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Executive  
Preview

# Business

## for Cambridge International AS & A Level

MULTI-COMPONENT SAMPLE

Peter Stimpson, Alastair Farquharson,  
Kelly Chalk & Deborah Malpas



Fourth edition

Digital Access



Cambridge Assessment  
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Brighter Thinking

Better Learning

Dear teacher,

Welcome to the new edition of our *Business for Cambridge International AS & A Level* series, offering accurate and comprehensive support for the Cambridge International AS & A Level Business syllabus (9609) for examination from 2023.

This executive preview gives you a first look at our new resources and shows you how the key components – coursebook with digital access, workbook with digital access and a digital teacher’s resource – work together to support you and your learners. In developing the series, we carried out extensive research with teachers around the world to make sure we understood your needs and challenges and how to best support you and your learners.

The coursebook’s key distinctive features are its international perspective and focus on decision-making. It contains many case studies, examples of business data and business references taken from many different countries.

- Each chapter starts with a ‘Business in context’ real-world case study to introduce and engage learners with the topic, followed by questions for discussion
- ‘Business in action’ is a new feature offering learners invaluable insight into how businesses around the world apply some of the key business concepts – the short case studies and accompanying questions are designed to encourage group discussion and to help learners make connections between employment and studying business
- Decision-making questions in every chapter give learners opportunities to discuss, weigh up, recommend and justify business decisions
- Hundreds of activities and exam-style questions throughout the book will put learners into the role of decision makers
- A new ‘Getting started with Cambridge International AS & A Level Business’ chapter supports learners with transition from IGCSE™ to AS and A Level with explanation of key skills needed to study at this level including evaluation and analysis.

The workbook supports learners’ progress even further, tests their understanding and enables them to gain more experience of demonstrating the key subject skills. It has revision questions, exam-style case studies with questions and sample answers for learners to improve on and assess.

The teacher’s resource is at the heart of this new series, helping you to use the resources in the series effectively. This includes teaching notes, differentiation and assessment ideas, suggestions on how to tackle common misconceptions, language support ideas as well as a lesson plan template and an exemplar. For each topic, there is a selection of starter ideas, main teaching ideas and plenary ideas. You can pick out individual ideas that meet the needs of your class. The teaching notes include a range of downloadable resources,

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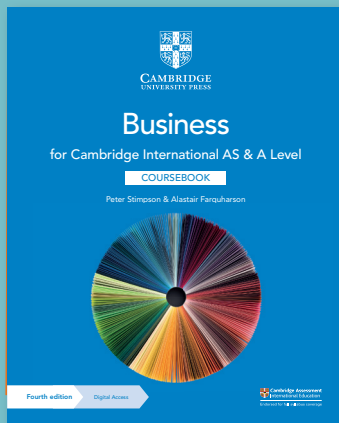
such as language worksheets, topic worksheets and PowerPoint presentations. These supporting resources will help you to deliver the topics to your class or provide additional support in key areas while saving you much-needed time.

We're very pleased to share with you sample chapters from our forthcoming coursebook, workbook and teacher's resource. We hope you enjoy looking through them and considering how they will support you and your learners. If you would like more information or have any questions, please contact your local sales representative: [cambridge.org/education/find-your-sales-consultant](http://cambridge.org/education/find-your-sales-consultant)

**Biljana Savikj**  
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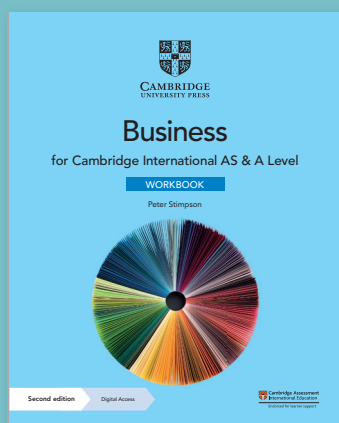
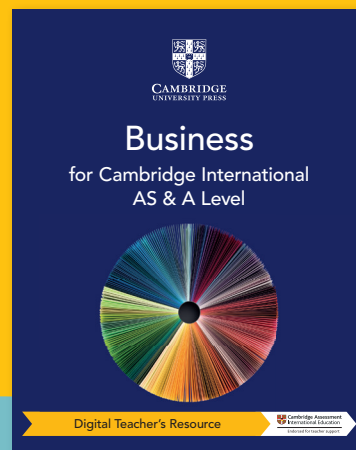
# > How to use this series

This suite of resources supports learners and teachers following the Cambridge International AS & A Level Business syllabus (9609). All of the components in the series are designed to work together, and help learners develop the necessary knowledge and skills for this subject.



The coursebook is designed for learners to use in class with guidance from the teacher. It offers complete coverage of the Cambridge International AS & A Level Business syllabus. Each chapter contains in-depth explanation of business concepts with a variety of activities, case studies and images to engage learners, help them make real-world connections and develop their analysis and evaluation skills.

The teacher's resource is the foundation of this series because it offers inspiring ideas about how to teach this course. It contains everything needed to deliver this course, including teaching guidance, lesson plans, suggestions for differentiation, assessment and language support, answers and extra materials including downloadable worksheets and slide presentations.



The workbook provides further practice of all the skills presented in the coursebook and is ideal for use in class or as homework. It provides engaging exercises, worked examples and opportunities for learners to evaluate sample answers so they can put into practice what they have learnt.



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# Business

## for Cambridge International AS & A Level

COURSEBOOK

Peter Stimpson & Alastair Farquharson



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# > How to use this book

Throughout this coursebook, you will notice recurring features that are designed to help your learning. Here is a brief overview of what you will find.

## LEARNING INTENTIONS

Learning intentions open each chapter. These help you with navigation through the coursebook and indicate the important concepts in each topic.

## BUSINESS IN CONTEXT

Business in context introduces you to the content in a chapter. These place some of the key ideas contained in the chapter into a real-world business context. They raise important issues for discussion, with questions that allow you to look in more detail at the topic.

## TIPS

Tips are provided throughout this coursebook to help with your learning. The tips might cover how to avoid common errors or misconceptions, advice on essay-writing, evaluation and analysis, or guidance on how answers are arrived at.

## ACTIVITY

There are various activities throughout this coursebook. These include short case studies with evaluative or analytic questions, as well as opportunities to produce your own work either individually, in pairs or in groups.

## REFLECTION

Reflection questions direct you to look back on an activity and encourage you to think about your learning. You will reflect on and assess the process that you used to arrive at your answers.

## KEY TERMS

Key vocabulary and formulae are highlighted in the text when they are first introduced. An accompanying definition explains the meanings of these words and phrases. You will also find definitions of these words in the Glossary at the back of this book. There is also a separate appendix for all key formulae.

## KEY CONCEPT LINKS

These explain how the coursebook's topics are integrated with the key concepts in the Cambridge International AS & A Level Business syllabus.

## BUSINESS IN ACTION

Business in action provides an invaluable insight into how businesses around the world apply some of the key concepts of the subject. Designed to encourage group discussion, the short case studies and accompanying questions will help you to make connections between employment and studying business.

## EXAM-STYLE QUESTIONS

Questions at the end of each chapter provide more demanding exam-style questions, some of which may require you to use your knowledge from previous chapters. The questions focus on knowledge and understanding, application, analysis and evaluation.

## SELF-EVALUATION CHECKLIST

At the end of each chapter, you will find a series of statements outlining the content that you should now understand. You might find it helpful to rate how confident you are for each of these statements when you are revising. You should re-visit any topics that you rated 'Needs more work' or 'Almost there'.

Note: Throughout the text, dollars (\$) refer to US dollars, unless otherwise stated.

## > Unit 1

# Business and its environment

### UNIT INTRODUCTION

This unit focuses on understanding the nature and purpose of business activity. It identifies and analyses how businesses are set up, how businesses can be classified, the objectives of different businesses and the external factors that influence them. It is important to recognise that the world in which businesses operate is in a constant state of change. This key concept of change can also be linked to the idea of adding value, as the most successful businesses are able to continue to create value despite the impact of political, economic, social, technological and environmental changes.



## › Chapter 1

# Enterprise

This chapter covers syllabus section AS Level 1.1

### LEARNING INTENTIONS

In this chapter you will learn how to:

- analyse what business activity involves
- recognise that the 'economic problem' requires choices to be made which always result in an opportunity cost
- analyse the meaning and importance of adding value
- recognise the key characteristics of successful entrepreneurs and intrapreneurs
- evaluate the importance of enterprise, entrepreneurs and intrapreneurs to a country's economy
- analyse the meaning, purpose, benefits and limitations of business plans.



