GCSE Business
Business Activity

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Business Growth

Why do some businesses decide to grow?

- **Increase market share ➔** increase number of customers in comparison to competition ➔ increase sales revenue
- **Increase sales ➔** potential to increase profits
- **Potential economies of scale ➔** reduces costs ➔ increase profit ➔ examples such as purchasing, technical, financial and marketing
- **Gain competitive advantage ➔** example of how the business may gain an advantage such as; reducing costs, extensive advertising, access to more resources, etc.
- **Opportunity to spread risk ➔** selling a wide range of goods/services to wider market

Internal (Organic) Growth

Definition: Where the business grows by increasing the size of a business by increasing its sales, revenue, profits and workforce.

Advantages:

☑ Less risk than external growth (e.g. through mergers and takeovers)
☑ Can be financed through internal funds (e.g. retained profits)
☑ Builds on a business' existing strengths (e.g. brands, customers)
☑ Allows the business to grow at a more sensible rate in the long run

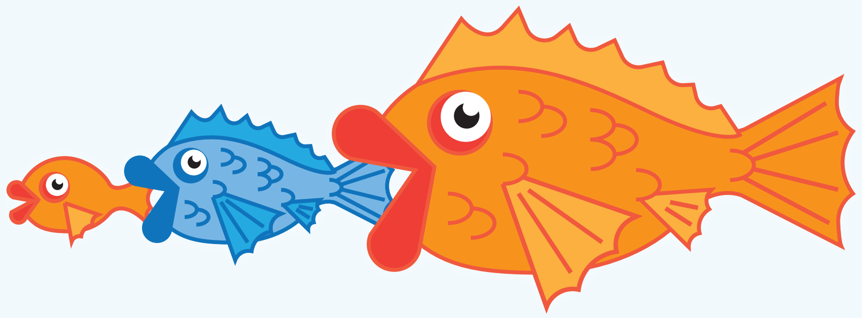
Disadvantages:

☒ Can take a long time ➔shareholders may prefer more rapid growth of revenues and profits
☒ Requires the owners to reinvest profits into the business
☒ Growth achieved may be dependent on the growth of the overall market
☒ Hard to build market share if business is already a leader

External Growth

Definition: Involves increasing the size of a business by buying other businesses.

1. **Merger ➔** When two or more businesses join together to form a new business.
2. **Takeover (or Acquisition) ➔** When one business gains control of another.



Advantages:

☑ Faster growth
☑ Speed of access to new products or markets
☑ Increase market share and market power
☑ Economies of scale
☑ Make use of the strengths of each business
☑ Invest in fast growing emerging markets

Disadvantages:

☒ The merger or takeover does not always work ➔ it is difficult to make two different businesses work as one
☒ A takeover can result in creating a bad feeling between the new workforce ➔ some takeovers are hostile (where the business being taken over does not want to be) ➔ the takeover can often result in redundancies
☒ The cultures of the two businesses may be very different ➔ it will be very difficult to agree on the new culture of the business

Diversification

Definition: Allows a business to enter a different market in addition to the one they are already involved in. This enables the business to spread its risks should the original business fail.

How can the size of a business be measured?

- **Value of sales ➔** the value of a firm's sales is also called its revenue or turnover ➔ the bigger the turnover, the bigger the business
- **Value of the business ➔** how much is the business worth ➔ has the value of the share price increased?
- **Number of employees ➔** how many employees do they employ ➔ has this number increased?

Effect of a takeover on various stakeholders

Workers:

- Loss of jobs ➔ if closure of factories/offices ➔ redundancies
- New skills may be needed ➔ need to retrain
- Higher incomes ➔ larger firm ➔ more responsibility posts ➔ promotion
- Relocation ➔ need to move to keep jobs ➔ e.g. problems of relocation
- Re-apply for jobs ➔ application forms/CV's ➔interviews

Customers:

- Bigger business ➔ economies of scale ➔ lower costs ➔ lower prices
- Less choice ➔ possible reduction in outlets ➔ higher prices
- Less development/innovation

Shareholders

- Economies of scale ➔ lower costs ➔ increased revenue ➔ greater profits
- Higher dividends ➔ higher share value
- Error in takeover ➔ may lead to lower profits
- Fall in share value ➔ lower dividends
- Increased market share ➔ resulting in larger profits

