

GCSE Business Studies Unit 1: Businesses in the Real World:

Purpose & Nature of Business, Business Ownership, Aims & Objectives, Stakeholders, Location, Business Planning, Expanding a business

The nature and Purpose of Business

- The reasons for starting a business: including producing goods, supplying services, distributing products, fulfilling a business opportunity and providing a good or service to benefit others
- Factors of Production: land, labour, capital, enterprise
- Opportunity cost: Giving up the opportunity to do somethings in order to choose to do something else
- Three sectors of primary, secondary and tertiary. **Primary = Extracting raw materials** **Secondary = Manufacturing turning raw materials into goods** **Tertiary = Service sector**
- Characteristics of an entrepreneur, such as hard working, innovative, organised and willingness to take a risk
- Objectives of an entrepreneur, including to be their own boss, flexible working hours, to pursue
- an interest, earn more money, identify a gap in the market and dissatisfaction with current job
- Businesses face a constantly changing business environment due to changes in technology, economic situation, legislation and environmental expectations.

SOLE TRADERS & PARTNERSHIP have..... UNLIMITED LIABILITY

REDUCE this RISK of UNLIMITED LIABILITY



By becoming a PRIVATE LIMITED COMPANY OR PUBLIC LIMITED COMPANY you will have ... LIMITED LIABILITY

Business Ownership

	<u>Advantages</u>	<u>Disadvantages</u>	<u>Features</u>
Sole Traders:	Quick & easy to set up. 100% decision making =fast decisions 100% of profits.	100% decision making = Stressful Pressure running all aspects of the business: making, finance, HR, Operations Difficult to raise money RISKY for banks to loan to so higher Interest rates. No revenue generates if sick/holidays	<u>Unlimited Liability</u>
Partnerships:	Shared workload Shares skills: finance, marketing, HR etc More sources of finance than a Sole Trader	Many be disagreements. Shared profits Liable for other partner's decisions	<u>Unlimited Liability</u>
Private Limited Company (ltd)	Limited Liability Better status in the eyes of customers Continues after the death of the founder Can bring in investors (good source of finance)	Have to register as a company = expensive Have to disclose information on sales and profits Have to have accounts independently checked If these are other investors, then the original founder is not in full control of the business	<u>Limited Liability</u>
Public Limited Company (plc)	Same as above.... And.... Shares can be advertised to the general public meaning more potential investors and greater funds that can be used to expand the business. Public companies attract media attention..... this can be cheap publicity.	Same as above..... and... Media coverage could be bad Can't control who buys the shares (competition and threat of takeover) Has to send information to Shareholders (time consuming and expensive) Original owners and investors may clash	<u>Limited Liability</u>
Not-for profit org	Set up to achieve objectives other than profit "SOCIAL OBJECTIVES". Profits are reinvested into the business to help society.		

Business Planning: The purpose of business planning:

- To help set up a business successfully identifying problems in advance
- To help raise finance
- Set objectives that can be reviewed to check progress
- Co-ordinate the business activities in different department to make sure everyone has the same goal

The main sections within a business plan:

Objectives	Market information	Marketing	HR
Operations	Information about the product or service	Finances (costs, revenue and profits)	

Problems of using a business plan:

- Uncertainty
- Lack of experience
- Change

Reducing the risk of business planning:

- Conducting Primary and Secondary Market Research
- Talk to experts and consultants
- Plan for different outcomes
- Regularly review and update the plan so it can be kept relevant and up to date

Stakeholders

<u>Stakeholder</u>	<u>Objectives</u>
Owners/Sh areholders	High dividends
Employees	High pay
Customers	Quality Affordable prices
Suppliers	Long term contracts
Local community	Jobs created Environmental consideration

**Conflict:
Shareholders and Workers
Shareholders and Customers
Shareholders and Local Community**

Business Location

The factors that influence where a business is located including:

- Proximity to the market
- Costs
- Transport Links
- Labour
- Technology
- Competition

Overseas Location: Benefits

- Cheaper labour
- Access to resources that are not easily available in the UK
- Financial incentives from foreign governments
- Avoiding protectionist measures by foreign governments
- The market overseas may be growing fast

Overseas Location: Drawbacks

- There may be different rules and regulations in different countries
- Customers may have different tastes

Setting Business Aims and Objectives

The main aims and objectives for businesses:

Survival	Growth (domestic and international)	Social and ethical objectives	Shareholder value
Profit maximisation	Customer satisfaction	Market share	

Objectives set will differ between businesses (reasons include the size of the business, level of competition faced and type of business (not-for-profit organisations))

The objectives of larger more established businesses might differ from smaller start-up businesses, eg becoming the dominant business in the market, international expansion, increasing shareholder value and ethical and environmental considerations

Success of a business can be measured in other ways than profit: reputation, market share,

Expanding a Business

Benefits of expansion:

- Economies of scale: reduced costs per unit as the business gets bigger. Occurs due to technical and purchasing Economies of Scale
- More power in the market, more well-known brand, more market share, higher profit

Drawbacks of expansion:

- Diseconomies of scale: It's more difficult to manage a large business: increased costs per unit as the business gets bigger. Occurring due to poor communication, coordination issues and reduced staff motivation
- Decision making becomes slower

Organic Growth:

Selling more of your own products

- Franchising
- Opening new stores/branches
- E-commerce
- Outsourcing

Inorganic Growth:

_Integrating or joining with another company

- Merger
- Takeover

Integration:

- 1.Horizontal: two firms join together at the same stage of the production process
- 2.Vertical: two firms join together at different stages of the production process either toward the customer (forward) or towards the supplier (backward)
- 3.Conglomerate: two firms join together with another firm in a different type of production process