## BUSINESS IN CONTEXT

### Entrepreneur sees a gap in the market

Mohammed Qamber Hussain is already a successful **entrepreneur** at the age of 17. He is ambitious and plans to expand his business to help lower social barriers in his country.

This young Pakistani lives in Karachi and has already set up two unusual restaurants there. He says that when he was growing up, he realised there was a gap in the market. There were plenty of exclusive restaurants – but with prices to match. The cheap option was to go to a *dhaba*. These are inexpensive roadside restaurants, often considered unhygienic and unsafe for women. Mohammed's formula for success was to offer affordable restaurants that were much more female-friendly.

Mohammed's father gave him a loan to help finance his first restaurant. When a lack of business knowledge was a problem, he found training through Bank Alfalah. It provided guidance on how to run a small business successfully, including business planning, accounting, human resources, marketing and sales.

With his new knowledge, Mohammed created a modern version of the *dhaba*. His restaurants, Chottu Chai Wala, serve traditional street food and tea, but in a clean and comfortable environment that is particularly appealing to women. His restaurants have become a great success.



Figure 1.1: The entrepreneur identified an important gap in the market

#### Discuss in a pair or a group:

- Why is it important for an entrepreneur to see a gap in the market?
- Does the success of an entrepreneur depend more on their ambition or on their business knowledge?

#### KEY TERM

**entrepreneur:** an individual who has the idea for a new business, starts it up and carries most of the risks but benefits from the rewards.

## 1.1 The nature of business activity

Business activity aims to satisfy people's needs. In order to do this, it requires resources. Businesses operate in a constantly changing world, but the purpose of business owners and managers remains the same: to add value to resources while meeting people's needs.

### Purpose of business activity

A business is an organisation that uses resources to meet the needs of **customers** by providing a product or service that they demand. There are several stages in the production of finished goods. Business activity at all stages involves adding value to resources, such as raw materials, and making them more desirable to – and valued by – the final purchaser. Without business activity, we would all be entirely dependent on the goods that we could make or grow ourselves, as some people in virtually undiscovered native communities still are. Business activity uses the scarce resources of our planet to produce goods and

services that allow us all to enjoy a much higher standard of living than would otherwise be possible if we remained entirely self-sufficient.

#### KEY TERM

**customer:** an individual consumer or organisation that purchases goods or services from a business.

### What do businesses do?

- Businesses identify the needs of customers.
- They purchase necessary resources to allow production to take place.
- They produce goods and services which satisfy customers' needs, usually with the aim of making a profit.

## KEY TERMS

**consumer:** an individual who purchases goods and services for personal use.

**consumer goods:** the physical and tangible goods sold to consumers that are not intended for resale. These include durable consumer goods, such as cars and washing machines, and non-durable consumer goods, such as food, drinks and sweets that can be used only once.

**consumer services:** the non-tangible products sold to consumers that are not intended for resale. These include hotel accommodation, insurance services and train journeys.

Business activity exists to produce goods or services that meet the needs of customers. Many of these customers will be **consumers** who purchase **consumer goods** and **consumer services**.

## The factors of production needed by businesses

All businesses need resources to be able to operate and produce goods or services. These resources are called **factors of production**. There are four factors of production:

- **Land** – this general term includes not only land itself but all the renewable and non-renewable resources of nature, such as coal, crude oil and timber.
- **Labour** – manual and skilled labour make up the workforce of the business.
- **Capital** – this is not just the finance needed to set up a business and pay for its continuing operations, but also all the artificial resources used in production. These include **capital goods**, such as computers, machines, factories, offices and vehicles.
- **Enterprise** – this is the initiative and coordination provided by risk-taking individuals called entrepreneurs. They combine the other factors of production into a unit capable of producing goods and services. **Enterprise** provides the managing, decision-making and coordinating roles.

## KEY TERMS

**factors of production:** the resources needed by business to produce goods or services.

**capital goods:** the physical goods used by industry to aid in the production of other goods and services, such as machines and commercial vehicles.

**enterprise:** the action of showing initiative to take the risk to set up a business.

Businesses have many other needs before they can successfully produce the goods and services demanded by customers. Figure 1.5 shows the wide range of these needs.



Figure 1.2: Timber is a natural resource



Figure 1.3: All businesses need labour



Figure 1.4: Capital equipment can be very complex

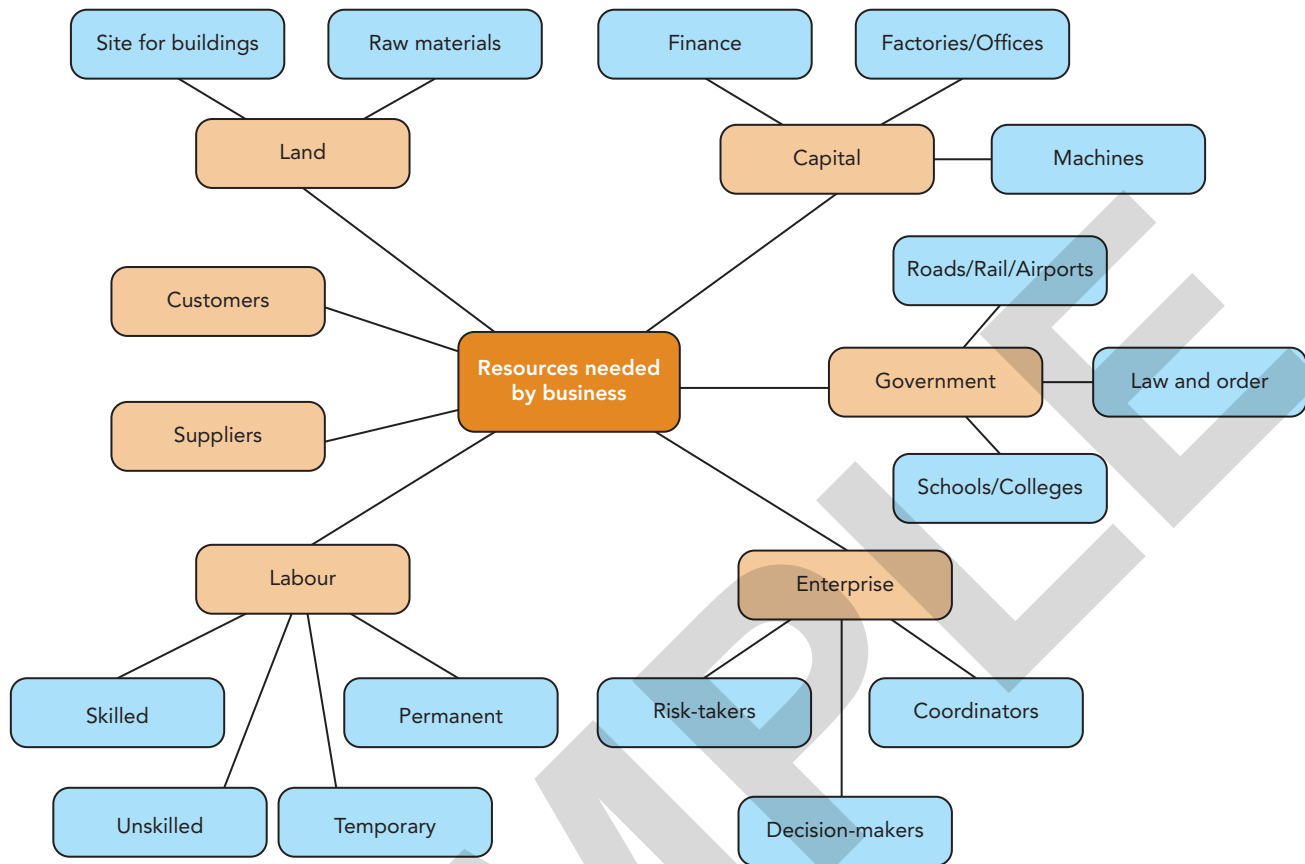


Figure 1.5: The resources that businesses need

## The concept of adding value

All businesses aim to create value by producing goods and services and selling them for a higher price than the cost of bought-in materials: this is called **adding value**. If a customer is prepared to pay a price that is greater than the cost of materials used to produce a good or service, then the business has been successful in adding value. The difference between the selling price of the products sold by a business and the cost of the materials that it bought in is called **added value**. Without adding value, a business will not be able to survive as other costs have to be paid and the people investing in the business also expect a financial return.

