding.

The Business Framework

Why and how businesses start

People who set up and run their own businesses are often called ENTREPRENEURS.

There are a number of reasons why entrepreneurs choose to become self-employed and run their own business.

Reasons for starting a business include:

- Self employment may be an appealing option following redundancy as it provides employment and an income for the owner.
- Running a successful business can provide personal satisfaction.
- The ability to be their own boss and make all the decisions, for example, entrepreneurs can choose their hours of work to some extent, to fit in with their lifestyle.
- Continue to run an existing family business.
- Self-employment provides the opportunity for business owners to earn a living from a hobby or particular interest.
- Entrepreneurs aren't necessarily motivated by profit, some develop social enterprise schemes to benefit their local area.

The functions of an entrepreneur

An entrepreneur is a person who uses their initiative to start a business enterprise.

To succeed and achieve their aims, entrepreneurs need to be able to:

- Find and combine the human, physical and financial resources needed to start a business and organise production of a good or service.
- Take risks, as they are investing their own money into a business which may fail.
- Show initiative as the business environment is constantly changing.
- Be innovative and develop new ideas.
- Overcome any problems they may face.

What other skills and qualities are needed to be a successful entrepreneur?

Starting and running your own business requires different qualities to those of a good employee. Successful business people have a range of skills and qualities, these include those shown above as well as:

- Planning skills
- Confidence
- Creativity
- Leadership
- Self-starter
- Committed
- People skills
- Discipline
- Passion

Case Study: Creative Designs

Carra Robinson had worked for a bank for 6 years since completing her university degree in Graphic Design. Although Carra received a steady wage from her job with the bank she did not feel challenged, and longed to put her expertise in design-work to use.

Carra offered to design a promotional leaflet for a friend's new business, she produced the leaflet on her home computer and printed 200 copies. Carra's friend was so impressed with the design and quality of the leaflets that she asked her to produce a business card and newspaper advert to complement the leaflet. This gave Carra the confidence to promote her services to other small, local businesses and she managed to obtain a number of orders to design and print promotional materials.

More orders

Cara was soon receiving regular and repeat orders, she completed these in the evening after her days work in the bank. It was difficult holding down a full-time job, looking after her young family and completing the orders, but she enjoyed the creative aspect of the work and wanted to give up her job in the bank to become self-employed.

Carra was nervous about giving up the regular wage from her job at the bank, she realised that starting her own business would be a risky decision as she also needed to invest money into purchasing a better computer, design software and printer to enable her to provide a professional service. Carra saved all the income she made from her design work until eventually she had enough money to upgrade her equipment and software.

Showing initiative

One day a regular customer of Carra's complained that the delivery people they were using to distribute the leaflets door-to-door in the local area were not providing a reliable service; a box of Carra's leaflets had been discovered discarded in an alleyway. Carra realised that there was a gap in the market and decided to provide an optional leaflet distribution service for local businesses, for an additional charge. Carra involved her husband and other family members in the distribution of leaflets, but realised that if her business was to continue to grow she would need to give up her work at the bank.

Carra sent samples of her work, together with a price list, to larger businesses in the area and contacted a local printing shop to negotiate favourable printing costs to further improve the quality of her leaflets and enable her to complete bigger orders.

Big break

Carra's big break occurred when a local businessman, who owned several convenience stores, asked her to design a 4 page leaflet not just for the local area, but also for convenience stores in other nearby towns as well - her largest order to date. Carra was nervous about accepting the order but decided to take the risk. The customer was pleased with the work and placed further regular orders.

Success

Carra admits that her workload is far heavier than she expected - she works longer hours than she did at the bank. Carra has also found that running a business has required that she develop new skills not previously required in her job at the bank.

As Carra's business has grown she has needed to develop people-management skills in order to lead her new employees, book-keeping skills to complete her tax returns correctly and time-management skills to ensure her customer orders are managed efficiently.

On the whole, Carra describes running her own business as challenging but rewarding and does not regret her decision to become self-employed.

Suggest what you think are the two motives Carra had for starting her own business?

1. ....

2. ....

Why do you think Carra was reluctant to give up her job to start her own business?

....

....

....

....

Identify *three* skills Carra needed to be a successful entrepreneur.

1. ....

2. ....

3. ....

Past Paper Examination Question - 2013

Ryan Davies has been a keen reader since childhood. After being made redundant from a travel agent business, where he had worked for a number of years, he decided to set up a shop selling new and second-hand books.

Suggest and explain *two* reasons why people such as Ryan want to set up their own business.

(4)

(i) ....

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....

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(ii) ....

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Suggest *two* aims Ryan might have for the business. **(2)**

(i) ....

(ii) ....

What is a stakeholder?

A stakeholder is an individual or organisation that has an interest in, or influence on, a business organisation.

