

NEW for 2017



SAMPLE MATERIAL

Edexcel GCSE (9-1)

Business

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1 Investigating small business

Theme 1: Investigating small business

Topic 1.4 Making the business effective

Topic overview

This topic considers the range of factors that will influence whether a small business is successful or not. This will include looking at the ownership of the business, the choice of location, the marketing mix and how the elements of the marketing mix must work together. It also looks at the role and importance of a business plan.

Case study



York Cocoa House

Sophie Jewett had a love of chocolate from a very young age. She started baking when she was just four years old and had developed her own chocolate fudge recipe by the age of eight. Now, the proud owner of The York Cocoa House, Sophie is able to combine her passion with running a successful business.

Sophie moved to York to study at York University. The city is very popular with tourists and has a strong chocolate heritage. Sophie enjoyed learning more about both the city and how chocolate is made and was fascinated by its impact on the world. This, combined with her desire to open her own business, led her to spot an opportunity. She started making chocolates in her own kitchen and teaching chocolate making at weekends. She soon became so busy it was time to scale up the operation.

In November 2011 Sophie's dream came true. She created a home for chocolate lovers, The York Cocoa House Chocolate Emporium. The emporium is a chocolate shop, a chocolate café and a chocolate school. All of the products are also available in the online shop www.yorkcocoa.co.uk.

In 2013 Sophie won a national business competition where her prize included a year's mentoring from Deborah Meaden, the well-known star of BBC's *Dragons' Den*. The business continues to grow, offering a wide range of special events and even a five day chocolate apprenticeship where customers can learn the art of chocolate making.

- 1 Why is York a good location for The Cocoa House?
- 2 What are the advantages to Sophie of offering a range of both goods and services?
- 3 What planning would Sophie have needed to do before opening her business?



Your learning

In this topic you will learn:

- the options for start-up and small businesses – the concept of limited liability, the types of business ownership for start-ups and the option of starting up and running a franchise operation
- factors influencing business location
- what the marketing mix is, the importance of each element and how the elements of the marketing mix work together
- the role and importance of a business plan and the purpose of planning business activity.

1.4.1 The options for start-up and small businesses

Case study



Mo Bro's

Mo Bro's is a beard grooming company selling high quality handmade goods for men with beards and moustaches. These include products such as soaps, oils, brushes and other related accessories. The business was launched in 2014 by three brothers in Leicester. Whilst growing beards to support the charity, Movember, they realised they needed special attention to keep their beards looking good and came up with ideas to solve the problem. These specialist products are now sold all over the world from their website www.mobros.co.uk.

In groups discuss the following:

- 1 Why might the brothers want to set up in business together rather than individually?
- 2 Would you prefer to set up a business by yourself or with family or friends?

The concept of limited liability

Setting up and running a business involves risk. An entrepreneur and other investors will have risked their own finance to help establish the business. One of the first decisions to be made will be the type of business ownership as this will determine the amount of liability (risk).

Limited liability exists when an entrepreneur's risk is limited to the amount they have actually invested or promised to invest. This means that their personal assets cannot be used to pay the business's debts. Businesses that have limited liability are known as **incorporated**. These are seen as less risky to the investor.

Unlimited liability exists when an entrepreneur's risk includes their own personal assets e.g. their house and car. This means that if the debts of a business cannot be covered by the business's assets, the entrepreneur will have to use their own assets to pay the debts. Businesses that have unlimited liability are known as **unincorporated**.

Key terms

Limited liability: the amount of risk is limited to the amount of money that has been invested in the business or promised as an investment.

Incorporated: a business that has registered as a company. The business and the owners are seen as separate bodies in the eyes of the law.

Unlimited liability: the level of risk goes beyond the amount invested, meaning that the personal assets of the business owner can be used to pay off monies owed by the business.

Unincorporated: a business that is owned by an individual or group of individuals and is not registered as a company. The owners and the business are therefore seen as the same body in the eyes of the law.



Partners in a limited liability partnership aren't personally liable for debts the business cannot pay, they are only liable up to the amount they invested in the business.

Risk and rewards

In Topic 1.1 *Enterprise and Entrepreneurship*, you learnt about the risks and rewards of business activity, including the financial risks. The potential for financial loss is directly linked to the concept of liability.

Exam-style question

Explain one disadvantage to an entrepreneur of unlimited liability (3 marks)

Exam tips

- Show that you understand the term by starting your answer with a definition of unlimited liability.
- State a disadvantage.
- Briefly expand on why it is a disadvantage to an entrepreneur.