### KEY TERMS

**adding value:** increasing the difference between the cost of bought-in inputs (materials) and the selling price of the finished goods.

**added value:** the difference between the cost of purchasing bought-in inputs (materials) and the selling price of the finished goods.

The concept of adding value can be illustrated by an example taken from the building industry (see Figure 1.6).



Figure 1.6: Adding value by building a house from bought-in materials



The value added by the business is *not* profit as other costs must be paid for, such as labour and rent. However, if a business can add value without increasing its costs, then its profit *will* increase. Here are two examples of how different businesses could add value to their products:

- 1 **Jewellery shop:** a well-designed shop window display, attractive shop fittings, well-dressed and knowledgeable shop assistants, and beautiful packaging for each jewellery item. These features might allow for an increase in jewellery prices greater than the extra costs involved.
- 2 **Sweet manufacturer:** extensive advertising of the brand of sweets to create an easily recognised name and brand identity, attractive packaging, and selling through established confectionery shops rather than widely available vending machines. Higher prices as a result of successful **branding** should add value.

### KEY TERM

**branding:** the process of differentiating a product by developing a symbol, name, image or trademark for it.

### ACTIVITY 1.1

#### How to add value

- 1 Explain **two** ways in which the following businesses could add value to the goods they buy in:
  - a hotel
  - b car dealer
  - c clothing manufacturer
  - d fast-food restaurant.

## Economic activity and the problem of choice

We live in a world of great wealth and great scarcity. People with lower levels of income are unable to obtain the basic requirements of life: food, clean water, shelter. They have many unsatisfied needs and wants. Even rich people may not be able to satisfy all of their wants for luxury goods and services. There are insufficient goods to satisfy all of our needs and wants at any one time. This is known as the economic problem.

The purpose of economic activity is to provide for as many of our wants as possible, yet we are still left wanting more. This shortage of products, and the limited supply of resources needed to make them, force us to make choices. As we cannot satisfy all of our wants,

we must choose those which will satisfy us now and those which we are prepared to give up. If we are careful and rational, we will choose those things that give us the greatest benefit, leaving out those things that provide less value to us.

This need to choose is not exclusive to people as consumers. All economic decision-makers have to make choices: governments, businesses, workers, charities, and so on.

## Opportunity cost

This need to choose the goods we want leads to the important principle of **opportunity cost**. In deciding to purchase or obtain one item, we must give up other goods as they cannot all be afforded. The next most desired product which is given up becomes the lost opportunity or opportunity cost. This concept exists for all economic decision-makers: consumers, businesses and governments.

### KEY TERM

**opportunity cost:** the next most desired option that is given up.



**Figure 1.7:** If consumers choose to buy the smartphone, then the trainers become the opportunity cost



**Figure 1.8:** If government chooses to build the fighter plane, then the hospital becomes the opportunity cost

## The dynamic business environment

Setting up a new business is risky because the business environment is dynamic, or constantly changing. In addition to the problems and challenges referred to below, there is also the risk of change, which can make the original business idea much less successful. This problem can be made worse if the business plan is too inflexible to deal with changes.

Changes in the business environment include:

- **new competitors** entering the market
- **legal changes** – examples include new safety regulations or limits on who can buy the product
- **economic changes** that leave customers with less money to spend
- **technological changes** that make the products or processes of the new business outdated.

There are many other examples of changes, indicating that the business environment is very dynamic. This can make owning and operating a business quite risky. The changing business environment is a major reason why some businesses succeed and why others fail.

### KEY CONCEPT LINK

The dynamic business environment is a major cause of **change** within businesses. **Decision-making** by entrepreneurs is often focused on responding to change.

## Why do some businesses succeed?

These are the main reasons why some businesses thrive and achieve success in meeting their objectives:

- **good understanding of customer needs** – leads to sales targets being achieved
- **efficient management of operations** – keeps costs under control
- **flexible decision-making to adapt to new situations** – allows investment in new business opportunities
- **appropriate and sufficient sources of finance** – prevents cash shortages and allows for expansion.

## Why do some businesses fail?

Success in business is never certain. This is particularly true when starting up a new venture. The following are the most common reasons why new businesses fail. Most of these reasons also apply to the failure of established businesses.

## Poor record-keeping

The lack of accurate records is a common reason for business failure. Many small companies fail to pay sufficient attention to record-keeping. They either believe it is less important than meeting customers' needs or think that they can remember everything. For example, how can the owner of a new, busy florist shop remember:

- when the next delivery of fresh flowers is due?
- whether the flowers for last week's big wedding have been paid for?
- when or even if a business customer has paid for the display of flowers in its reception area?
- how many hours the shop assistant worked last week?

With the falling cost of computing power, most businesses, even new start-ups, keep records on computer. It is always advisable to also keep hold of paper records, such as receipts from suppliers, or details of big deliveries. Paper records act as a check or back-up system if the computer should fail. These records can also provide evidence to the tax authorities if they dispute the company's own tax calculations.

## Lack of cash

Running short of cash so that day-to-day business operations become difficult is the most significant reason for the failure of businesses. Many new businesses fail to survive the first year of operation due to the lack of cash.

Finance is needed for day-to-day cash, for the holding of inventories, and to give trade credit to customers, who then become debtors. Without this working capital, the business will be unable to buy more supplies, pay suppliers or offer credit to important customers. All these factors could lead to the business closing down.

Cash flow problems can be reduced if:

- A cash flow forecast is made and kept up-to-date. The cash needs of the business can be assessed month by month.
- Sufficient capital is injected into the business at start-up allowing it to operate during the first months when cash flow from customers may be slow to build up.
- Good relations are established with the bank so that short-term cash problems may be financed with an overdraft extension.
- There is effective credit control over customers' accounts to make sure they pay on time.



### Poor management skills

Most entrepreneurs have had some form of work experience, but not necessarily at management level. They may not have developed skills in:

- leadership and decision-making
- cash handling and cash management
- planning, coordinating and communication
- marketing, promotion and selling.

Entrepreneurs are often enthusiastic, willing to work hard and have abilities in their chosen field. However, these qualities alone will rarely be enough to ensure success.

An entrepreneur opening a restaurant might be an excellent chef but may lack management skills. Some entrepreneurs manage to learn management skills very quickly once their business is up and running, but this can be a risky strategy.

To minimise the risks, a new entrepreneur could gain management experience beforehand through employment or obtain advice and training from a specialist organisation offering management support. Alternatively, some entrepreneurs buy in experience by employing people with management experience. However, as this can be expensive, many newly formed businesses cannot afford this option.

### Local, national and international businesses

Local businesses operate in small, well-defined parts of a country. Their owners often do not aim to expand so do not make attempts to attract customers across the whole country. Typical examples are small building and carpentry firms, single-branch shops, hairdressing businesses and childminding services.

National businesses have branches or operations across a country. They make no attempt to establish operations in other countries or to sell internationally. Good examples include large car-retailing firms, retail shops with branches in just one country and national banks.

International businesses sell products in more than one country. This may be done by using foreign agents or online selling.

**Multinational businesses** have operations in more than one country. This means they have an established base for either producing or selling products outside their own domestic economy.

#### KEY TERM

**multinational business:** a business organisation that has its headquarters in one country, but with operating branches, factories and assembly plants in other countries.

## 1.2 The role of entrepreneurs and intrapreneurs

A new business idea might have the best available land and labour and be well financed, but without the enthusiasm and creativity of an entrepreneur or **intrapreneur**, it will almost certainly fail.

#### KEY TERM

**intrapreneur:** a business employee who takes direct responsibility for turning an idea into a profitable new product or business venture.

New business ventures started by entrepreneurs or intrapreneurs can be based either on an innovative product idea or on a new way of offering a service. These ventures can be a new location for an existing business idea or an attempt to adapt a product in ways that no one else has tried before. The role of intrapreneurs in the ongoing success of a business is considered later in this section. The role of the entrepreneur when creating and starting up a new business is to:

- have an idea for a new business
- create a business plan
- invest some of their own savings and capital
- accept the responsibility of managing the business
- accept the possible risks of failure.