Stakeholders of organisations may include:

- Shareholders/Owners
- Customers
- Workers/Employees
- Managers
- The government
- Pressure groups
- Local community
- Suppliers and Lenders

Stakeholder expectations

Each stakeholder group will be interested in the performance and actions of the organisation and will have different expectations.

Owners

The owner of a business has contributed their own money to developing the business and will have a great influence on the actions of the business as they are highly involved in decision making. Owners will be concerned with the survival and the financial success of the business.

Shareholders

The owners of limited companies are known as shareholders as they have invested money into buying a share of the organisation. Most shareholders are not involved with the running of the business, but will instead elect directors to control the company on their behalf.

Shareholders will be concerned with the financial performance of the organisation and will expect the value of their shares to increase (so that they can sell them for a higher price than they bought them). If shareholders are unhappy with the performance of the organisation they can sell their shares.

Customers

A business cannot survive without customers, their purchases provide income for the business. Therefore, customer behaviour will influence how the business operates.

Customers will expect good quality products and/or service, a good choice and value for money. If customers are unhappy with the actions of the business they may take their custom elsewhere.

Workers/Employees and Managers

Employees and managers will want the business to succeed as their future employment will depend on the business surviving. They will be concerned with receiving good pay, job security, good working conditions and job satisfaction.

Employees tend not to have any influence over the owners and are not usually involved in the decision making. However, managers will make the day to day decisions about how the business is run.

Government

The government wants businesses to succeed as the better the financial performance of the business, the more taxes it will pay to the government and the more employment opportunities it will offer.

The government influences a business in a number of ways. A government can create laws and regulations that affect the business directly and a government's general economic policies will also have a considerable effect. For example interest rates and minimum wage levels will influence how a business is run.

Pressure groups

Pressure groups are groups of people who get together to express their objections to a particular government policy, business decision, or the effects of an organisation's actions. An example of a pressure group would be an environmental organisational established to complain about the high pollution levels caused by industry. Pressure groups can persuade organisations to change their actions.

Local community

Businesses provide employment and facilities for the local community. Sometimes the actions of the business may inconvenience the local community through pollution, traffic congestion or business closure.

Large businesses will have a greater impact on the local community than smaller ones.

Suppliers and Lenders

Businesses rely on suppliers to provide them with the materials they require to provide their customers with goods and services. Suppliers will want businesses to be successful so that they will continue to receive orders.

It is important that a business has a good relationship with its suppliers so that they can rely on them to deliver good quality supplies, on time and at a good price. Lenders will expect the business to repay its debts.

Stakeholder interests

Stakeholder	What are the main interests of this stakeholder? (Why are they interested in the business?)
Owners and Shareholders	
Customers	
Workers/Employees and Managers	
Government	
Pressure Groups	
Local Community	
Suppliers and Lenders	

How does the business respond?

Stakeholder	How does the business respond to these stakeholders? (What must the business do to keep these stakeholders happy?)
Owners and Shareholders	
Customers	
Workers/Employees and Managers	
Government	
Pressure Groups	
Local Community	
Suppliers and Lenders	

Stakeholder influence

Stakeholder	How do these stakeholders influence the business? (What might they do if the business does not meet their needs?)
Owners and Shareholders	
Customers	
Workers/Employees and Managers	
Government	
Pressure Groups	
Local Community	
Suppliers and Lenders	

Stakeholder conflict

Some stakeholders have a far greater influence than others and the business will not be able to satisfy all its stakeholders all of the time.

There will sometimes be conflict between stakeholder groups because they will each have different expectations.