Types of Integration

Vertical Forwards Integration

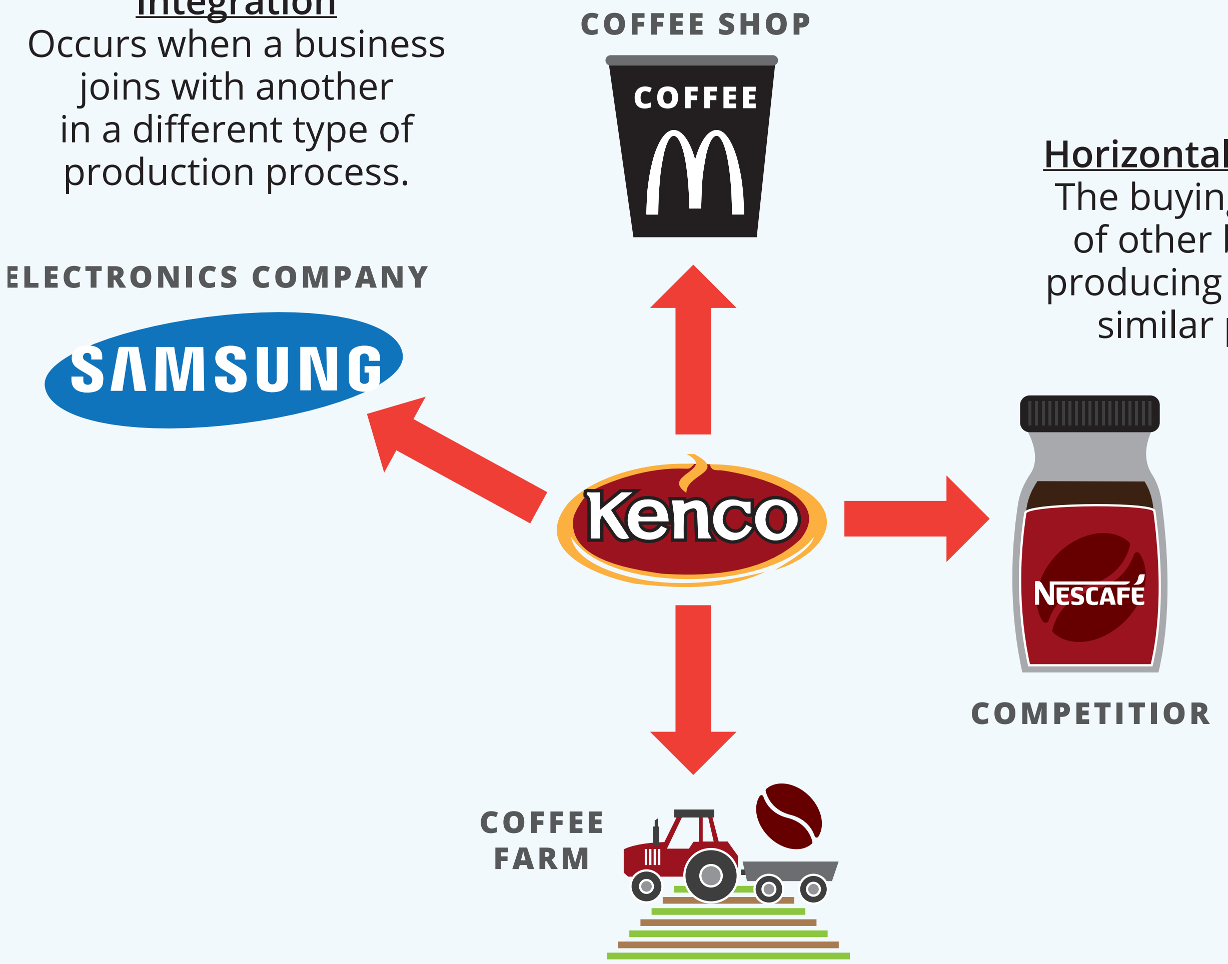
Occurs when a business takes over another business to control the direct distribution of a business' products.

Conglomerate Integration

Occurs when a business joins with another in a different type of production process.

Horizontal Integration

The buying or merger of other businesses producing the same or similar products.



Vertical Backwards Integration

Occurs when the suppliers of a business are taken over by that business.

