BUSINESS STUDIES: BUSINESS ACTIVITY

PREP WORK

Name:

Form:

Teacher:

Dormers Wells High School

Opening the door to success

1.1 THE ROLE OF BUSINESS ENTERPRISE AND ENTREPRENEURSHIP

BUSINESS ACTIVITY:

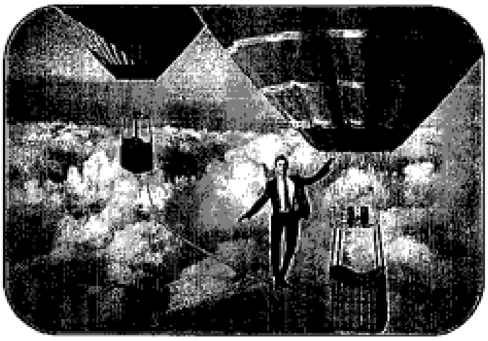
Business activity occurs when an entrepreneur spots a market gap and takes the opportunity to develop an idea that will satisfy the needs of that market's customers by *a process of making a product or providing a service, adding value to it and then selling it for a profit.*

BUSINESS ENTERPRISE:

A business enterprise is *any type or size of organisation providing goods or services for sale to the general public and other businesses.* Business enterprises are started and run by risk-takers called entrepreneurs, who are strong-willed individuals with the vision and drive to make things happen and get things done. The risk of starting a business is usually driven by the desire to make profits. Examples of well-known entrepreneurs are Sir Richard Branson, founder of the Virgin Group of business enterprises, and Sir James Dyson, founder of the Dyson company.

CHARACTERISTICS OF AN ENTREPRENEUR:

An entrepreneur must be *a person who is willing to take risks* in the hope of reaping rewards, is *creative* and capable of thinking outside the box, is *strong-willed, self-driven, highly motivated* and *determined* to see things through, and is *confident* in themselves and their ability to achieve any goals they set.



THE CONCEPT OF BUSINESS RISK AND REWARD:

Business *risk is the measurable statistical probability of a business having an operational failure* and so not reaching its expected profit level or its predicted sales volume or revenue, market share percentage or market growth rate. A business might, for example, risk not meeting a government or world target, on, say, the level of carbon emissions. Although *both risk and uncertainty both deal in business unknowns, business risk differs from business uncertainty insofar as the latter involves business unknowns with no quantitative measurable probability of outcome, possibly because of the lack of past evidence.* An example of business uncertainty is the unknown impacts of 'Brexit' on UK citizens and their economic well-being as well as on the UK economy in general. *Risk and uncertainty are the negatives* of owning a business enterprise. However, *rewards, both financial and non-financial, are the positives.* Examples of business rewards an entrepreneur might expect include a good profit return and recognition of achievement.

1.2 BUSINESS PLANNING

BUSINESS PLAN:

A business plan is *a written, reviewable and 'liquid' document drawn up prior to starting a business.* It *indicates the course of direction* a business intends to take over the years and so *helps it to reduce its risk of failure* and plays a very useful part in helping it strive for success.

CONTENTS OF A BUSINESS PLAN:

A business plan can take many forms and have several different structural presentations. However, its contents should at least address matters such as *the nature, legal structure, purpose, goals and location of the business itself,* and *the product or service* to be provided, as well as areas covering matters of *marketing, finance, resource sourcing and human resources,* and possibly *plans for future development.*

THE ROLE, IMPORTANCE AND USEFULNESS OF A BUSINESS PLAN:

A structured business plan will help a business to *identify and focus on its target market, set out its aims and objectives* and *detail the contents of its proposed functional areas.* It can be used to *obtain capital from a financial institution, identify the operating resources* a business will need to achieve its aims and objectives, *encourage new potential investors* to participate in the business venture and *act as a measuring stick by which to judge a business's future performance.*

Activities

1. Assume that you intend to turn your favourite hobby into a business next year. Draw up a business plan to support this.

2. Choose a business operating in your local area then copy and complete the table below for that business.

Business's name:			
Business's activity:			
Business's legal status:			
The economic sector in which it operates:			
Brief description of the service the business provides			
Fixed costs incurred by the business		Variable costs incurred by the business	
1		1	
2		2	
3		3	
4		4	
5		5	

Questions

1. Under what circumstance might an entrepreneur not draw up a business plan before undertaking a business project? Give examples.