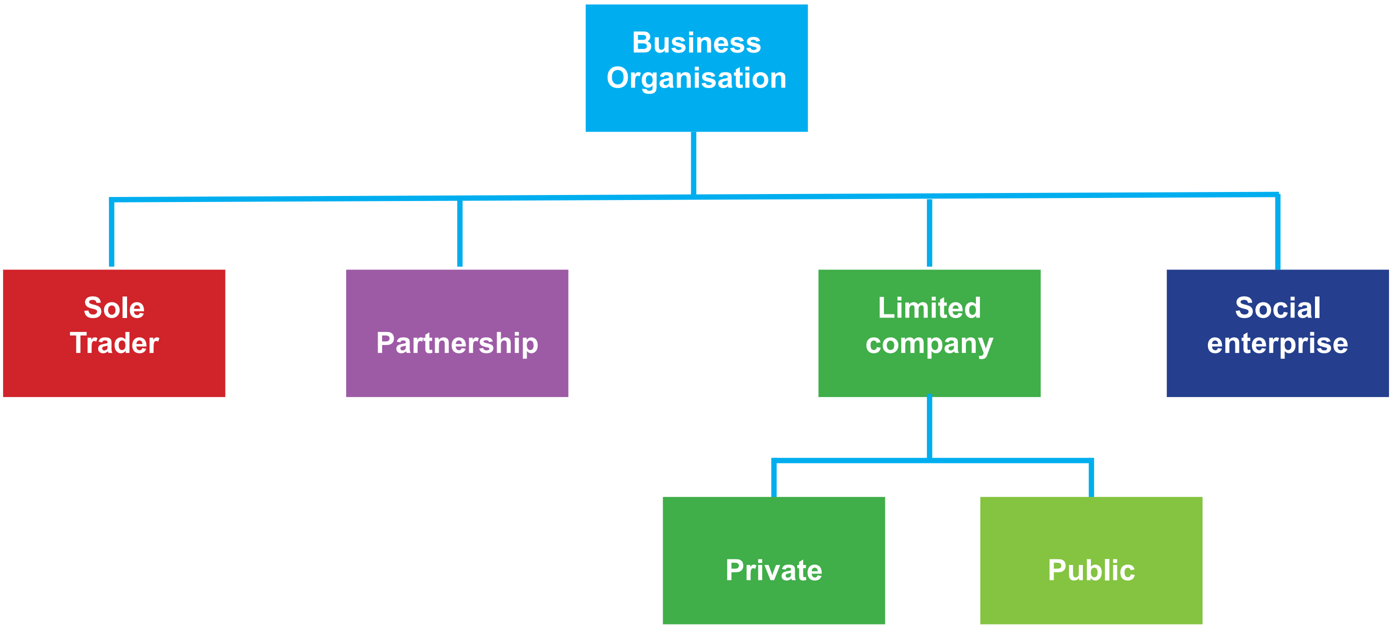
Directors and managers will want the business to maximise profit.
How will this affect customers?

Pressure groups may be concerned with how business activities affect the environment.
How will this affect shareholders?

The local community will be concerned with traffic congestion.
How will this affect managers?

Types of business organisation

There is not just one kind of business, the diagram below shows the main types.



What is a sole trader?

A sole trader is a business that is owned and run by one person. Although a sole trader is owned by only one person, the owner can employ people to work for them.

Sole traders usually finance the business through the owner investing their own savings, money borrowed from friends or family, or a bank loan. There is a lot of financial risk in running a business as a sole trader due to unlimited liability. This means that the owner is responsible for all business debts and may need to sell personal possessions to repay these debts if the value of the business is not enough to cover the amount of debt owed.

What are the aims of a sole trader business?

The aims and objectives of sole traders will vary according to the type of business, but most sole traders will focus on increasing income and profit to allow the owner to make a living from their investment. Many sole trader businesses will aim to survive in the initial stages of setting up and during difficult economic times.

Many sole traders will operate on a local level; often their main aim is to provide a good product or service to the local community and provide customer satisfaction.

Advantages of setting up as a sole trader:

- Decision making is straight-forward, the sole trader being able to make instant decisions without checking with someone else.
- The sole trader is their own boss and does not need to follow the instructions of somebody else.
- A sole trader business is easy to set up because there is no complicated paperwork to complete as there may be with other types of business.
- Some sole traders may be able to operate the business to suit their lifestyle with more flexible working hours.
- Any profit is kept by the sole trader and does not need to be shared.

Disadvantages of setting up as a sole trader:

- It can be difficult to raise the required capital, as only one person is investing in the business. Banks are not keen to lend money to sole traders due to their high rate of failure.
- A lack of the necessary skills and experience required in owning a business can increase the risk of failure.
- Fewer ideas are put into the business as there is only one owner. The sole trader doesn't have an opportunity to share ideas with any business partners, family and friends are often relied upon for advice.
- The owner may need to work long hours as there may be no one to share the workload. It may be difficult to take time off.
- Unlimited liability is the main disadvantage of this typre of business, it can be very risky for the owner - a failing business could cost them their savings and their personal possessions.

Advantages and disadvantages of sole trader ownership

There are a range of advantages and disadvantages to sole trader ownership.
Show your ***understanding*** by explaining each of the advantages and disadvantages listed in the table below.

Advantages	
Easy to set up	
Greater owner control	
Keep all profit	
Flexibility of working hours	
Easy to run	

Disadvantages	
Unlimited liability	
Long working hours	
Problems in raising capital	
Lack of specialisation	
Impact of illness	

Sole trader: Agree or Disagree?

Tick the relevant boxes to show whether you agree or disagree with the following statements.

Statement	Agree	Disagree
Sole traders are usually small, local businesses	☐	☐
Sole traders have limited liability	☐	☐
Sole trader businesses are easy to set up	☐	☐
Sole traders are required by law to publish their accounts	☐	☐
Sole traders are responsible for all business debts incurred	☐	☐
Sole traders keep all the profit made by their business	☐	☐
Sole traders often work extremely long hours	☐	☐
Sole traders have unlimited liability	☐	☐

Past Paper Examination Question - 2012

In recent years people have taken up the hobby of designing and producing their own greetings cards. They buy packs of materials which are used to make birthday and Christmas cards.