Benefit from owning businesses at different stages of production

- Control over production ➔ type e.g. petrol or diesel ➔ quality and quantity ➔ can decide on how much to produce ➔ control over costs
- Control over sales ➔ where to sell ➔ type of advertising ➔ amount of advertising ➔ price ➔ based on competition or market
- Take money at each stage of production ➔ added value ➔ earn greater profits
- Economics of scale ➔ lower unit costs, example in context
- Rationalisation
- Diversification ➔ reduced risks

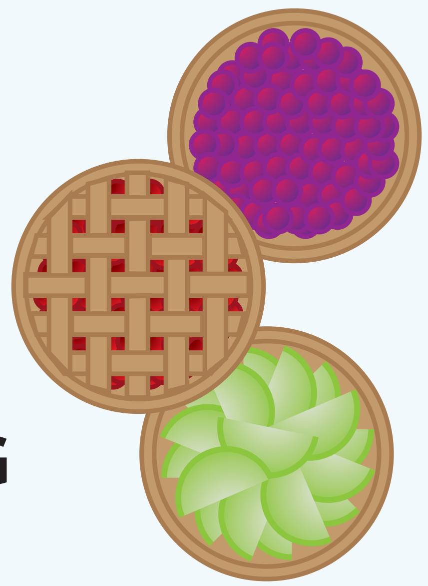
Internal Economies of Scale

Definition: The benefits a business gains as a result of being large. All costs can be spread between the large number of goods produced so the cost per good is lower than for smaller businesses.

- Risk Bearing ➔ selling the product to wider / more markets ➔ if one market fails then they can still get sales from other markets
- Financial ➔ can borrow large sums of money ➔ can negotiate lower rates of interest ➔ obtain more investment reducing costs and increasing profits
- Managerial ➔ As a business increases its output there is a need for large administrative / hierarchy / specialist departments so can spread cost over all goods sold / produced.
- Technical ➔ can use machinery 24/7 ➔ efficient costs spread over all goods produced so cost of each good produced is lower
- Marketing ➔ as a business increases its output it can afford more expensive advertising campaigns e.g. on TV which are seen by more people, so sales increase or cost of advertising can be spread over more goods so the cost per view is lower
- Purchasing/Bulk Buying ➔ the more goods bought the lower the average cost of each good / cost per unit

INTERNAL ECONOMIES OF SCALE

REALLY	RISK
FUN	FINANCIAL
MUMS	MANAGERIAL
TRY	TECHNICAL
MAKING	MARKETING
PIES	PURCHASING



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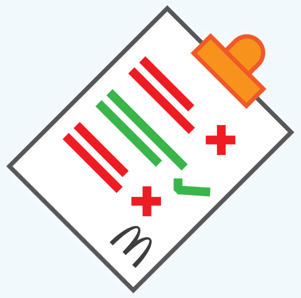
Franchise

Definition: The right given by one business to another to sell goods or services using its name. They should be seen as a method of growth for the franchisor and a business opportunity for the franchisee rather than a type of business organisation.



Franchisor

Definition: A business which allows a franchisee to sell using their processes, experience and name in return for royalties.

Advantages:
- ☑ **Enables growth** ➔ with less risk to franchisor ➔ becomes more widely known ➔ quicker than internal growth
- ☑ **Franchisor receives money** ➔ as franchisees pay royalties ➔ start up fees
- ☑ **Franchisee must buy stock from franchisor** ➔ increased revenue/profit for franchisor
- ☑ **Franchisee may be more enthusiastic than company manager** ➔ benefits sales ➔ profits ➔ reputation ➔ of franchisor
- ☑ **Franchisee organises outlet** ➔ finds location/site ➔ planning permission ➔ pays rent ➔ pays for fittings/decoration ➔ so costs lower
- ☑ **Franchisee organises workforce** ➔ recruits ➔ pays wages ➔ complies with employment law etc.

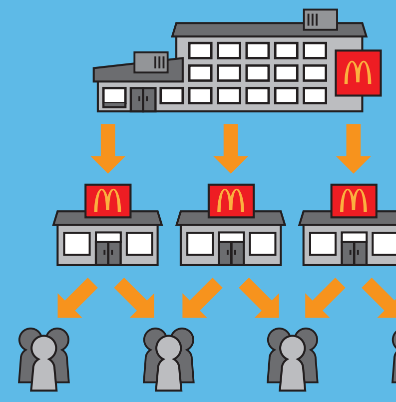
Disadvantages:
- ☒ **Franchisor pays some costs** ➔ training ➔ advertising ➔ design
- ☒ **Less control over franchised outlet** ➔ as run by franchisee
- ☒ **Franchisor may suffer** ➔ badly run by franchisees ➔ bad publicity for one affects all

Franchisee

Definition: A business which pays royalties for the right to sell goods or services using established processes and under the name of another business.