2. What is the difference between a business profit and a business loss? State reasons that might cause each to arise.

1.3 BUSINESS OWNERSHIP

BUSINESS LEGAL STRUCTURE:

The business legal structure *determines who owns and controls the business* as well as the degree of *liability a business has to its creditors*. Every business organisation has some form of legal ownership structure that best suits its nature of operation, entrepreneurs and employees, the capital invested and its stage of development; that is, whether it is a new start-up or a well-established business. The most common types of ownership include *sole traders, partnerships, private limited companies* and *public limited companies*.

SOLE TRADERS:

A sole trader is a business model in which *the owner has sole control and responsibility* for what is usually a small business serving a local community or a relatively small geographical area; for example, the local corner shop selling a wide range of general groceries, newspapers and confectionery, the local fish and chip shop or a barber's shop.

BENEFITS OF BEING A SOLE TRADER:

Benefits of being a sole trader include that the owner, or sole proprietor, *gets to keep all the profits* the business makes and *has the final say in the implementation of all decisions* that impact on the business and its stakeholders.

DRAWBACKS OF BEING A SOLE TRADER:

Drawbacks of being a sole trader include having *sole responsibility* for all the business's losses and the debt the business incurs; that is, having *unlimited liability*. *Sources of finance* available to a sole trader for, say, expansion are somewhat *limited in scope*. Finally, the sole proprietor has *the burden of making all important business decisions themselves* and has no one else to blame when bad decisions are made.

PARTNERSHIPS:

A partnership is *when two or more people join together in business with a view to making a profit*. It is a business model most suitable for small-to-medium-sized businesses, such as accountants, solicitors or farmers. In general, partnerships are *governed by the Partnership Act 1890* but profits, losses, management and control within a partnership are shared by partners as agreed in the *partnership agreement*, or *deed of partnership*. In the *general partnerships model, individual partners have unlimited liability*, which means that they are all personally responsible for their partnership's business debts.

BENEFITS OF BEING A PARTNERSHIP:

The benefits of being a partnership include that *liabilities and losses are shared between partners in a pre-agreed way*, the *decision-making process is a shared responsibility* between partners and the *different partners bring different personal skill sets to the business*. Also, a partnership generally has *more capital available to it than a sole trader entity* and usually finds it *easier to borrow from financial institutions* than a sole trader would.

DRAWBACKS OF BEING A PARTNERSHIP:

The drawbacks of being a partnership business include that *profits must be shared* between the partners in a pre-agreed way and that the business partnership *lacks legal continuity* as when one partner leaves, or dies, that particular partnership ceases to exist as a legal entity so causing a new partnership agreement to be drawn up. There is also a possibility of *personality clashes* between partners.

PRIVATE LIMITED COMPANY:

A private limited company (Ltd) is a business model by which a business *can only sell its shares privately* to raise capital. It cannot sell its shares to the general public through a stock exchange. It *must have at least one shareholder*. The owners, or shareholders, of a private limited company all enjoy the *protection of limited liability*. There is *divorce between ownership and control* of a private limited company. The owners, or shareholders, appoint a *board of directors* who in turn appoint *managers to deal with the day-to-day running* of the business. *Profit is distributed between the shareholders of a private limited company according to the number and type of shares they own*. The private limited company is the most popular type of UK company incorporation. Although it is suitable for small businesses, private limited companies are mainly the chosen legal structure of medium-to-large businesses of any type. Examples of the most well-known UK private limited companies are Dyson, Iceland, JCB and Specsavers.

BENEFITS OF BEING A PRIVATE LIMITED COMPANY:

Some benefits of being a private limited company are that its *shareholders are protected by limited liability*, it has *continuity of existence* as a legal entity and it *can raise a substantial amount of capital*, much more than a sole trader or partnership.

DRAWBACKS OF BEING A PRIVATE LIMITED COMPANY:

The main drawback of being a private limited company is that *it cannot sell shares to the general* *public on a stock market*. This *somewhat restricts the amount of capital it can raise* compared, for example, to a public company.