### Qualities of successful entrepreneurs and intrapreneurs

It is not easy to start up a successful new business. The personal qualities and skills needed to make a success of a new business venture include:

- **Innovation:** The entrepreneur does not have to be an inventor in the traditional sense. They must be able to identify and fill a gap in the market, attract customers in innovative ways and promote their business as being different from others in the same market. This requires original ideas and an ability to do things differently. This is the skill of innovation.
- **Commitment and self-motivation:** It is hard work to set up and manage a new business. It may take up many hours of each day. Energy, focus, the willingness to work hard, to be keen and to have the ambition to succeed are all essential qualities of a successful entrepreneur.

- **Multi-skilled:** An entrepreneur will have to make the product (or provide the service), promote it, sell it and keep accounts. These different business tasks require someone who has many different qualities, is keen to learn technical skills, is able to get on with people, and is good at handling money and keeping accounting records.
- **Leadership skills:** If the business has employees, the entrepreneur must lead by example and will have to have a personality that encourages and motivates those workers.
- **Self-confidence and an ability to bounce back:** Many business start-ups fail, yet this would not discourage a true entrepreneur who would have such belief in themselves and their business idea that they would be able to bounce back from any setback.
- **Risk-taking:** Entrepreneurs must be willing to take risks in order to see results. Often the risk they take is by investing their own savings in the new business.

### KEY CONCEPT LINK

**Innovation** is important for the success of any new **enterprise**. Offering exactly the same goods or services as existing businesses might not lead to great success.

### ACTIVITY 1.2

#### Flower enterprise blossoms

Pedro Mendes gained the idea for his rose-growing business when he searched, without success, for a bouquet of roses for his wife in Punta Arenas. The city seemed to be a rose-free zone, so he decided to start growing them himself. Initially, he opened two greenhouses growing just roses. He used his own savings, so took a considerable risk, but his confidence in the growth of flower-giving at times of major festivals encouraged other investors too. He sold the flowers in Chile, but his business also became one of the first in Chile to start exporting flowers on a large scale. Pedro worked long hours to make his business a success. The business, called Mendes Blooms, has grown at a tremendous rate, helped by Pedro's all-round business skills. He recently bought out a large rose grower in Africa and his business is now one of the world's largest cultivators of roses – and Pedro achieved this in just over ten years.

- 1 Analyse **four** characteristics that Pedro has that have made him a successful entrepreneur.

### BUSINESS IN ACTION 1.1

Kashaf Shaikh started up the website, Dealivore. Consumers can search for valid coupons for numerous stores. This website allows users to find the best deals and coupons to use for hotels, recharge websites, grocery shopping and travel. It is now the market-leading coupon website in India.

Kashaf became an entrepreneur at a young age when she realised that fulfilling the needs of another company was not enough for her. Now Kashaf gives lectures to motivate other women to become entrepreneurs.

**Discuss in a pair or a group:** How can Kashaf maintain her business success as competitors enter the same market?

### Barriers to entrepreneurship

There are many barriers that every entrepreneur must overcome to turn their business ideas into reality. Every entrepreneur needs to address the following barriers to turn their business idea into reality. These barriers include:

#### Lack of a business opportunity

Identifying successful business opportunities is one of the most important stages in becoming an effective entrepreneur. The original idea for most new businesses comes from one of several sources, including:

- an entrepreneur's own skills or hobbies, such as dressmaking or car bodywork repairing
- previous employment experience
- franchising conferences and exhibitions offering a wide range of new business start-up ideas
- small-budget market research: for example, the internet allows any user to browse business directories to see how many businesses are offering certain goods or services in the local area.

Many new enterprises are set up in the following industries, often because of the entrepreneurs' own skills and the small sums of capital required:

- fishing – from a small boat owned by an entrepreneur
- market gardening – producing cash crops to sell at local markets
- jewellery making, dressmaking and craft work
- building trades

- hairdressing
- computer repairs
- cafés and restaurants
- childminding.

### Obtaining sufficient capital (finance)

In an International Labour Organisation survey of new business start-ups, most entrepreneurs said that lack of finance was their main difficulty. So why is obtaining finance such a major barrier for entrepreneurs? This could be due to:

- insufficient savings – many entrepreneurs have limited personal savings
- no knowledge of the financial support and grants available
- no trading record to present to banks as evidence of past business success
- a poor business plan that fails to convince potential investors of the chances of a business's success.

### Cost of good locations

When finance is limited, an expensive location should not be considered. It is important to keep the level of output at which revenue covers all costs as low as possible. This increases the business's chances of survival. Operating from home is the most common way for entrepreneurs to establish their business. This keeps costs low, but there are drawbacks:

- It may not be close to the area with the biggest market potential.
- It lacks status – a business with its own impressive premises tends to generate confidence.
- It may cause family tensions.
- It can be difficult to separate private life from working life.

New businesses that offer a consumer service need to consider their location carefully. A website designer could operate from home very effectively, as communication with customers will be by electronic means, but a hairdresser may need to obtain premises in an area with the biggest number of potential customers.

### Competition

A newly created business will often experience competition from established businesses with greater resources and

market knowledge. The entrepreneur may therefore have to offer a more unusual product or better customer service to overcome the low-cost advantages that bigger businesses usually have.

### Lack of a customer base

A new business must establish itself in the market and build up customer numbers quickly to survive. The long-term success of the business will depend on encouraging customers to return to purchase products repeatedly. Good customer service could be provided by:

- personal customer service
- knowledgeable pre- and after-sales service
- supplying one-off customer requests that large firms may be reluctant to provide.

### ACTIVITY 1.3

#### Farah branches out on her own

Farah is a well-qualified dressmaker. She works for one of the best-known dress shops in town. She is always arguing with her shop manager, who is very jealous about Farah's superior dress-making skills. Farah is now determined to set up her own business. She is lucky that her mother is able to invest \$5000 in it. She will have to find the rest of the capital needed – about \$10000. She will use her own savings and ask for a bank loan.

Farah has already investigated the prices of shop premises. She was surprised to find how expensive the city-centre locations were. Her mother suggested a cheaper but less busy out-of-town location. She contacted an accountant to look after the financial side of the business. They would charge at least \$2000 per year. Farah thinks she could learn to keep the accounts herself if she attended classes at the local college in the evening.

Farah wants to make her shop very different from all of the competitors. She has had the idea of offering lessons in dressmaking as well as selling finished dresses. Having been asked so many times by customers, 'How did you do that?' when they were pleased with her latest dress designs, Farah is sure that this is a great business opportunity. What Farah did not realise was the amount of paperwork she had to complete before her business could even start trading.

## CONTINUED



**Figure 1.9:** Dressmaking lessons in action

- 1 Analyse **three** barriers that Farah must overcome before setting up this new business.
- 2 Evaluate whether Farah seems to have the right qualities to be a successful entrepreneur.

## Business risk and uncertainty

There are some differences between business risk and business uncertainty. All business decisions involve risk. For example, there is a chance that a new business selling clothing will fail. If, in the last 12 months, 10 clothing retailers have been established in a city and 3 fail by the end of the year, the risk of failure was 30%. A new entrepreneur could possibly reduce the risk of their new clothing business failing by studying why these three businesses did not survive. This would allow the entrepreneur to reduce business risk by avoiding the errors made by the failed businesses. Business planning (see below) is used to reduce risk.

Business uncertainty is different. Uncertainty cannot be foreseen, measured or calculated. Plans may be made by entrepreneurs for the future, but some events will always be unforeseen and impossible to predict. The 2020 COVID-19 epidemic caused such a fall in spending by consumers that many small and newly set-up businesses were forced to close. This is an excellent example of uncertainty that was impossible to forecast and very difficult for any business to prepare for.

## Role of enterprise in a country's economic development

All governments use policies that aim to encourage more people to become entrepreneurs. What are the claimed benefits to an economy from successful business enterprise?

**Employment creation:** In setting up a new business, an entrepreneur is employing not only themselves (self-employment), but also, very often, employing other people too. These workers can include family members or friends. When a new business creates jobs, the national level of unemployment will fall. If the business survives and expands, additional jobs are created in suppliers' businesses.

**Economic growth:** Any increase in output of goods or services from a start-up business will increase the gross domestic product of the country. This is called economic growth. If enough small businesses are created, economic growth will lead to increased living standards for the population. Increased output and consumption will also result in higher tax revenues for the government.

**Business survival and growth:** Although a high proportion of start-ups fail, some survive, and a few expand to become very important businesses. These businesses will employ large numbers of workers, boost economic growth and take the place of businesses that may be in decline or closing due to changing consumer tastes or technology. In Trinidad and Tobago, the decline of the sugar industry has been balanced out by the growth of the tourist industry. Tourism has itself been boosted by small guesthouse owners becoming entrepreneurs.