Advantages:
- ☑ **Business model** ➔ well-known name ➔ more customers for franchisee based on reputation of franchise
- ☑ **Training received** ➔ franchisor able to pass on knowledge / skills to franchisee ➔ to give quality of service
- ☑ **Advertising by franchisor** ➔ sometimes on national scale ➔ franchise becomes better known
- ☑ **Well known name** ➔ means more customers for franchisee ➔ based on reputation of franchise
- ☑ **Equipment provided by franchisor** ➔ to have quality / corporate image
- ☑ **Advice** ➔ from franchisor with experience in the business
- ☑ **Finance may be provided** ➔ sometimes at favourable interest
- ☑ **Exclusive area** ➔ so franchisee does not face competition from similar business
- ☑ **Goods to sell bought from franchisor** ➔ so no need to find supplier ➔ common standard
- ☑ **Process of making** ➔ as efficiently as possible/ expertise

Disadvantages:
- ☒ **Set up cost paid to franchisor** ➔ to be able to join franchise
- ☒ **Monthly royalties / fee paid to franchisor** ➔ may reduce profits
- ☒ **Little freedom to operate** ➔ as area ➔ and goods sold chosen by franchisee
- ☒ **May suffer from bad reputation of other franchisees** ➔ who may provide bad service
- ☒ **Difficult to go through qualification** ➔ selection process



Expanding via franchising or opening own stores

Benefits of expansion through franchising:
- many businesses already have a large number of franchises ➔ evidence suggests that they are successful
- receipt of royalties
- no need to find finance to set up ➔ role of franchisee
- no need to find sites ➔ role of franchisee
- able to expand the market and sales quickly
- expansion can be achieved relatively cheaply
- employees are responsibility of franchisee
- can take advantage of enthusiasm/ commitment of franchisees
- do not suffer losses of individual outlets
- do not have effort/cost of running individual outlets
- spreading of risks
- statistics tend to suggest that franchise businesses generally do well

Benefits of expansion through opening of own shops:
- retain independence and in control of expansion
- will keep all profits
- if set up franchises less control over quality ➔ need to monitor
- operations of franchisees
- avoids training and administration associated with setting up franchises
- can reap benefits from economies of scale

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Suggest and explain one benefit and one problem the business has from owning its own shops rather than selling through shops owned by other businesses.

Benefits might include:

- ☑ **Control over how products are sold/ displayed** ➔ marketing /image
- ☑ **Control over selling price** ➔ customers not being charged too much ➔ or being charged too little
- ☑ **Maximise profit** ➔ made from sales ➔ as well as production
- ☑ **Immediate feedback from customers** ➔ on what is required ➔ on what is sold
- ☑ **Staff trained** ➔ on specific products ➔ and will promote own products

Problems might include:

- ☒ **Fewer customers** ➔ fewer selling opportunities
- ☒ **Extra costs of setting up** ➔ renting/buying shop ➔ fixtures/fittings
- ☒ **Problems in finding premises** ➔ suitable location ➔ planning permission
- ☒ **Staff training** ➔ expertise ➔ cost ➔ recruitment
- ☒ **Owners skills** ➔ in production rather than retailing ➔may not be so efficient
- ☒ **Leftover stock** ➔ problem for producer
- ☒ **Selling costs borne by manufacturer** ➔ e.g. rent/electricity/business rates, promotion costs

How can the success of a business be measured?

- **Profits / profit and loss account** ➔ compared with previous time period ➔ against targets ➔ compared with competitors ➔ is net % profit greater
- **Increase in sales/turnover/rate of turnover** ➔ due to improved marketing ➔ was cost worth it?
- **Increase in the number of customers** ➔ indicating greater customer satisfaction
- **Increase in scale of production** ➔ growth ➔ more workers ➔ organic/ internal ➔ acquisitions ➔ possibly leading to economies of scale
- **Ask customers opinions** ➔ customer satisfaction/customer feedback
- **Compare financial results with targets** ➔ is business performing better than expected ➔ Increased market share ➔ how much of the total market does business supply ➔ has it increased?
- **Low staff turnover** ➔ employer loyalty ➔ job satisfaction
- **Meet objectives**