PUBLIC LIMITED COMPANY:

The public limited company (PLC or plc) is a business model by which a business *can sell stocks and shares to the general public* through a stock exchange. It *must have at least two shareholders*. All of its shareholders are *protected by limited liability*. Again, there is *divorce between ownership and control* in a public limited company. The owners, or shareholders, appoint a *board of directors*, who in turn *appoint managers* who head, lead and run departments and the business on a day-to-day basis. A public limited company's legal format is mainly suitable for medium-to-large businesses of all kinds, including multinational global corporations. Examples of UK public limited companies are British Petroleum (BP), Lloyds TSB, Unilever and Tesco.

BENEFITS OF BEING A PUBLIC LIMITED COMPANY:

A public limited company has *continuity of existence* as it is a legal business entity. Also, it *can raise a substantial amount of capital* as it can sell shares to the general public through a stock exchange. It can also *borrow more easily* from financial institutions, *at a favourable rate* of interest, as it *can offer a large amount of assets as security*.

DRAWBACKS OF BEING A PUBLIC LIMITED COMPANY:

Public limited companies have *very few drawbacks*. However, it is possible that a PLC *can become too big in size and too complex in structure*, with too many employees. This can cause *problems with* the efficiency of its internal, and possibly external, *communications*.

THE CONCEPT OF LIMITED LIABILITY:

Some business legal structure entities enjoy the protection of limited liability and some do not. If a company has *limited liability, then its owners are liable only for the amount they have invested in the business*, irrespective of any outstanding debts to creditors. The *shareholders in private limited companies and public limited companies, as well as partners in some partnership structures, have this type of liability. Owners of businesses with unlimited liability are liable for all the business's debts* even to the point that they might have to sell their own personal possessions to pay off those debts. The owners of *sole trader* businesses *and the partners in some partnerships have unlimited liability*.

THE SUITABILITY OF DIFFERING TYPES OF OWNERSHIP IN DIFFERENT BUSINESS CONTEXTS:

An entrepreneur might start a business in the here and now, but *plans have to be made in the present for how to sustain and grow it in the future*. It is very *unlikely that a new business start-up will have the funds, not to mention the reputation and backup capital, needed to set up a public limited company* offering its stocks and shares for sale to the general public. For this reason, a *new start-up business is most likely to have the legal structure of a sole trader, a general partnership, or even a limited liability partnership, or that of a private limited company*. However, *once established*, irrespective of its original status, a business might develop into a *public limited company* selling its *stocks and shares to the general public* on the *stock exchange*.

Activities

1. Investigate the number of sole trader businesses within a three-mile radius of your home. For each one, copy and complete the table below.

Sole trader survey	
Your home address	
Business name	
Date first established	
Distance from your home	
Service provided	

2. Identify reasons that would prevent a business becoming a public limited company.

3. Use the Internet to identify three not-for-profit organisations operating in the UK, and describe the business activity each undertakes.

Questions

1. Explain the difference between limited liability and unlimited liability. Use examples in your answer.

2. Explain why the protection of limited liability might have a negative impact on the trade creditors of a limited liability company.

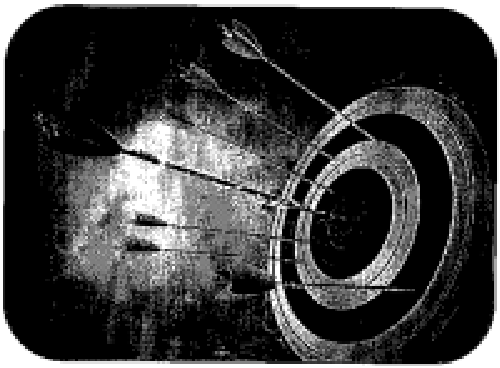
3. What advantages does a partnership have over a sole trader?

4. Why might a business take the legal form of a private company rather than that of a partnership or sole trader?

5. What three letters can a public company put after its name?

6. If you were to start a small business, what would it offer the general public, from where would it get its start-up finance, and what would be its legal structure? Give reasons for all your responses.