**Innovation and technological change:** New businesses can be very innovative. This creativity adds dynamism to an economy. Creativity can stimulate other businesses and help to make the nation's business sector more competitive. Many new business start-ups are in the technology sector. The IT services they provide to other businesses can help industries in a country become more advanced in IT applications and therefore more competitive.

**Exports:** Most business start-ups offer products that meet the needs of local markets. Some will expand their operations to the export market in other countries. This will increase the value of a nation's exports and improve its international competitiveness.

**Personal development:** Starting and managing a successful business can aid in the development of useful skills and help an individual towards self-actualisation –



a real sense of personal achievement. This creates an excellent example for others to follow and can lead to further successful new enterprises that will also boost the economy.

**Increased social cohesion:** Unemployment often leads to serious social problems and these can be reduced if there is a successful and expanding small business sector. By creating jobs, career opportunities and by setting a good example for others to follow, entrepreneurship can help to achieve social cohesion.

### TIP

Some questions may ask you to make references to businesses in your own country. While you are studying this course, take a close interest in the activities of new and well-established businesses in your country.

## The role of intrapreneurship

Consider these questions:

*Do enterprise, creativity and innovation end once a start-up business has become successful?*

If they do, then the business will fail to adapt to new conditions and create new opportunities.

*Is there any scope for the qualities and characteristics of successful entrepreneurs to be used within existing businesses?*

Many successful businesses allow people to take risks and show initiative – just as entrepreneurs do – even when the business is established.

Large companies face many problems in rapidly changing economic times. Businesses must be innovative and need to keep their best managers. Rapid advances in technology allow new business start-ups to disrupt existing markets and business operations. The attractions of entrepreneurship can lead to many dynamic employees leaving a business that does not encourage them to be creative. Hence the development of intrapreneurship. This is the process of encouraging risk-taking and enterprise by employees within a business to help create and develop new opportunities.

‘Intrapreneur’ is the term given to people who have the same qualities as entrepreneurs and are encouraged to demonstrate the same skills as entrepreneurs within an existing business.

There are three key differences between an entrepreneur and an intrapreneur (see Table 1.1).

	Entrepreneur	Intrapreneur
Main activity	Starting up a new business	Developing an innovative product or project within an existing business
Risk	Taken by the entrepreneur	Taken by the business
Rewards	To the entrepreneur	To the business

**Table 1.1:** Key differences between entrepreneurs and intrapreneurs

The benefits of intrapreneurship to existing businesses include:

- **Injecting creativity and innovation into the business** – developing new products to increase sales or creating exciting ways of selling existing products.
- **Developing new ways of doing business** – creativity in solving problems such as low efficiency can be more successful than continuing to use the old ways.
- **Driving innovation and change within the business** – generating excitement within the business about a new opportunity makes change more acceptable.
- **Creating a competitive advantage** – by developing more innovative products.
- **Encouraging original thinkers and innovators to stay in the business** – this is summed up by the expression: ‘You don’t have to leave our company to become an entrepreneur!’

### BUSINESS IN ACTION 1.2

Google takes intrapreneurship more seriously than most businesses. Its ‘20% time’ encourages software engineers and other specialist employees to interact and spend 20% of their work time on projects that interest them. Google claims that the following products would not have been created without this intrapreneurship: Gmail, Google News, AdSense and Google Now.

‘20% time’ works at Google because employees can be creative without the usual organisational and management controls. None of the new ideas have to be cleared with a senior manager. Good ideas spread fast and collaboration is encouraged.

**Discuss in a pair or a group:** Would ‘20% time’ be so effective in all businesses? Be prepared to defend your answer.



## ACTIVITY 1.4

### Caribbean cook tastes success

Levi Roots, a Jamaican reggae musician, appeared on a famous British TV programme called *Dragons' Den*. On this programme, he persuaded a wealthy businessman to invest \$100 000 in his new business idea, Reggae Reggae Sauce. In return, Levi promised to give 25% of the future profits of his business to the investor. All the banks he asked for finance turned him down.

Reggae Reggae Sauce is based on an old family recipe. Levi identified the market opportunity for this sauce when he started selling jerk chicken with the sauce at music festivals. Originally, Levi made the sauce at home, but he used the \$100 000 to obtain new production facilities. He quickly needed to establish a customer base.

A large UK supermarket company was impressed by Levi's personality and the unique taste of his sauce. It bought enough of his sauce to stock in all of its stores. The new investor in his business said, 'Levi is a great guy and he has created a unique product which he is passionate about. I am sure that this supermarket deal will be the first of many fantastic contracts on the way to business success and making his dreams a reality.' Levi is now in discussion with an export company that wants to sell the sauce back to the Caribbean.



**Figure 1.10:** Levi had an original idea for a new business, and he is now a successful entrepreneur

## CONTINUED

- 1 Analyse **two** possible benefits to the UK economy from Levi's enterprise.
- 2 Analyse **two** barriers that Levi had to overcome.
- 3 Evaluate the factors that contributed to the success of this business.

## REFLECTION

In preparing your answer to Q3 in Activity 1.4, how did you evaluate the factors that led to success in this case? Did you consider several factors or just focus on one? Is Levi's success unusual for an entrepreneur?

Discuss your conclusions with another learner. Did your partner reach different conclusions? How would you defend your own conclusion? Or can you now criticise your own conclusion?

## 1.3 Purpose and key elements of business plans

Without some evidence that entrepreneurs have thought about and planned for the future, it is unlikely that bankers, venture capitalists or potential shareholders will invest money in a new business. An effective **business plan** provides this evidence. The main elements of a typical business plan are:

- executive summary – an overview of the new business and its strategies
- description of the business opportunity – details of the entrepreneur's skills and experience; nature of the product; the target market at which the product is aimed
- marketing and sales strategy – details of why the entrepreneur thinks customers will buy the product and how the business will sell to them
- management team and personnel – details of the entrepreneur's skills and experience and the people they intend to recruit
- operations – premises to be used, production facilities, IT systems

## KEY TERM

**business plan:** a written document that describes a business, its objectives, its strategies, the market it is in and its financial forecasts.

- financial forecasts – the future projections of sales, profit and cash flow for at least one year ahead.

## Benefits of business plans

Business plans are most important when setting up a new business. The main purpose of a business plan for a new business is to obtain finance for the start-up. Potential investors or creditors will not provide finance unless details about the business proposal have been written down clearly.

The business-planning process provides essential evidence to investors and lenders. It makes the finance application more likely to be successful. Business planning also:

- forces the owner to think seriously about the proposal, its strengths and any potential weaknesses
- gives the owner and managers a clear plan of action to guide their actions and decisions in the early months and years of the business.

If an entrepreneur started a business with no clear sense of purpose or direction, no marketing strategy and no idea of which employees to recruit, then its chances of success would be much reduced.

## Limitations of business plans

Even a detailed business plan does not guarantee a successful business. In fact, it could create a false sense of certainty in business owners. They might rely so much on the plan that they overlook the fact that it is based on forecasts and predictions.

The business plan must be detailed and supported by evidence such as market research. If it is not, then prospective creditors and investors can delay in making a finance decision until the plan is brought up to the required standard.

The plan might lead entrepreneurs to be inflexible. If the dynamic business world throws up new opportunities that are not in the plan, these could be rejected. This could mean that options for future profits and growth are rejected. The best business plans allow for some flexibility as external events change.

### ACTIVITY 1.5

#### Developing a business plan

- 1 Read Activity 1.4 again. Prepare an outline business plan for your own new barbecue sauce.
- 2 Present your plan to the class or another learner.
- 3 Use feedback from the class or another learner to improve your plan.

