Year 11 Business Studies Knowledge Book

Business Ownership

Types of ownership	• Sole trader • Partnership • Private limited company (Ltd) • Public limited company (plc) • Not-for-profit organisation

Sole trader = a business with one owner	
Advantages	Disadvantages
Easy to set up	Owners may have to work long hours
You get to be your boss	Unlimited liability
You keep all of the profits	Many be hard to raise the money to start up

Partnership = a business with between two and twenty owners	
Advantages	Disadvantages
More owners mean a greater range of ideas and skills	Decision making is shared
The work can be shared	Unlimited liability
All partners put money in at the start of the business	Each partner gets a share of the profit

Unlimited liability = the business and the owners are seen as the same thing. Therefore if the business owes money, the owner owes money.

Private limited company (Ltd) = a business owned by shareholders. Shares are sold privately.	
Advantages	Disadvantages
Limited liability	Shareholders get a share of the profits. They are paid a dividend
Money from the sale of shares can help the business start up	May be difficult to get a loan from a bank due to limited liability
	More expensive and complicated to set up

Public limited company (plc) = a business owned by shareholders. Shares are sold on the stock exchange	
Advantages	Disadvantages
Limited liability	Shareholders get a share of the profits. They are paid a dividend
Money from the sale of shares can help the business start up	Accounts are made public

Limited liability = the business and the owners are seen as separate legal entities. If the business goes into debt, the owners are not in debt.

Not-for-profit organisation = a business that is not aiming to make a profit. They may be charities, social enterprises or clubs and groups. They are able to set up with either limited or unlimited liability.

Setting business aims and objectives

Aims and objectives	Goals or targets a business aims to achieve
Example aims and objectives	• Survival • Profit maximisation • Growth • Market share • Customer satisfaction • Social and ethical objectives • Shareholder value
Survival	A short term aim to make sure all costs are covered
Profit maximisation	Aiming to make as much profit as possible either by selling more or by keeping costs as low as possible
Growth	Aiming to increase the size of the business. This may include international expansion
Market share	This shows the percentage of total market sales a business has made. The aim is to have a large market share
Customer satisfaction	Aiming to have positive customer feedback
Social and ethical objectives	Aiming to act in a way that is morally right. This might be for customers, employees, the environment…
Shareholder value	Aiming to make high profit levels so that shareholders earn a large dividend.

Sources of Finance

Sources of finance = methods businesses use to raise money

Internal sources of finance	• Family and friends • Retained profit • Selling unwanted assets
External sources of finance	• Bank loan / Mortgage • Overdraft • Trade credit • Hire purchase • Government grant • New share issue

Sources of finance	Advantage	Disadvantage
Family and friends	May not have to pay interest on the loan	Can create problems with the friendship
Retained profit	Doesn't need to be paid back	Owners may want to take the profit out
Selling unwanted assets	Doesn't need to be paid back	Only works if the business has assets they no longer use
Bank loan / Mortgage	Usually quick and easy to take out	Interest has to be paid on the loan.
Overdraft	Only borrow exactly what you need	High interest rate
Trade credit	Gives the firm time to earn money before paying the debt	Late payments may lead to a large fee
Hire purchase	Allows a firm to buy an asset in instalments	The total amount paid for the asset is often much higher than if the firm had bought it with one payment
Government grant	Free money for the firm	Can be complicated to apply for and not all firms will meet the conditions.
New share issue	Does not have to be paid back	New shareholders take a share of the profit

Short term source of finance	• Trade credit • Overdraft
Long term source of finance	• Bank loan / Mortgage • Hire purchase • Government grant

Cash Flow

Cash flow	The flow of money into and out of the business
Cash inflow	Money coming into the business usually from sales
Cash outflow	Money leaving the business to pay bill, wages etc..
Net cash flow	Cash inflow – Cash outflow
Positive cash flow	More cash inflow than outflow over a particular time period • This means the business has no problems making payments
Negative cash flow	More cash outflow than inflow over a particular time period • Often called a 'cash flow problem' • The business can't make the payments it needs to