Some have developed their hobby into businesses; selling at craft fairs and through the internet. One such person is Fran Blake who operates her business as a sole trader.

Outline *two* benefits Fran gains as a result of operating as a sole trader. **(4)**

(i) ....

....

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(ii) ....

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What is a partnership?

A partnership is an agreement between two or more people to take joint responsibility for the running of a business, to share the profits and to share the risks. By law a business can have between 2 and 20 partners. Typical partnership businesses include professionals such as solicitors, accountants, doctors and vets.

A partnership is almost as easy to set up as a sole trader; if no formal agreement is drawn up everything is split equally between the partners.

Deed of Partnership

It is advisable for partners to draw up a special agreement, called the **Deed of Partnership** which will outline the following:

- How profits or losses will be shared amongst the partners.
- How much money each partner invests.
- Voting rights and the number of votes each partner has.
- Arrangements for ending the partnership due to the leaving or death of a partner.
- The details of each partner's duties and responsibilities – who does what?

What are the aims and objectives of partnerships

The aims and objectives of partnership businesses will vary according to the type of business. However, most partnerships will focus on increasing income and profit to allow the partners to make a living from their investment.

Many partnership businesses will aim to survive in the initial stages of setting up and during difficult economic times.

Advantages of partnerships:

- Partnerships are cheap and easy to set up.
- There is no complicated paperwork to complete in order to set up the business.
- Extra capital is available, as more than one person is investing into the business.
- The workload is shared between the partners.
- There is less stress for the owners as decisions and workload are shared.
- Each owner will bring their own skills and ideas to the business, meaning that more expertise is available within the business. Partners can specialise in particular areas of the business.

Disadvantages of partnerships:

- Profits must be shared among partners.
- There may be disagreements between partners when making decisions or over workload.
- Partners have to share the control, and work as a team, they will not be their own boss.
- Partners still have unlimited liability.
- If a partner dies or becomes bankrupt, the partnership must come to an end.

Advantages and disadvantages of partnership ownership

There are a range of advantages and disadvantages to partnership ownership.
Show your ***understanding*** by explaining each of the advantages and disadvantages listed in the table below.

Advantages	
Easy to set up	
Shared responsibility for debt	
Shared responsibility for workload	
Increased contribution of capital	
Increased expertise and skills	

Disadvantages	
Unlimited liability	
Disagreements over direction of business	
Shared profits	
Workload distribution	
Need for a Deed of Partnership	

Past Paper Examination Question - 2009

Billy Matthews and Terri Gates are very enthusiastic about computer games and anything to do with technology. They have decided to go into partnership to set up their own computer shop.

What is a Deed of Partnership and why is it a good idea for Billy and Terri to have one?

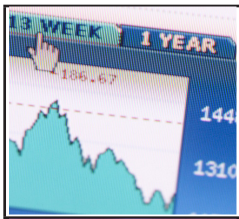
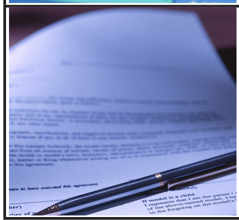
(3)

Past Paper Examination Question - 2011

Which two of the following apply to partnerships?

Tick *two* boxes only.

(2)

	**They are owned by shareholders**			**They are owned by one person**	
	**Owners may sign a Deed of Partnership**			**There must be at least two owners**	

Gallops is a business selling horse riding equipment in a small shop in a mid Wales town. It is owned by Sam Fudge and Mary Matthews.

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

(4)

(i) ....

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(ii) ....

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....

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What is a limited company?

Limited companies are owned by shareholders, these are people who have invested money in order to buy a share of the business. The more shares a shareholder owns, the more control he or she will have within the business.

There are two types of limited company:

- **Private Limited Companies** (Ltds) – shares are sold privately, usually to family and friends. Shares can only be sold if all the shareholders agree.
- **Public Limited Companies** (Plcs) – shares can be sold to the general public via The Stock Exchange.

Why are they called limited companies?

They are called limited companies because their owners have **limited liability**, this means that people who invest in the business only risk losing the amount they have invested. If the company goes out of business, leaving debts, the owners will only lose the money that they have put into the company (the value of their shares). The owners will not be forced to sell their own personal possessions, like a house, to pay the company's debts. Having limited liability is the main advantage of forming a company.

Limited companies have a separate legal identity from their shareholders, this means that the company can buy assets, make contracts and take legal action against other businesses in its own name rather than that of its owners. A limited company can also be sued.