## EXAM-STYLE QUESTIONS

### Short answer questions

- 1 Define the term 'adding value'. [2]
- 2 Define the term 'entrepreneur'. [2]
- 3 Analyse **one** characteristic of successful entrepreneurs. [5]
- 4 Explain **one** barrier faced by entrepreneurs, apart from limited finance. [3]
- 5 Explain **one** example of opportunity cost for an individual planning to become an entrepreneur. [3]
- 6 Analyse **one** way a country is likely to benefit from the expansion of its business enterprises. [5]
- 7 Explain **one** role of an intrapreneur in an existing business. [3]
- 8 Analyse **one** benefit of a detailed business plan to an entrepreneur. [5]
- 9 Explain **one** limitation of business plans. [3]
- 10 Explain **one** reason why a new hairdressing business will need a factor of production of your choice. [3]
- 11 Explain **one** need that a new business must fulfil if it is to be successful. [3]
- 12 Analyse **one** way a supermarket could add value to the food and other goods it buys in. [5]
- 13 Explain **one** reason why there are so many new business enterprises providing consumer services. [3]

## CONTINUED

- 14 Explain **one** way in which an entrepreneur could overcome the barrier of having no savings to invest. [3]
- 15 Analyse **one** benefit of entrepreneurship to your country's economy. [5]

### Essay questions

- 1 a Analyse **two** ways a bakery could increase added value. [8]
- b Evaluate whether the success of an entrepreneur depends more on luck rather than personal qualities and skills. [12]
- 2 a Analyse **two** benefits to your country's economy of an increase in the number of new business start-ups by entrepreneurs. [8]
- b Evaluate the barriers that business entrepreneurs experience in your country. [12]

### Data response questions

#### 1 Rivelino

'We are a global business,' states Rivelino, one of three partners in Total Fintech Solutions (TFS). This is a fast-growing business. It responds to the changing needs of other businesses by developing the latest software to facilitate payment systems for e-commerce transactions within the global marketplace. TFS has four full-time computer programmers.

This is not Rivelino's first business venture. He also started up a herbal tea business and arranged boat tours for tourists. He is always looking out for business opportunities. TFS is his biggest success by far. He discussed setting up a software development company with a school friend who was trained in software design and development. There have been opportunity costs. Rivelino gave up time to start the new business venture and he used all his savings. His friend had a marketing qualification and many business contacts. They were joined by another partner who brought financial skills and further software design experience.

Rivelino encourages his employees to become intrapreneurs. He wants his employees to show enterprise and initiative by developing their own business ideas. After much success in the Caribbean market, he wants TFS to provide advanced customised software on a global scale. Rivelino has vision, a drive to succeed and a love of software development. He recognises the strength of competing businesses and the changes occurring in the business world, especially in e-commerce.

- a i Identify **one** quality of successful intrapreneurs. [1]
- ii Explain the term 'opportunity costs'. [3]
- b Explain **two** qualities Rivelino has that make him a successful entrepreneur. [6]
- c Analyse **two** ways the partners' management skills contributed to the success of TFS. [8]
- d Evaluate the likely impact of a dynamic business environment on the future success of TFS. [12]

#### 2 Wesley's laundry

Six months ago, Wesley was congratulated on his detailed business plan for a new laundry by the bank manager. She agreed to lend him \$30 000, half of the capital he needed for starting the business. Wesley planned to offer a premium laundry service for local hotels and guesthouses. His promise was 'RETURNED NEXT DAY, or NOTHING TO PAY'.

There were few customers at first, as forecast in the business plan. But news of Wesley's service standards and next day promise soon spread. By the end of month three, the laundry was working to full capacity. His business plan had not allowed for this level of demand. Wesley needed more factors of production. He recruited three workers to help him.

## CONTINUED

It is now the end of month four. The bank manager has asked to see Wesley. He is shocked by what he is told: 'You have reached your overdraft limit. Cash coming into the business is not enough to ensure survival. I want to see all of your accounting and sales records next week,' she tells him.

Wesley knows this will be a problem. He has been so busy that his accounting records are three weeks out of date. Customers have not paid during this period. No bills have been sent out. Some customers are claiming that they should not pay. Their laundry has taken three days to be returned. The workforce is another problem. The workers often argue because there are some jobs no one wants to do, such as handling chemicals and cleaning the boiling tanks at the end of each day. Wesley has not clearly allocated jobs and the workers cannot decide themselves.

Wesley sat down with all the company's paperwork and wondered why he had not gained some experience in computer-based accounting. His own business skills were mainly in marketing. No wonder the sales of the laundry were doing so well.

- a i Identify **one** factor of production. [1]
- ii Explain the term 'customers'. [3]
- b Explain **two** problems that Wesley now faces in managing his business. [6]
- c Analyse **two** reasons why Wesley would benefit from understanding the concept of opportunity cost. [8]
- d Evaluate the benefits and limitations to Wesley of the detailed business plan. [12]

## SELF-EVALUATION CHECKLIST

After studying this chapter, complete a table like this:

You should be able to:	Needs more work	Almost there	Ready to move on
Understand that business activity uses resources to satisfy customers' needs			
Understand that businesses aim to add value to the resources they buy in			
Understand that entrepreneurship is about taking risks to set up new businesses			
Analyse the characteristics of successful entrepreneurs and intrapreneurs			
Analyse the benefits to an economy from entrepreneurship			
Understand the challenges and barriers faced by entrepreneurs, including a dynamic business environment			
Analyse the main elements, benefits and limitations of business plans			



## › Chapter 2

# Business structure

This chapter covers syllabus section AS Level 1.2

### LEARNING INTENTIONS

In this chapter you will learn how to:

- classify industries into levels of economic activity – primary, secondary, tertiary and quaternary – and analyse changes in their relative importance
- understand the differences between the private sector and public sector in your country
- identify the different forms of legal structures of business and evaluate the most appropriate one for different businesses
- analyse the advantages and disadvantages of changing from one type of business ownership to another.



## BUSINESS IN CONTEXT

### India's booming stock exchange leads to rise in IPOs

Century Metal Recycling Ltd is just one of the **private limited companies** in India that are taking advantage of rising share prices. The existing owners and directors of this business have applied to launch an **initial public offering** of some of its shares. This converts the business into a **public limited company**. This means that the company can raise finance by selling shares to the public.

The company will raise around \$100 million from the sale of shares. This share capital will be used to pay off some existing debts and invest in advanced equipment at its metal smelting plants.

India has a vibrant and growing private sector with 1.9 million registered companies and millions of sole traders and partnerships. About 95% of companies are still private limited businesses, but some of these are – like Century Metal Recycling – considering going public.

#### Discuss in a pair or a group:

- Why do you think that about 95% of Indian companies are private limited companies?
- What might be the benefits to Century Metal Recycling of becoming a public limited company?

#### KEY TERMS

**private limited company:** a business that is owned by shareholders who are often members of the same family; this company cannot sell shares to the general public.

**initial public offering (IPO):** an offer to the public to buy shares in a public limited company.

**public limited company (plc):** a company whose shares are traded on a stock exchange and can be bought and sold by the public.

## 2.1 Economic sectors

Business activity and ownership can be classified in a number of ways. One of these is by identifying which type of product or service is being produced.

### Primary, secondary, tertiary and quaternary economic sectors

Business activity produces a vast range of different goods and services. It is possible to classify these into four broad types of business activity. These broad categories are based on the stages involved in turning natural resources, such as oil and timber, into the finished goods and services demanded by consumers. The stages take place in **primary**, **secondary**, **tertiary** and **quaternary sectors** of industry.



Figure 2.1: Primary production – dairy farm in New Zealand

#### KEY TERMS

**primary sector business activity:** firms engaged in farming, fishing, oil extraction and all other industries that extract natural resources so that they can be used and processed.

**secondary sector business activity:** firms that manufacture and process products from natural resources, including computers, brewing, baking, clothes-making and construction.

**tertiary sector business activity:** firms providing services to consumers and other businesses, such as retailing, transport, insurance, banking, hotels and tourism.

**quaternary sector business activity:** businesses providing information services, such as computing, web design, ICT (information and communication technologies), management consultancy and R&D (research and development, particularly in scientific fields).



**Figure 2.2:** Secondary production – clothing factory in China



**Figure 2.3:** Tertiary sector – the breathtaking Burj Al Arab hotel in Dubai



**Figure 2.4:** Quaternary sector – research laboratory in India

The balance of these sectors in the economies of different countries varies substantially. It depends on the level of industrialisation in each country. Table 2.1 shows the differences between three countries – and the change in importance of these sectors in Ghana since 2008.

Country	Primary	Secondary	Tertiary and quaternary
United Kingdom	1.2	18.1	80.7
China	26.1	27.6	46.3
Ghana	33.8 (52.5)	18.6 (14.2)	47.6 (33.3)

**Table 2.1:** Employment data in 2019 (2008) – percentage of total employment (quaternary data is included in the tertiary figures)

## Changes in relative importance of economic sectors

The classification of business activity by economic sectors has two important features: changes over time and variations between different economies.