The types of business ownership for start-ups

When setting up a business the entrepreneur(s) will have to decide on the type of business ownership. This is known as the legal structure of the business.

Sole trader

A **sole trader** is when one person sets up a business on their own and they are the sole owner. A sole trader is an unincorporated business and therefore has unlimited liability. Although the entrepreneur is the only owner,

this does not mean they cannot employ the help of others. It is normal for a sole trader to use the help of specialists (e.g. a web designer or accountant) or to employ staff to help with the day to day running of the business. Operating as a sole trader is often seen as the easiest way of setting up a business as there are no legal requirements. An entrepreneur can just start trading. For this reason they are popular with small businesses such as florists, mechanics and market traders. The sole trader must however declare their earnings to Her Majesty's Revenue and Customs as they have to pay income tax on the profits of the business.

Partnership

A **partnership** is when two or more people join together to set up and run a business. They share the risks (by investing their own finances), the decision making and the rewards. Partnerships are often found in professions such as doctors, lawyers or accountants. Traditionally partnerships have had unlimited liability, however, it is now possible to set up a limited liability partnership. A partnership is set up using a **deed of partnership**. This is a legal document that outlines who the partners are, the amount invested by each partner, how profits will be shared, the voting rights of each partner and also the actions to be taken if a partner wishes to leave or they want to bring in a new partner.

Private limited company

A **private limited company** is an incorporated business that is owned by **shareholders**. The shareholders have limited liability and must be known to the entrepreneur i.e. family and friends. To set up a private limited company it must be registered at Companies House. This involves submitting both a Memorandum of Association and Articles of Association. The memorandum gives details about the name of the company, its trading activities, registered office and the amount to be invested in shares. The articles of association give details about the voting rights of the shareholders, how profits will be distributed and the running of the annual general meeting (AGM). The AGM is the meeting where all shareholders will be invited to vote on important decisions. The number of votes held by each shareholder will be determined by the number of shares they hold. A private limited company must have 'Ltd' after its name.

The advantages and disadvantages of each type of ownership

	Advantages	Disadvantages
Sole trader	<ul style="list-style-type: none"> Makes all of the decisions themselves – no conflict Quick and easy to set up Keeps all of the profits Financial information is kept private 	<ul style="list-style-type: none"> Unlimited liability Amount of finance available may be limited making it difficult to establish or grow the business A lot of pressure on just one person Can be difficult to run the business if the owner is ill or takes time off
Partnership	<ul style="list-style-type: none"> Wider pool of expertise Share ideas and decision making Shared risk Greater availability of finance Financial information is kept private 	<ul style="list-style-type: none"> Decisions made by one partner can affect all partners Shared profits May be conflict between partners
Private limited company	<ul style="list-style-type: none"> Unlimited liability Prestige of 'Ltd' after its name making it appear a larger or more established business Greater availability of finance Business continues to trade even if shareholders change 	<ul style="list-style-type: none"> More complex to set up Potential conflict between shareholders Financial information can be accessed by third parties More reporting requirements

Table 1.1 The advantages and disadvantages of different types of ownership

The option of starting up and running a franchise operation

When setting up a business an entrepreneur may decide to set up as a franchise rather than an independent business. A **franchise** is when one business, the **franchisor**, gives permission to an entrepreneur, the **franchisee**, to set up a business using its name and selling its products. This will be in return for an initial fee and an ongoing share of the profits. As the franchisor already has an established business this is seen as a less risky option.

The franchisor will provide help and support to the franchisee, not only when setting up but on an ongoing basis. This will include training for both the entrepreneur and their employees. The franchisor will also determine key decisions such as suppliers, prices, what goods or services are offered and workforce issues such as pay and uniforms. Often brand recognition is a very big part of a franchise and therefore the franchisor will want to ensure this is protected.

The franchisee will benefit from the fact that the franchise is already a tried and tested model so they will be more confident in the success of the start-up. Initial fees can however be expensive and there will be a requirement to share the profits made with the franchisor.

Activity ?

In teams of between two and four people produce a Deed of Partnership. Choose your team carefully just as you would choose business partners carefully. Remember that in a partnership all partners are bound by the decisions and actions made by any one partner.

Link it up

You will study marketing decisions in more detail in Topic 2.2 *Making Marketing Decisions*. In particular you will look at promotional strategies including branding in subtopic 2.2.3 *Promotion*.

Advantages of franchising	Disadvantages of franchising
<ul style="list-style-type: none"> Lower risk due to an established model with a proven track record Support and training provided by franchisor National marketing 	<ul style="list-style-type: none"> Initial fee paid to franchisor plus ongoing fees Loss of independence in decision making Reputation can be damaged by other franchisees if standards are not maintained

Table 1.2 The advantages and disadvantages of franchising



Each franchise will have different terms and conditions that will be set out in the franchise agreement

Checkpoint

It is now time to review your understanding of the options for start-up and small businesses.