All limited companies must hold Annual General Meetings (AGMs) and produce an annual report and accounts for shareholders, to keep them informed of the company's performance.

What is a private limited company?

Private limited companies (Ltds) are usually small to medium size businesses, although some large firms are private companies. A private limited company is owned by shareholders approved by the other owners, they are sometimes family businesses.

The profits of a private limited company are sometimes paid to the shareholders in the form of dividends, but are sometimes reinvested back into the business.

The aims of a private limited company

The main aims of a private limited company will be to increase income and maximise its profit in order for the shareholders to receive a good return on their investment.

Many private limited companies will also aim to achieve growth by expanding their business and opening more outlets, producing a wider range of products or employing more staff. Growth sometimes leads to the business "going public" and becoming a public limited company.

Advantages of private limited companies:

- The owners have limited liability.
- Additional capital can be easily raised by selling more shares.
- The company can keep trading even if a shareholder dies, shareholder's shares can be transferred to someone else.
- The private limited company has its own legal status, separate from the shareholders, it can sue and be sued. A private limited company can also own property.
- Private limited companies are relatively cheap to set up in comparison with Plcs.
- Private companies cannot be taken over, as shareholders must agree the sale of shares to others.
- Private limited companies are usually run by the major shareholders and so there are few arguments regarding the aims of the business.

Disadvantages of private limited companies:

- The company has to publish its accounts every year. These are available for the general public and competitors to see.
- There is separation of ownership and control, directors are elected to run the business, which means that the owners no longer make all the decisions.
- It may be difficult to raise additional finance as it can be difficult to find suitable new shareholders, or banks may not be keen on lending money to smaller businesses.

The owners of a private limited company have limited liability. What does this mean?

What is a public limited company?

A Public Limited Company (Plc) is usually a very big business with a large number of employees, this type of business is owned by members of the general public who have invested their money into the company by buying shares on the Stock Exchange. People buy shares in the hope that the business will perform well, leading to an increase in the value of their shares.

As with private companies, the profits of this type of business are sometimes paid to the shareholders in the form of dividends and are sometimes reinvested back into the business.

To become a public limited company the business must issue at least £50,000 of shares to the public.

The aims of a public limited company

The main aims of a public limited company will be to increase and maximise its profit in order for the shareholders to receive a good return on their investment.

Many public limited companies will also aim to achieve growth by expanding their business and opening more outlets, producing a wider range of products or employing more staff.

Advantages of public limited companies:

- Similar to private limited companies, Plcs have limited liability, this means that shareholders personal assets are protected and they only risk losing the money they have invested in the business in the form of shares.
- Additional capital can be easily raised by a Plc; more shares can be sold as there is no upper limit to the number of shareholders.
- Public limited companies are usually well-known organisations with a good reputation, that makes it easier for them to raise finance. Banks are more willing to lend to large, established companies.
- A public limited company can keep trading even if a shareholder dies, shareholder's shares can be transferred to someone else.
- A public limited company has its own legal status, separate from the shareholders, it can sue and be sued, and it can own property.
- A public limited company can take advantage of its size to benefit from economies of scale (find out about this later).

Disadvantages of public limited companies:

- It is expensive to set up a Plc, at least £50,000 of share capital has to be available and legal paperwork needs to be produced.
- The company has to publish its accounts every year, and these are available for the general public and competitors to see.
- Unwanted takeovers are possible as shares can be bought by anyone; the shareholder who owns more than half the shares controls the business.
- There is separation of ownership and control as directors are elected to run the business, this means that the owners no longer make all the decisions.

How might the aims of the shareholders be different from the aims of the managers?

Decide whether the statements below relate to private limited companies, public limited companies or both and draw an arrow to the appropriate area of the diagram.

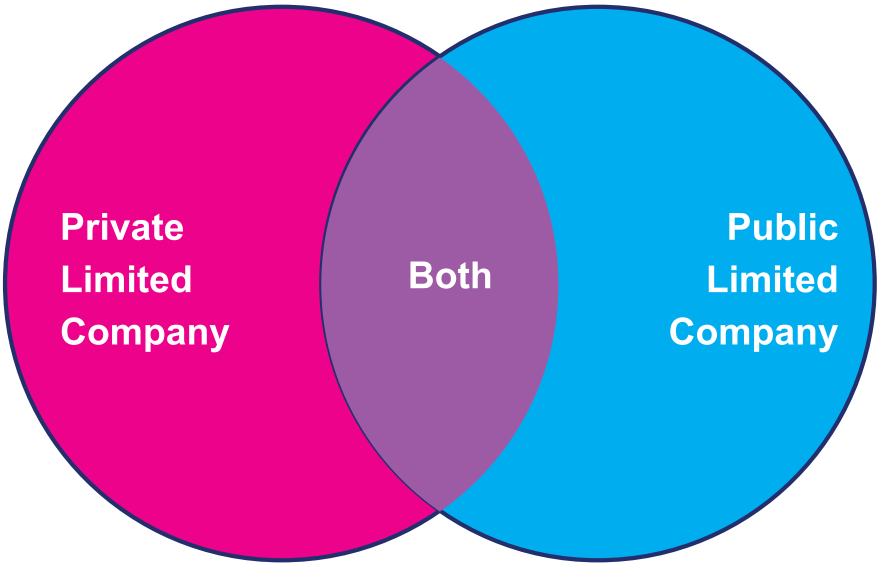
Shares are not on sale to the public but are sold to friends and family