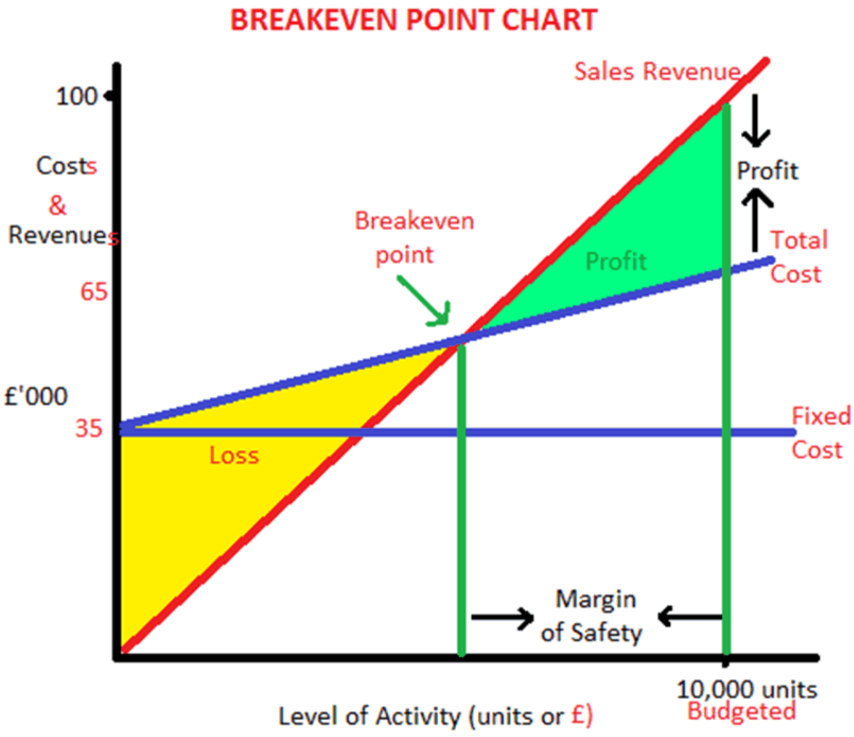
Opening balance	Cash in the bank at the beginning of the month
Closing balance	Cash in the bank at the end of the month (opening balance + net cash flow)

Reasons for constructing a cash flow forecast	• Helps a business plan the cash inflows and outflows • Allows the business to identify when they will need extra sources of finance.
Solutions to a cash flow problem	• Re-schedule payments • Overdraft • Reduce cash outflows – find cheaper suppliers • Increase cash inflow – sell more or increase prices • New sources of finance

Financial Terms and Calculations

Variable cost	Costs that change as output changes e.g. Raw materials
Fixed cost	Costs that don't change with output e.g. rent
Total cost	Fixed cost + Variable cost
Revenue	Money received from sales (selling price x number sold)
Profit	Money left over once all costs have been paid (revenue – total cost)
Loss	This occurs if costs are greater than revenue

Investment	Money put into the business to make improvements in order to make the business more profitable
Example investments	• New machinery • New buildings • New vehicles
Average Rate of Return (ARR)	Shows the percentage earnt by the investment. The higher the better.
ARR Calculation	(average annual profit/initial investment) x 100%
Average annual profit	Total profit / number of years of the project



Break even output	The level of sales where costs are equal to revenue. • If a business sells more than its break even output it will make a profit • If a business sells less than its break even output it will make a loss
Margin of safety	This is how far above the break-even output a business's sales are.
Value of using a break-even analysis	Advantages • Quick and easy to calculate • Will help support an application for a loan at a bank • Allows a business to see what would happen to profit if they changed price or cost Disadvantages • The data is a prediction and therefore may be wrong • Makes an assumption that all products will sold – they may not • Will be complicated if the business sells more than one product

Analysing Financial Performance

Income statement	A financial document which shows Revenue, Cost and profit for a period of time (usually a year)
Income Statement Part 1	The Trading Account. This records the gross profit or loss Revenue – cost of sales = Gross profit
Income Statement Part 2	The Profit and Loss Account. This records the net profit Gross Profit – expenses = operating profit Operating profit – interest = net profit
Income Statement Part 3	The Appropriation Account. This shows where net profit goes. • Taxation • Dividends • Retained profit

Gross profit margin	(gross profit / revenue) x 100%
Net profit margin	(net profit / revenue) x 100%

Statement of financial position	A document showing where the business has got its money from and what it has used it for
Fixed asset (non-current assets)	Items owned by the business that will last for **more** than one year e.g. buildings, machinery
Current assets	Items owned by the business that will last for **less** than one year • Stock • Debtors – money owed to the business • Cash
Current liabilities	Bills that have to be paid in less than one year
Long term liabilities (non-current liabilities)	Bills that will be paid back over longer than one year
Net current assets	Current assets – current liabilities
Capital employed	The total money put into the business
Use of a Statement of Financial Position	• Shows the value of a firm in snapshot in time • Can be used to compare the performance of the business with previous years.

Production Processes

Methods of production

Job production	Manufacturing unique products one at a time. Advantages: • High quality • Handmade/unique can add value Disadvantages: • Expensive to make • Takes a long time to make Examples: • Furniture • Ships • Bridges
Flow production	All products are identical and made on an assembly line Advantages: • Large scale production • Lower average unit costs (economies of scale) Disadvantages: • Possibly lower quality • Lower added value Examples: • Mobile phones • Chocolate bars • Cars

Efficiency in production:

Lean production	This happens when businesses use as few resources as possible and have as little waste as possible. • Workers are encouraged to give ideas to make the business more **lean** • Stock levels are kept low. Stock is ordered Just-In –Time (JIT)

The role of Procurement

Just-in-Time	This is when a business manages stock so that it is delivered just in time for use. Stock levels are kept very low. Advantages: • Reduces cost of keeping stock Disadvantages: • If deliveries don't arrive in time the business may run out of stock • The business cannot benefit from purchasing economies of scale
Just-in-Case	This is when a business manages stock so that it is has a buffer stock (extra stock) Advantages: • The business is unlikely to run out of stock • The business can benefit from purchasing economies of scale Disadvantages: • Stock may be costly to keep • Stock may go out of fashion/go off!