### The importance of sectors changes over time

The importance of each sector in an economy changes over time. In Ghana (as shown in Table 2.1) the primary sector reduced and the secondary sector increased between 2008 and 2019. The growing importance of secondary sector manufacturing industries in developing countries is called industrialisation. The relative importance of secondary sector activity is increasing in many countries in Africa and Asia.

The relative importance of each sector is measured in terms of either employment levels or output levels as a proportion of the whole economy.

### Consequences of industrialisation: benefits

- Total national output (gross domestic product) increases and this raises average standards of living.
- Increasing output of goods can result in lower imports and higher exports of such products.
- Expanding manufacturing businesses will result in more jobs being created.
- Expanding and profitable firms will pay more tax to the government.
- Value is added to the country's output of raw materials, rather than just exporting these as basic, unprocessed products.

### Consequences of industrialisation: problems

- The chance of work in manufacturing can encourage a huge movement of people from the countryside to towns, which leads to housing and social problems.
- Imports of raw materials and components are often needed, which can increase the country's import costs.
- Much of the growth of manufacturing industry is due to the expansion of multinational companies. These can have a negative impact on the economy too.

In developed economies, the situation is reversed. There is a decline in the importance of secondary sector activity and an increase in the tertiary sector. This process is termed deindustrialisation. In the UK, the proportion of total output accounted for by secondary industry has fallen from 38% to 20% in 25 years. Causes of this change include:

- Rising incomes associated with higher living standards have led consumers to spend much of their extra income on services rather than more goods. There has been substantial growth in tourism, hotels and restaurant services, financial services and other services. However, spending on physical goods has risen more slowly.
- Manufacturing businesses in developed countries face much more competition as a result of increasing global industrialisation. These rivals tend to be more efficient and use cheaper labour. Therefore, rising imports of goods are taking the market away from the domestic secondary sector firms.

### Consequences of deindustrialisation

The consequences of the decline in the relative importance of the primary and secondary sectors and the increase in relative importance of the tertiary and quaternary sectors include:

- job losses in agriculture, mining and manufacturing industries
- movement of people towards towns and cities
- job opportunities in service industries – tertiary and quaternary sectors
- increased need for retraining programmes to allow workers to find employment in service industries.

### The importance of sectors varies between economies

The importance of each sector varies significantly between different economies. Table 2.1 gives details of the differences that exist between three different countries' economies and the share of total employment accounted for by sectors of industry.

### Public sector and private sector of the economy

Industry may also be classified in other ways, for example by **public** or **private sector**, or by type of legal structure. These two types of classification are interlinked, as some types of legal structure are found only in the private sector. What is the difference between the private sector and public sector of the economy?

In nearly every country with a **mixed economy**, most business activity is in the private sector. The relative importance of the private sector compared to the public sector is not the same in all countries. Those economies that are closest to a **free-market** system have very small public sectors. Those countries with central planning **command economies** will have very few businesses in the private sector.

#### KEY TERMS

**public sector:** organisations accountable to and controlled by central or local government (the state).

**private sector:** businesses owned and controlled by individuals or groups of individuals.

**mixed economy:** economic resources are owned and controlled by both private and public sectors.

**free-market economy:** economic resources are owned largely by the private sector with very little state intervention.

**command economy:** economic resources are owned, planned and controlled by the state.

**public corporation:** a business enterprise owned and controlled by the state – also known as a nationalised industry.

The types and sizes of businesses in the private sector vary considerably. The legal structure of firms in the private sector is covered in Section 2.2.

### Public-sector enterprises: public corporations

In most mixed-economy countries, important goods and services are provided by government-owned or state-run organisations as it is argued that they are too significant to be left to private businesses. These public-sector enterprises usually include health and education services, defence, and public law and order (police force). In some countries, important strategic industries, such as energy, water supply and public transport, are also owned and controlled by the state as **public corporations**.



Another reason for the state or public sector, rather than the private sector, to provide products is the existence of public goods. These are goods and services that cannot be charged for, so it is impossible for a private-sector business to make a profit from producing them. A good example is street lighting. It is impossible to exclude people from obtaining the benefit of streetlights even if they have not contributed to paying for them. Why then should anyone contribute directly towards paying for them? Taxes have to be used to raise revenue to pay for a street-lighting system as the lights can only be provided by the public sector.

Public-sector organisations do not often have profit as a major objective. In many countries, the main priority of publicly owned TV channels is to produce public service programmes. State-owned airlines have safety as a priority. If public corporations are sold off to the private sector there will nearly always be a change of objectives towards the profit motive.

Table 2.2 contains a summary of the potential advantages and disadvantages of public corporations.

Advantages of public corporations	Disadvantages of public corporations
<ul style="list-style-type: none"><li>• They are managed with social objectives rather than solely with profit objectives.</li><li>• Loss-making services might still be kept operating if the social benefit is great enough.</li><li>• Finance is raised mainly from the government.</li></ul>	<ul style="list-style-type: none"><li>• There can be a tendency towards inefficiency due to lack of strict profit targets.</li><li>• Subsidies from government can also encourage inefficiencies.</li><li>• Government may interfere in business decisions for political reasons, for example by opening a new branch in a certain area to gain popularity.</li></ul>

Table 2.2: Advantages and disadvantages of public corporations

2.2 Business ownership

Businesses in the private sector may be owned by one person or by many thousands. There are various forms of business ownership, as shown in Figure 2.5.

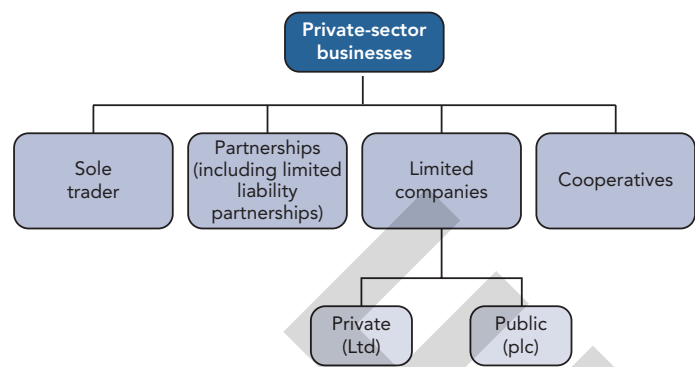


Figure 2.5: The legal structure of private-sector businesses

Sole trader

This is the most common form of business ownership. Although there is a single owner in this type of business organisation, it is common for **sole traders** to employ others. However, such firms are likely to remain very small. Because of this, although they are great in number, sole traders account for only a small proportion of the total business turnover of a country.

All sole traders have **unlimited liability**. This means that the owner’s personal possessions and property can be taken to pay off the debts of the business, should it fail. This can discourage some potential entrepreneurs from starting a business. Another significant problem is finance for expansion. Many sole traders remain small because the owner wishes to remain in control of their own business, but another reason is the limitations in raising additional capital. As soon as partners or shareholders are sought in order to raise finance, then the sole trader becomes another form of organisation altogether. In order to remain a sole trader, the owner must be dependent on their own savings, profits and loans for injections of capital.

This type of business ownership is most commonly established in the construction, retailing, hairdressing, car-servicing and catering trades. It has several advantages and disadvantages (see Table 2.3).

KEY TERMS

**sole trader:** a business in which one person provides the permanent finance and, in return, has full control of the business and is able to keep all of the profits.

**unlimited liability:** business owners have full legal responsibility for the debts of the business.



Advantages of a sole trader	Disadvantages of a sole trader
<ul style="list-style-type: none"> <li>easy to set up – no legal formalities</li> <li>owner has complete control – not answerable to anybody else</li> <li>owner keeps all profits</li> <li>owner can choose times and patterns of working</li> <li>owner can establish close relationships with staff (if any are employed) and customers</li> <li>business can be based on the interests or skills of the owner – rather than working as an employee for a larger firm</li> </ul>	<ul style="list-style-type: none"> <li>unlimited liability – all of the owner's assets are potentially at risk</li> <li>often intense competition from bigger firms, for example in food retailing</li> <li>owner is unable to specialise in areas of the business that are most interesting – is responsible for all aspects of management</li> <li>difficult to raise additional capital</li> <li>long hours are often necessary to make the business pay</li> <li>lack of continuity – as the business does not have a separate legal status, when the owner dies, the business also ends</li> </ul>

**Table 2.3:** Advantages and disadvantages of the sole trader legal structure

## Partnership

**Partnerships** are formed in order to overcome some of the drawbacks of being a sole trader.

### KEY TERM

**partnership:** a business formed by two or more people to carry on a business together, with shared capital investment and, usually, shared responsibilities.