The owners only risk losing the amount they have invested in the business

Usually a very large business with many employees

Limited Liability

The name of the business is followed by the letters Plc



Members of the public can buy shares in the company on the Stock Exchange

The business is seen as legally separate from the owners

Less privacy as annual accounts and reports are made available

The name of the business is followed by the letters Ltd

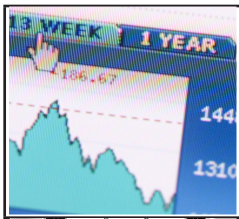
Small to medium sized business

Past Paper Examination Question - 2012, 2011

Which two of the following apply to public limited companies?

Tick *two* boxes only

(2)

	Shares can be bought on the Stock Exchange			The name of the company is usually followed by the letters "Ltd"	
	The minimum number of partners is two			The name of the company is usually followed by the letters "Plc"	

Greggs plc is a leading bakery retailer serving 5 million customers per week. The business was founded as a family bakery in the North East of England in the 1930's by John Gregg. It grew and spread throughout the UK and in 1984 Greggs became a public limited company.

Explain *one* advantage and *one* disadvantage to Greggs becoming a public limited company.

(4)

Advantage

Disadvantage

Past Paper Examination Question - 2013

Underline the definition which best describes the term *limited liability.* (1)

(i) The company is limited to the number of shareholders it has.

(ii) The company must sell its shares on the Stock Exchange.

(iii) The owners do not have to sell personal possessions if the business fails.

Below are some examples of businesses. Which *two* are most likely to have limited liability?

Tick *two* boxes only

(2)

Jones and Co. Ltd (Builders)		Mix n Match Plc (Clothing Retailer)	
Colin Edwards (Greengrocer)		Quick and Wright (Accountants)	

What is a social enterprise?

Social enterprises are formed to provide help within society, they may provide general support (for example, consumer rights and worker enterprises) or deal with specific issues. A Social enterprise may also be established in an attempt to raise awareness of or provide a solution to society's problems, such as crime and drug abuse.

In the UK social enterprises are mainly organisations such as co-operatives, charities and voluntary organisations.

Social enterprises make a profit, but their main aim is to solve society's problems.

Charities

Charities are organisations that aim to raise money in order to support a cause, such as cancer research or wiping out poverty in third world countries. Charities will focus on minimising costs and organising fundraising activities to maximise donations.

Many charities employ paid workers to undertake specialist work, but also rely on volunteers in order to minimise wage costs.

Voluntary organisations

Voluntary organisations provide a service to society, there are many voluntary organisations in the UK, examples include animal welfare groups, Girl Guides, Scouts and the RNLI. Voluntary organisations do not aim to make a profit, but to cover the costs of running activities. All surplus funds are reinvested into the organisation.

What is a co-operative?

A co-operative is an organisation that is owned and controlled by a group of people who have an equal say in the running of the business, and receive a share of any profits the business makes.

The owners of a co-operative are known as members, there is no overall boss in a co-operative, all members invest in and run the business in a democratic way.

There are two main types of co-operative:

- A **consumer coa operative**
- A **worker coa operative**

Consumer co-operative

A consumer co-operative is owned by its customers, they usually pay a subscription and receive a share of any profits made in return, based on the value of goods they bought.

Suggest ways in which customers benefit from owning the shop from which they buy goods.

Worker co-operative

A worker co-operative is a business that is owned and controlled by the whole workforce. People who work within the business are in control rather than outside shareholders and it is the most democratic type of business; everybody plays a part in the decision-making process.

There are around 1,500 worker co-operatives in the UK, most of them are small, with only a dozen or so members. Worker co-operatives may involve workers buying-out the business for which they currently work as an employee, or workers may form a co-operative to start their own business with the aim of sharing all risks, profits, decisions etc.

Suggest ways in which workers may benefit from owning the places where they work.