1.4 BUSINESS AIMS AND OBJECTIVES



BUSINESS AIMS:

Strategic business *aims set by senior management are long-term strategic, aspirational goals a business wishes to achieve in the long term, e.g. in the next five years and beyond.* They *focus on broad business policies*, e.g. to dominate its market in terms of sales and to achieve unrivalled prestige in their market in terms of product or service quality, to achieve maximum customer satisfaction and to be regarded as a social and ethical operation. Their *success very much depends on the extent to which the business meets its short-to-medium-term tactical and operational objectives.* An example of a strategic business aim might be to control 70% of the total market share within 10 years.

BUSINESS OBJECTIVES:

Tactical business objectives are *set by middle management at department level and fall into the short-to-medium-term category, taking maybe up to five years to come to full fruition.* They are *narrow and specific measurable targets, or stepping stones, built upon the success of really short-term sub-objectives, or operational objectives, concerned with the day-to-day running of the business.* A tactical objective set by the sales department manager might be to have 35% of market share in five years' time. To achieve this the manager and the sales team might develop a plan to grow, maintain and expand the business's customer base by developing a positive image and reputation for the business enabling it to 'eat into' its competitors' market share. To eventually achieve this tactical objective, members of the sales team might develop a day-to-day operational plan involving special promotions, price cuts, special offers, etc. Businesses strive to achieve their objectives in order to fulfil their long-term aspirations, e.g. to survive, to make a profit (or at least break even), and to grow their market share. Every business objective must meet the SMART criteria; that is, be specific, measurable, attainable, realistic and time-bound.

REASONS FOR SETTING BUSINESS AIMS AND OBJECTIVES:

Business aims and objectives are drawn up by a business in order *to encourage and motivate employees at all levels by setting targets for them to aim for.* They should give everyone involved in running the business reasons *to improve their personal efficiency and so that of the business.* A business can measure its success or failure *by setting objectives and, after a specific time, measuring its degree of success in achieving those objectives.* So, a business could, for example, compare its actual performance with its expected performance in the areas of business profit, growth, industrial relations and customer satisfaction.

HOW AND WHY OBJECTIVES MIGHT CHANGE AS BUSINESSES EVOLVE:

Objectives set by a business may change as the business evolves because, for example, the *objectives of larger, more established businesses usually differ from those of smaller start-up businesses.* For example, a *small, newly started business* might initially have the prime objective of *survival and profit satisfying*, whereas a *large, well-established business* would probably be thinking of *market domination, international expansion, increasing shareholder value by profit maximisation* and *developing and implementation of its local, national and international ethical and environmental credentials.*

WHY DIFFERENT BUSINESSES MAY HAVE DIFFERENT OBJECTIVES:

Objectives set will differ between businesses for a variety of reasons, including *the size of the business, the level of competition* a business faces and *the type and philosophy of the enterprise* itself, e.g. whether it is a for-profit business or a not-for-profit organisation.

Questions

1. What factors distinguish business aims from business objectives? Support your answer with examples.

2. In what ways would the business aims and business objectives of a new business start-up differ from those of an established business? Support your answer with examples.

1.5 STAKEHOLDERS IN BUSINESS

STAKEHOLDERS:

A stakeholder is *any person, group or organisation that has financial, social or environmental interests in the activities of the particular business organisation. Internal stakeholders are those with a real direct interest in the business*, e.g. owners and employees. *External stakeholders are all others with an indirect interest* in the business, e.g. customers, suppliers, government and the local community.

OWNER STAKEHOLDERS:

The owners as stakeholders might possibly have the *prime objectives of maximising sales, reducing costs, receiving high dividend payments, having good industrial relations* and *improving profit.*

EMPLOYEE STAKEHOLDERS:

Employees as stakeholders might possibly have the *prime objectives of securing their employment, maximising pay, improving working conditions* and being enrolled in a good, reliable *employee pension scheme.*

CUSTOMER STAKEHOLDERS:

Customers as stakeholders might possibly have the *prime objectives of receiving a quality and reliable product or service*, getting reasonably *low-priced goods*, having the *goods available when they are needed or wanted*, having *access to reasonably placed distribution outlets* and being made *aware that such goods and services are available.*

SUPPLIER STAKEHOLDERS:

Suppliers as stakeholders might possibly have the *objectives of receiving a good price* for the product or service they provide to the business, getting *regular and repeat business*, and *receiving payment* in full and on time.