Factors affecting choice of supplier	• Price • Quality • Reliability

Procurement = selecting suppliers, establishing the terms of payment and negotiating the contract.

Logistics = getting goods and services from one part of the supply chain to another

Supply chain = the group of firms that are involved in all the various processes required to make finished products available to the customer

Managing procurement, logistics and the supply chain well will lead to:

- Efficiency – the business will have all the supplies it needs at the right time
- Lower unit costs
- Good relationship with suppliers
- Finding the best price and value
- Reducing waste and unnecessary costs.

Quality

Businesses need to know the customer expectations of the quality of the good or service.

Costs and benefits of maintaining quality:

Benefits of quality	Costs of quality
• Can charge a higher price • Sales may increase • Better reputation and image • Can avoid product recalls • Can avoid disruption to provision of services.	• May need more staff training to improve the quality which will increase business costs. • Cost of inspection

How do business monitor quality? This helps them check if they have the correct quality:

- Count customer complaints
- Ask customers to complete a survey
- Get staff to inspect products
- Mystery shoppers

How can a business improve quality / make sure quality is high?

- Quality control = checking the product at the end before it is sent to the customer
- Quality Assurance = employees checking the product at each stage of the production process. An example of Quality Assurance = Total Quality Management (TQM)

Total Quality Management (TQM) = the aim is to make quality the responsibility of every employee in the business.

- The focus is on getting things right first time
- This should reduce cost by cutting down on waste
- However – it can take a long time to introduce and not an employees will be motivated to do this.

Why can business growth lead to quality problems?

- ➢ The business may be overwhelmed by orders. Quality checks might not be completed.
- ➢ Growth through franchising could mean the franchise business isn't run properly
- ➢ Growth through outsourcing may mean that a fall In quality.

Good customer Service

Methods of good customer service:

- Good product knowledge
- Customer engagement (creating a positive experience for the customer)
- Post sales services (eg – user training, help lines, servicing)

Benefits of good customer service	• Increase in customer satisfaction • Customer loyalty • Increased spend • profitability
Dangers of poor customer service	○ dissatisfied customers ○ poor reputation via word of mouth ○ reduction in revenue

How can ICT be used in customer services?

- Websites
- E-commerce
- Social media

Organisational Structures

Organisational structure	The way a business arranges itself to carry out its activities
Tall organisational structure	An organisation structure with **many** levels of hierarchy
Flat organisational structure	An organisation structure with **few** levels of hierarchy
Span of control	The number of employees managed directly by another employee
Chain of command	The line of authority within a business. Communication passes through this line
Delayering	The removal of one or more levels of hierarchy from the business' organisational structure
Delegation	The passing down of authority to more junior employees
Decentralisation	Allows employees in all areas of the business to take decisions
Centralisation	All important decisions are taken by a small number of senior managers

	Advantages	Disadvantages
Decentralisation	• Takes the pressure off senior managers • Can motivate employees • Faster decision making	• Employees will need training • Could lead to poor communication and confusion
Centralisation	• All decisions are co-ordinated	• Decisions makers may not have all of the information

Recruitment and Selection of employees

The need for recruitment:

- Employee has left
- Business has grown

Internal recruitment	Filling job vacancies with employees already in the business
External recruitment	Filling job vacancies with people not already employed in the business.

	Advantages	Disadvantages
Internal recruitment	• Cheaper • Vacancy can be filled quickly • Candidate is well known • Candidate knows the business	• No new ideas • The employees move will leave a vacancy to fill
External recruitment	• New ideas brought to the business	• May be expensive to advertise • The new employee is 'unknown'

Main stages of recruitment:

Job analysis	Collection and interpretation of information about the job
Job description	A document that lists the tasks and duties of a job
Person specification	A document that lists the qualifications and skills required by an employee to fill a particular job
Selection methods	• Interviews • Psychometric tests • Assessment centres

Benefits of an effective recruitment and selection process:

- High productivity
- High quality output
- Good customer service
- Staff retention

Part time contract	When an employee works for fewer than the normal number of working hours per week.
Full time contract	When an employee works the normal number of working hours per week.
Job share	When two (or more) employees share the hours of a single job
Zero hour contract	Allows employers to hire staff without any guaranteed hours of work

Motivating Employees

If staff are motivated and want to work to work hard the business will benefit from higher productivity and higher levels of staff retention. These should both lead to higher profit.

Financial methods of motivation	• Salary • Wage • Commission • Profit sharing
Non-financial methods of motivation	• Styles of management • Training • Greater responsibility • Fringe benefits

Training

Training employees is important for a business. Well trained employees will lead to:

- Increased productivity
- Ability to deal with changes in technology
- Increased motivation
- High quality goods produced
- Good customer service

Types of training:

Induction training	Training for new staff. This introduces them to fellow workers and explains the business' rules. • Makes new staff feel welcome • Gives new staff confidence • Makes new staff more productive
On the job training	Training while doing the job • The employee works and learns at the same time so this cost effective • However – employees may learn the bad habits of staff already doing the job.
Of the job training	Training away from the workplace • Often high quality training and may lead to a qualification • However – the employee may still need some on the job training when they start the job!