Advantages of co-operatives:

- The members feel that they have a real impact in the running of the business.
- Co-operatives often focus less on profit which leads to better customer service and an emphasis on ethical business practices.
- Profits are distributed fairly among the members.
- Members enjoy working together and get great job satisfaction from working for themselves and their colleagues, they are therefore more likely to be motivated to succeed.
- There is less likelihood of arguments as members share the same aims and objectives.
- Members are more likely to be aware of their responsibilities to the local and larger communities.
- Co-operatives are committed to the training and education of their employees.
- The initial investment required in buying shares and becoming a member is less than other ways of starting a business (sometimes just a pound).

Disadvantages of co-operatives

- Decision making can be difficult and may take a long time as everybody has a say in the running of the business.
- All members have an equal right to speak and contribute to the decision-making process—even if they have little knowledge of the subject being discussed.
- It may be hard for members to make tough decisions that will affect their co-workers, such as job cuts.
- A co-operative’s focus on fairness and ethical business practice may limit opportunities for growth and maximising profit.
- Workers in worker co-operatives may find internal promotion or career moves difficult.
- Co-operatives may find it difficult to recruit top quality management, the most able candidates usually demand a very high salary.

Fill in the blanks

Fill in the blanks below with the following words:

Worker	Satisfy	Profit
Equal	Consumer	Workers
Ethics	Decision-making	
Co-operatives	Members	

The aim of most private sector businesses is to make a ________. Some businesses prefer instead to concentrate on providing benefits for customers or ________. These businesses are called ________. A co-operative is a business which is owned by a group of people who all have an ________ say in the running of the business and receive a share of any profits the business makes. The aim of this type of business is to ________ the needs of its owners.

There are two main types of co-operative: ________ co-operatives and ________ co-operatives. The owners of a co-operative are also known as ________.

Sometimes ________ can be difficult and take a long time, as all members have an equal say. A co-operative may miss out on opportunities to make a profit as they focus on business ________.

Past Paper Examination Question - 2013

Coa operative shops are found all over the country.

(a) Who are most likely to be the owners of these shops? (1)

Tick *one* box only.

Customers	1
Taxpayers	2
The Government	3

(a) What is the term for the share of the profits of co-operatives? (1)

Tick *one* box only.

Dividend	1
Interest	2
Shareholding	3

Selection of an appropriate business structure

Owners of a business will have to decide on the most appropriate business structure for the business and may choose to operate as a sole trader, a partnership or a limited company. The most appropriate structure for a business will depend on a number of factors.

The size of a business will have an impact on how the business is run; larger businesses may have different aims and objectives to a small local business.

Some business owners may benefit from working alone as a sole trader, while others would require the support and skills of other owners and investors. Some businesses may require large levels of investment, best achieved by selling shares on the Stock Exchange as a public limited company. Some businesses do not require large investment and are more suited to being run as small sole trader businesses.

Sole trader businesses tend to be easier to set up, requiring very little paperwork, whereas for a partnership to run smoothly it is recommended that a Deed of Partnership is drawn up to protect the interests of the individual partners.

A sole trader business has unlimited liability which is quite risky for its owner; if the business cannot pay all its debts, then the owner risks losing personal possessions to repay the debt. Therefore, some businesses choose to set up as a limited company in order to receive the protection offered to them by limited liability; it protects the owners from losing any more money than they have invested in the business.

What happens to the profits is important. Sole traders are able to keep all the profit made by their business for themselves, whereas partners will need to share any profits made and public limited companies may need to pay dividends to its shareholders.

The management of a business will differ depending on the business structure. The owners of smaller businesses like sole traders and partnerships tend to adopt a hands-on approach to running a business and are heavily involved in decision-making. Within public limited companies there is a division of ownership and control – shareholders elect directors to run a Plc on their behalf. Shareholders have very little involvement in managing and running the business on a day-to-day basis.

As businesses grow the owners may want to change the type of ownership they have, generally this means:

Sole Trader

↓

Partnership

↓

Private Limited Company

↓

Public Limited Company

Businesses change their type of ownership to gain the advantages of the next level.

However, some businesses stay at one level of ownership due to the disadvantages of the next level.

Comparison of different business structures.

Complete the tables below to explain and compare each of the 4 business structures.

	Main advantages	Main Disadvantages
Public Limited Company (Plc)		
Private Limited Company (Ltd)		
Partnership		
Sole Trader		

	Sole Trader	Partnership	Private Limited Company	Public Limited Company
What aims and objectives might this type of business set?				
Describe how this type of business is formed				
Explain the ownership of this type of business				
Describe the management and control of this type of business				
Identify the liability of this type of business				
What is the usual size of this type of business?				
What are the main sources of finance available to this type of business?				
How are profits distributed?				

Private or Public?

Groovz Ltd is a manufacturing business that produces a range of headphones and accessories. In a recent meeting some of the shareholders discussed the need for expansion to allow the business to meet the needs of a growing market.