GOVERNMENT STAKEHOLDERS:

Both local and national governments as stakeholders might *expect that the business provides and sustains a high level of employment*, that it regularly pays the maximum amount to them by way of *taxation* and that it *complies with appropriate legislation* regarding all aspects of environmental, employment, health and safety, business, common and criminal law.

COMMUNITY STAKEHOLDER:

The local community as a stakeholder might possibly have *the objectives of existing with the business and its activities in a safe, clean and quiet environment.* It might also have the objective of trying to *keep a business located in the local community* to provide jobs, boost the local economy and *maybe act as a magnet to attract other businesses* to that location.

THE EFFECT BUSINESS ACTIVITY HAS ON STAKEHOLDERS:

A business may have *many stakeholder groupings*, each of which might have *different objectives*, e.g. *owners, managers, employees, suppliers, customers, the government* and the *local community.* The business has a duty of responsibility to all its stakeholders, but decisions its owners make about how it operates will impact differently on each grouping. For example, a manufacturing business may decide to *increase* its level of *automation* but *reduce* its *workforce*. This should increase its production output, making it *more efficient and profitable* and so having a *positive impact* on the *owners, management, suppliers, customers* and *government.* However, this decision is likely to have a *negative* effect on the *workforce* and the *local community.*

STAKEHOLDER IMPACT:

The *activities that businesses engage in can negatively and positively impact on some stakeholder groupings and the activities of some stakeholders can negatively and positively impact on some business activities.* For example, environmental groups might object to a business's involvement in the fracking process, or its association with the production of genetically modified crops. Political pressure groups might object to a business getting involved in arms or advanced technology sales to 'undesirable' foreign regimes. Religious pressure groups might get annoyed with a business involved in the Sunday opening of certain establishments or Sunday extended trading hours, e.g. Day One Christian Ministries. Some animal rights groups might object to a business being involved in product testing on animals or in the process of halal meat production. To enforce their point, such pressure groups might organise boycotts of and protests against those 'objectionable' businesses or service providers. Such attention might cause the business to experience financial as well as other problems, but on the other hand it may encourage it to be more efficient or to invest more in new technologies and research and development.

Activity

1. Identify and describe the activity of a business operating in the primary sector, the secondary sector and the tertiary sector of the economy (one business in each sector). Then identify three stakeholder groupings associated with each business. Finally, identify and explain why conflict might arise between the groups in the business.

Question

2. Explain why the objectives of the owners of a shale gas fracking company might conflict with those of local working farm owners in a proposed fracking area. Give examples of specific objectives that might conflict, and identify possible solutions to the conflict.

1.6 BUSINESS GROWTH

BUSINESS GROWTH:

Business growth is *the process of taking the risk of making an existing business bigger*, either by *organic internal growth* or by *external* means such as *merging* with, or *taking over*, another business in order to gain a competitive advantage over rivals.

ORGANIC GROWTH:

Organic growth is *internal growth*; that is, growth *resulting from activities generated from within the business itself*. Organic growth should not make the business more indebted to outside agencies and would result from activities such as increasing output, gaining new customers, developing new products and increasing market share. However, organic growth, by its very nature, is rather limiting.

EXTERNAL GROWTH:

External business growth, or *inorganic growth*, results from either a business *merging* with another business, or a business *taking over, or integrating with*, another business. *Integration may take place horizontally or vertically*. External growth could result from product or market diversification. External growth gives a business more exposure to a wider market than organic growth does, but mixing the blood of different businesses requires a dramatic change in management-team thinking, philosophy, cooperation and coordination.

MERGER:

A business merger happens *when two businesses voluntarily combine to form one new, larger business*. For example, AT&T and Time Warner, Dell Incorporated and EMC Corporation, BT and EE (Orange and T-Mobile), in 2001 the merger of Halifax and Bank of Scotland to form HBOS, and in 2014 the estimated £3.8 billion merger between Carphone Warehouse and Dixons (Currys and PC World). Not all intended mergers come to fruition; for example, in 2017 the intended estimated £21 billion merger between the London Stock Exchange and German transaction services provider the Deutsche Börse Group appears to have been scuttled by the apparently excessive demands of the European Union.