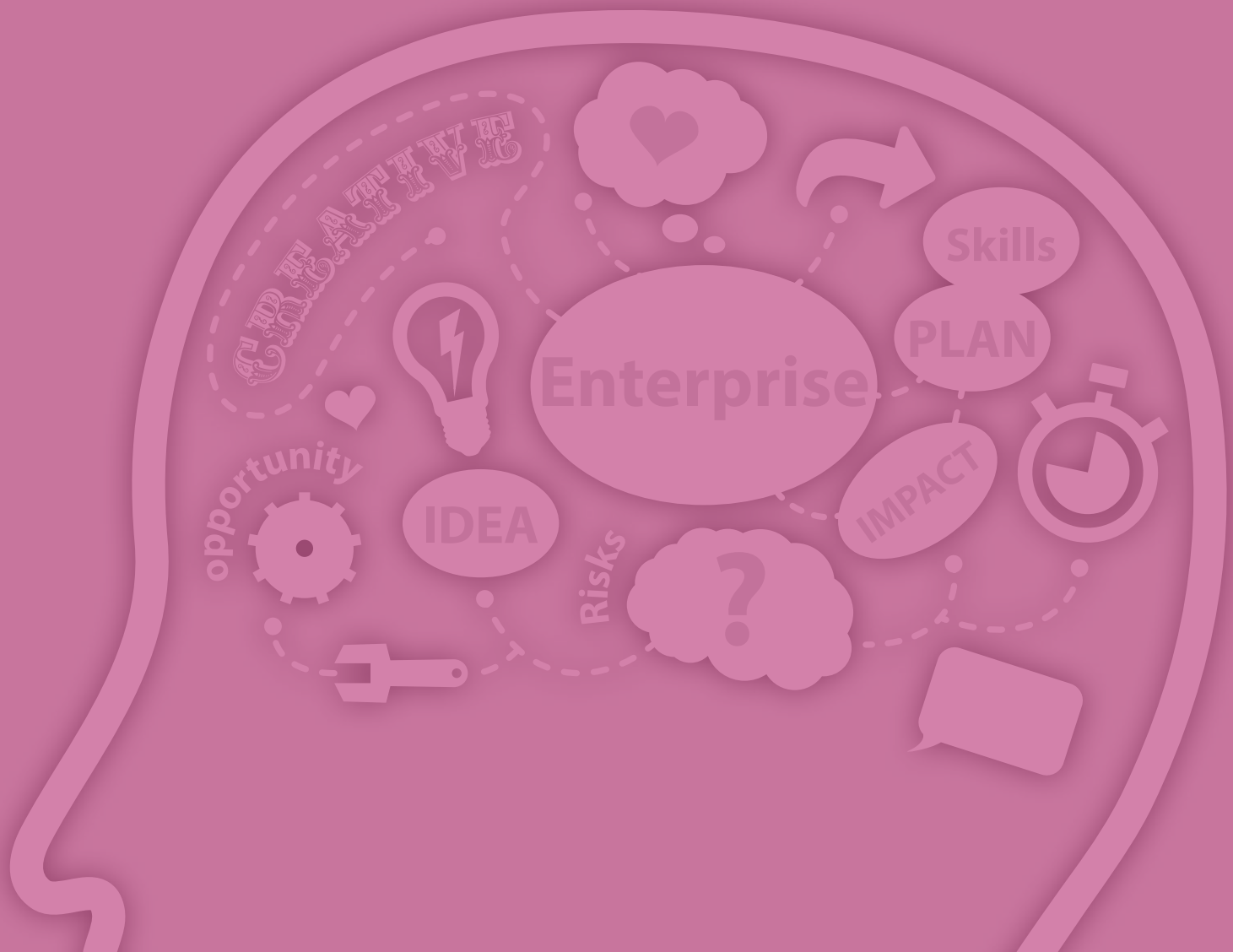
Strengthen

- S1** What is the difference between limited and unlimited liability?
- S2** Draw a mind map to show three types of business ownership for start-ups. For each type include:
 - a** A definition
 - b** Characteristics
 - c** Advantages
 - d** Disadvantages

Challenge

- C1** If you were setting up a fast food business would you prefer to be an independent business or a franchise? Write a paragraph of at least four sentences to justify your decision.
- C2** Summarise in 125 words the implications of limited and unlimited liability for a business owner.

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