One of the directors suggested that the business considers becoming a Plc and has drawn up a list of advantages and disadvantages of changing the ownership from Ltd to Plc.

Sort the list below into advantages and disadvantages:

A higher business status which may encourage banks to loan money to the business	Takeovers can occur if share sales are not carefully controlled
Separation of ownership and control as directors run the business on behalf of the shareholders	Further capital can be raised on the Stock Exchange
Bigger business, so more expensive to run	Less control of the business
Access to further investors	Economies of scale

Advantages	Disadvantages

Giving advice

James and Matthew have decided to start a small business producing and selling children's computer games. They have considered the main types of business ownership but are unsure which would be most appropriate for their business and have asked for your advice.

Discuss the advantages and disadvantages of each type of ownership and recommend the most appropriate structure for their business.

What is a franchise?

As businesses grow, they may choose to expand through franchising.

Franchising is an agreement in which one business (called the **franchisee**) buys the right to sell the goods or services of another business (called the **franchisor**), and is allowed to use the franchisor's name.

The franchisee pays start-up fees and regular royalty payments to the franchisor and in return will have the right to use the company name, logos, store design, processes, marketing ideas and products of the business.

The franchisee must agree to run the business according to the franchisor's guidelines and purchase stock from the franchisor, to ensure the franchisee upholds the franchisor's standards.

The franchisee will also receive training from the franchisor to help them start the business.

The franchisee is responsible for all debts incurred, and if there are losses then the royalty payments must still be paid and the losses covered by the franchisee.

Franchising can benefit the franchisor, as it provides an opportunity to expand without the need for extra capital - the majority of the costs are covered by the franchisee.

It is important to understand that a franchise is a method of expansion, not actually a type of business ownership, since a franchise can be operated and owned as a sole trader, a partnership, or a private limited company.

Examples of franchised businesses include some large, well-known names such as Clarks shoes, The Body Shop, McDonald's and Burger King. There are many smaller, lesser-known franchises as well, including businesses such as cleaning companies, pet care services and car valeting.

There are both benefits and drawbacks to running a business as a franchise for both the franchisee and the franchisor:

Advantages of being a franchisee:

- There is a good chance of success and less risk for the franchisee because of the well-known name, format and product.
- The franchisee benefits from a ready-made reputation because the franchisor controls the quality of all franchises.
- The franchisor provides sound financial advice and support, so that cash flow and management problems can be avoided.
- The franchisor is responsible for costly activities such as market research and product development.

Disadvantages of being a franchisee:

- The franchisee will never feel that the business is theirs—for example the business cannot be sold without permission from the franchisor.
- The franchisee cannot make many decisions, all franchises must be run according to the rules of the franchisor.
- The franchise could be withdrawn at any time without any explanation or compensation.
- Fees, royalties and expensive stock make franchising a costly way to run a business.
- Royalties must be paid by the franchisee, even if the business makes a loss.
- If franchises are set up as sole traders or partnerships they still face unlimited liability.

Advantages of being a franchisor:

- The franchisor can expand quickly without the need for a large amount of capital.
- The franchisor does not lose control of the business.
- The franchisee has invested their own money and so will be motivated to make the business succeed.
- The franchisor receives fees and royalties from the franchisee.
- The franchisor does not have a large workforce to manage.

Disadvantages of being a franchisor:

- The company's trade name and reputation can be ruined if franchisees do not maintain standards.
- The initial costs of setting up the franchise system such as training, legal advice, documentation and marketing can be very expensive.
- On-going costs of national advertising and continual support of franchisees can be expensive.

There are a number of advantages and disadvantages to franchising, both for the franchisor and the franchisee.

Read the statements below and write A to H in the correct area of the diagram.

Franchisor		Franchisee	
Advantages	Disadvantages	Advantages	Disadvantages

A	Must run the business exactly as the franchise agreement states.
B	Help and support provided to set up and run the business.
C	Can use a tried and tested product and business name.
D	An error made by one franchisee can affect the image of the whole franchise.
E	Loss of some control over the business.
F	Franchise managers who are motivated as they have invested their own money.
G	Can only sell the products and services of the franchise.
H	Can expand the business without having to raise the capital.

What is a franchise?

What is the initial cost of starting up a Mattress Clean franchise?

What will franchisees gain for their money?

Why might a business person prefer to run a Mattress Clean franchise rather than start their own mattress cleaning business?

What disadvantages might a franchisee face?

Why has MattressClean chosen to expand using franchising?

What problems might Mattress Clean face as a result of franchising the business?

Past Paper Examination Question - 2012

Ali has set up his own juice bar in a busy town centre location. He uses fresh fruit which is processed to create a healthy drink.
Ali has seen an advertisement showing the benefits of becoming a franchisee.

Advise Ali on whether or not he should join this franchise or continue as he is. **(10)**