OCR ALevel Business: Introduction to Business

Knowledge Organiser: Introduction to Business

Organic growth
Internal growth using own resources i.e. opening more shops
Merger
Two or more businesses agreeing to join together
Takeover
One business takes control of another
Horizontal growth
Two businesses in the same production sector joining together
Vertical growth
Two businesses in different production sectors joining together

There are two methods of business growth:

Organic growth	External growth	
▪ **Increasing output** Selling more products ▪ **Gaining new customers** Reduce the price, open more shops ▪ **Developing new products** To target a wider range of customers ▪ **Increasing market share** Selling more than competitors	Merger	Takeover
	Horizontal Two businesses in the same production sector	**Vertical** Two businesses in different production sectors
	Diversification Two businesses coming together with no connection	

Franchising arises when a franchisor grants a licence (franchise) to another business (franchisee) to allow it trade using the brand / business format.

The franchisor is the business whose sells the right to another business to operate a franchise. A franchise is bought by the franchisee. Once they have purchased the franchise they have to pay a proportion of their profits to the franchiser on a regular basis. Depending on the business involved, the franchiser may provide training, management expertise and national marketing campaigns. They may also supply the raw materials and equipment.

Buying a franchise a good way of an individual setting up a business because they do not have to establish themselves in the same as a sole trader might have to. They will have the support of a tried and tested business model, often with a national marketing campaign behind them.

The main advantages to the franchisor of growing a business using franchising include: A classic growth strategy for a proven business format, Enables much quicker geographical growth for a relatively low investment, Still have the option to open locations that are operated by the Franchisor, Capital investment by franchisees is an important source of growth finance

The main advantages of setting up as a franchisee include: The franchisee is given support by the franchisor which includes marketing and staff training. The franchisee may benefit from national advertising and being part of a well-known organisation with an established name, format and product Less investment is required at the start-up stage since the franchise business idea has already been developed A franchise allows people to start and run their own business with less risk.

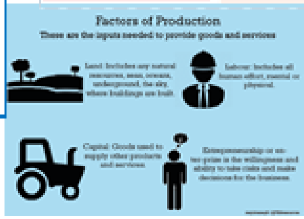
Drawbacks to the Franchisee The potential disadvantages of setting up as a franchisee are: Cost to buy franchise – can be very expensive (hundreds of thousands of pounds). Have to pay a percentage of your revenue to the business you have bought the franchiser from. Have to follow the franchise model, so less flexible. You would probably be told what prices to set, what advertising to use and what type of

Stakeholders
a groups of people or individuals re: who have an interest in a business

Internal stakeholders
People with an interest in and who work in the business

External stakeholders
People with an interest in but who are outside of the business

Stakeholder	Internal or external	Effects
Owners	Internal	See profit as their main aim so will want to run the business cost effectively
Employees	Internal	Employees want to be treated well and receive a fair wage. Without this they could go on strike
Customers	External	Customers want to receive a good service and pay a fair price. Without this they could go to competitors
Suppliers	External	Suppliers want to be paid on time. Delayed payments could mean the supplier refuses orders
Government	External	The government wants businesses to succeed however an increase in income tax means less money for customers
Local community	External	The local community will want jobs in their area however they could protest against a new business development



Private sector organisations are owned by individuals. These businesses are driven by profit.

Public sector organisations are owned by the government. They provide goods and services for the benefit of the community.

Third sector organisations are owned and run voluntarily. These organisations are not run by the need to

Joint venture

Advantages	Disadvantages
• access to expertise and contacts in local markets • reduced market and political risk • shared knowledge and resources • economies of scale • overcomes host government Restrictions • may avoid local tariffs/non-tariffs Barriers • shared risk of failure • less costly than acquisitions • better relations with national government	• large investments of resources • partners may be locked into long-term relations • transfer pricing problems • the importance of venture to each partner may change over time • cultural differences may result in • management differences • loss of flexibility and confidentiality • problems of management structures and dual parenting

Local Business – Sells to customers in local area

National Business -A type of business that has a business and customer base across a nation

International business - sells to/trades with more than one country, may operate solely in the UK.

Multinational business - operates in/has branches in more than one country

Sole trader

Advantages	Disadvantages
▪ Easy to set up ▪ Little finance required ▪ Full control ▪ Keep all the profits ▪ Financial information is private	▪ Unlimited liability ▪ Business stops if ill or on holiday ▪ Long working hours ▪ Shortage of capital ▪ Skills shortage ▪ No continuity

Partnership

Advantages	Disadvantages
▪ More capital available ▪ Easy to set up ▪ More skills available ▪ Shared workload ▪ Financial information is private	▪ Shared profit ▪ Unlimited liability ▪ Shortage of capital ▪ Slower decision making ▪ No continuity

Private Limited Company (LTD)

Advantages	Disadvantages
▪ Limited liability ▪ Continuity ▪ Can raise capital more easily ▪ Control over share sale	▪ Financial information available to the public ▪ Complex and expensive to set up ▪ Sale of shares is restricted ▪ Dividends to be paid

Public Limited Company (PLC)

Advantages	Disadvantages
▪ Can raise large amounts of capital ▪ Easier to borrow money ▪ Limited liability for shareholders	▪ Possibility of a takeover ▪ Complex and expensive to set up ▪ Hard to manage as so large ▪ Financial information available to the public

Sector	Description	Example markets
Primary	Extraction of natural resources	Mining, farming, energy extraction
Secondary	Production of finished goods and components	Manufacturing, food processing, component assembly, raw material processing
Tertiary	Providing services to consumers and businesses	Personal services (e.g. beauticians), retailing, household franchises
Quaternary	Providing information & ICT	Software development, financial services, data processing

Unlimited liability
Responsibility for the debts of the business rests with the owners
Capital
Money raised to start or develop a business
Deed of partnership
A document setting out the operations of the partnership
Sleeping partner
Someone who only invests in a partnership
Limited liability
Responsibility for the debts of the business is limited to the amount invested
Shareholders
Owners of a limited company
Dividend
Money paid to shareholders from business profits