TAKEOVER:

A business takeover, or *acquisition, happens when one business gets controlling interest in another, not always voluntarily and with the consent of the owners of the business that has been taken over*. *Non-voluntary takeover by a usually larger rival is referred to as a hostile takeover*. Some examples of business takeovers include Yahoo and Broadcast.com, Royal Bank of Scotland Group and ABN Amro Holding, Pfizer and Warner-Lambert, Google and YouTube, L'Oreal and The Body Shop, and, more recently, Kraft Foods bought out Cadbury's in early 2010. However, not all hostile takeovers are successful, e.g. in February 2017 a proposed takeover by Kraft Heinz of Anglo-Dutch consumer goods giant Unilever failed to materialise.

HORIZONTAL INTEGRATION:

Horizontal integration takes place when individual businesses *on the same level of the production/supply chain* combine; for example, in 2006 Disney's purchase of Pixar Studios, the 2012 Facebook acquisition of Instagram, and, at the end of 2015 Domino's Pizza buying the German-based Joey's Pizza chain.

VERTICAL INTEGRATION:

Vertical integration occurs *when businesses at different stages of the same production/supply chain* combine. For example, when a business takes over its supply source, or when it acquires its distribution source. *Backward integration is movement towards the supply source*, e.g. a brewery buying a hop farm. *Forward integration is when there is movement towards the consumer market*, e.g. a brewery acquiring a chain of public houses. An example of vertical integration on the global front was when in 2015 the computer giant Dell bought the data storage company EMC (Egan and Marino Corporation) so as to add software and storage options to its portfolio.

DIVERSIFICATION:

Business diversification *happens when businesses involved in the production and supply of completely unrelated products or services to totally unrelated markets combine to form a new expanded business enterprise*. Offering new products to a new market is a proactive and offensive competitive strategy to challenge existing competitors. It also reduces the risk of product failure in a single market. For example, an upmarket restaurant may, in addition to its prime market of serving food in its own premises, combine with a 'delivery business' to provide a home delivery service. It might also open its own takeaway annex beside its premises, or it might enter into a contract with a supermarket to provide 'aisle space' for its existing product range, or a specially developed new frozen product range.

Questions

1. What is meant by inorganic business growth?

2. How can organic business growth be achieved through new product development?

3. Franchising can be used to achieve organic business growth. What are the benefits and drawbacks for all involved in using this technique? Use examples to enhance your answer.

4. What is the difference between a business merger and a business takeover?

5. What is the difference between internal economies of scale and external economies of scale? Use examples in your answer.

6. What is the difference between internal diseconomies of scale and external diseconomies of scale? Give examples in your answer.

Activities

1. Apart from franchising and new product development, investigate the pros and cons of three other methods of organic growth available to a business for expansion purposes.

2. Use the Internet to investigate how to play the game 'Chinese whispers'. Play a game, using a business term, in your class.

ACTIVITY

1.1 The role of business enterprise and entrepreneurship

Define the term enterprise.

____

____

Identify **three** characteristics of an entrepreneur.

- ___________________
- ___________________
- ___________________

1.2 Business planning

Identify **three** key areas included in a business plan.

- ___________________
- ___________________
- ___________________

What is the purpose of a business plan?

____

____

1.3 Business ownership

Name **two** public sector services.

- ___________________
- ___________________

State **two** disadvantages of being a sole trader?

- ____
- ____

Explain the features of a limited company.

____

____

1.4 Business aims and objectives

Explain the different between an aim and an objective.

An aim is ____

____

An objective is ____

____

What does SMART stand for?

S ______________

M ______________

A ______________

R ______________

T ______________

1.5 Stakeholders in business

Define the term 'stakeholder'.

____

____

Identify **four** stakeholders of a business.

- ______________________
- ______________________
- ______________________
- ______________________

1.6 Business growth

Identify **three** methods of organic growth

- ____
- ____
- ____

Identify **two** methods of inorganic growth.

- ____
- ____