It is usual with all partnerships, although not a legal requirement, to draw up a formal Deed of Partnership between all partners. This provides agreement on issues such as voting rights, the distribution of profits, the management role of each partner and who has authority to

sign contracts. However, a partnership agreement does not create a separate legal unit; a partnership is just a grouping of individuals.

When planning to go into partnership, it is important to choose business partners carefully – the errors and poor decisions of any one partner are considered to be the responsibility of all the partners. This also applies to business debts incurred by one partner – in most countries there is unlimited liability for all partners should the business venture fail. Unlimited liability can act as a disincentive for people to become partners in a business. This can limit the capital that partnerships can raise. See Table 2.4 for a summary of the advantages and disadvantages of partnerships.

Advantages of a partnership	Disadvantages of a partnership
<ul style="list-style-type: none"> <li>Partners may specialise in different areas of business management.</li> <li>They share decision-making.</li> <li>Additional capital is injected by each partner.</li> <li>Business losses are shared between the partners.</li> <li>There is greater privacy and fewer legal formalities than in corporate organisations (companies).</li> </ul>	<ul style="list-style-type: none"> <li>All partners have unlimited liability (with some exceptions).</li> <li>Profits are shared.</li> <li>There is no continuity and the partnership will have to be reformed in the event of the death of one of the partners.</li> <li>All partners are bound by the decisions of any one of them.</li> <li>It is not possible to raise capital from selling shares.</li> <li>A sole trader, taking on partners, will lose decision-making independence.</li> </ul>

**Table 2.4:** Advantages and disadvantages of partnership business structure

Partnerships are the most common form of business organisation in some professions, such as law and accountancy. Small building firms are often partnerships, too. Many other owners of businesses prefer the company forms of organisation and these are considered next.

## Limited companies

There are three distinct and important differences between companies and the two forms of unincorporated business organisation that we have just studied. These are **limited liability**, legal personality and continuity.

### KEY TERM

**limited liability:** the only liability – or potential loss – a shareholder has, if the company fails, is the amount invested in the company, not the total wealth of the shareholder.

## Limited liability for owners

The ownership of companies is divided into small units called **shares**. People can buy these and become **shareholders**: part-owners of the business. It is possible to buy just one share, but usually shares are owned in blocks, and it is possible for one person or organisation to have complete control by owning more than 50% of the shares. Individuals with large blocks of shares often become directors of the business.

### KEY TERMS

**share:** a certificate confirming part-ownership of a company and entitling the shareholder owner to dividends and certain shareholder rights.

**shareholder:** a person or institution owning shares in a limited company.

All shareholders benefit from the advantage of limited liability. Nobody can make any further claim against shareholders, should the company fail. This has two important effects:

- People are prepared to provide finance to enable companies to expand.
- The risk of the company failing to pay its debts is transferred from investors to creditors such as suppliers and banks. Creditors, as a result, are very interested in analysing the company's accounts for signs of potential future weakness.

## Legal personality

A company is recognised in law as having a legal identity separate from that of its owners. This means, for example, that if the foods sold by a company are found to be dangerous or contaminated, the company itself can be taken to court – not the owners, as would be the case with either a sole trader or a partnership. A company can be sued and can itself sue

through the courts. This does not take all legal responsibilities away from the managers and owners. For example, directors can be legally responsible if they knowingly act irresponsibly. This includes continuing to trade when the company is illiquid, which means it does not have cash to pay bills.

## Continuity

In a company, the death of an owner or director does not lead to its break-up or dissolution. All that happens is that ownership continues through inheritance of the shares, and there is no break in ownership at all.

## Private limited companies

The protection that comes from forming a company is substantial. Small firms can gain this protection when the owner(s) create a private limited company. Table 2.5 contains a summary of the advantages and disadvantages of this form of business ownership.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Shareholders have limited liability.</li> <li>• The company has a separate legal personality.</li> <li>• There is continuity in the event of the death of a shareholder.</li> <li>• The original owner is still often able to retain control.</li> <li>• The company is able to raise capital from the sale of shares to family, friends and employees.</li> <li>• The company has greater status than an unincorporated business.</li> </ul>	<ul style="list-style-type: none"> <li>• There are legal formalities involved in establishing the business.</li> <li>• Capital cannot be raised by the sale of shares to the general public.</li> <li>• It is quite difficult for shareholders to sell shares.</li> <li>• End-of-year accounts must be sent to the government office responsible for companies, and are available for public inspection (so there is less secrecy over financial affairs than for a sole trader or partnership).</li> </ul>

**Table 2.5:** Advantages and disadvantages of private limited company structure

The word 'Limited' or 'Ltd' ('Pte' in some countries) tells us that the business is a private limited company. Usually the shares will be owned by the original sole trader, relatives, friends and employees. The former sole trader often still

has a controlling interest. New issues of shares cannot be sold on the open market and existing shareholders may sell their shares only with the agreement of the other shareholders. Certain legal formalities must be followed in setting up such a business and these are explained in the section after public limited companies.

## Public limited companies

These can be recognised by the use of 'plc' or 'inc.' after the company name. It is the most common form of legal organisation for very large businesses, for the good reason that they have access to very substantial funds for expansion.

### TIP

To avoid one of the most common errors made by learners, remember that public limited companies are in the *private sector* of industry, but public corporations are not.

A public limited company (plc) has all the advantages of private company status, plus the right to advertise its shares for sale to the general public and have them quoted on the stock exchange. This means that:

- public limited companies can raise very large sums from public issues of shares
- existing shareholders may also quickly sell their shares if they wish to.

This flexibility of share buying and selling encourages the public to purchase the shares when they are sold by initial public offering (IPO). The other main difference between private and public companies concerns the separation of ownership and control. The original owners of a business that converts to private company structure are usually still able to retain a majority of shares. They can continue to exercise management control. This is most unlikely with public limited companies because most shares will be issued to a large number of individuals and institutions as investors. These shareholders own the company, but at the annual general meeting they appoint a board of directors who control the management and decision-making of the business.

This clear distinction between ownership and control can lead to conflicts; for example, over business objectives and the direction the business takes. The shareholders might prefer measures that aim for short-term profits, whereas the directors may decide to aim for the long-term growth of the business, perhaps in order to increase their own power and status. Many private limited companies convert to plc status for the reasons given in Table 2.5.

It is also possible for the directors or original owners to convert a business back from a plc to private limited company status: Richard Branson and the Virgin group is one of the best-known examples. The reasons for doing this are largely to overcome the problems of separate ownership and control. In a private limited company, it is normal for the senior executives to be the majority shareholders. In addition, the owner of a private limited company can take a long-term planning view of the business. It is often said that the major investors in a plc are only interested in short-term gains. 'Short-termism' can be damaging to the long-term investment plans of a business.

See Table 2.6 for a summary of the advantages and disadvantages of public limited companies.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Shareholders have limited liability.</li> <li>• The company has a separate legal identity.</li> <li>• There is continuity.</li> <li>• It is easy for shareholders to buy and sell shares, encouraging investment.</li> <li>• Substantial capital sources can be accessed due to the ability to issue a prospectus to the public and to offer shares for sale (called a flotation).</li> </ul>	<ul style="list-style-type: none"> <li>• Formation entails legal formalities.</li> <li>• There can be high costs of paying for advice from business consultants when creating a plc.</li> <li>• Share prices are subject to fluctuation, sometimes for reasons beyond a business's control (e.g. the state of the economy).</li> <li>• There are legal requirements concerning disclosure of information to shareholders and the public (e.g. annual publication of detailed report and accounts).</li> <li>• There is a risk of takeover due to the availability of the shares on the stock exchange.</li> <li>• Directors may be influenced by the short-term objectives of the major investors.</li> </ul>

**Table 2.6:** Advantages and disadvantages of public limited company structure

### BUSINESS IN ACTION 2.1

In 2019, there were 94 205 registered limited companies in Pakistan. However, only 559 of these were public limited companies registered on the stock exchange. The largest public limited companies were in the manufacturing sector.

According to the World Bank, 63% of all businesses in India have sole trader status, many of them operating in the retail sector.

In both countries, partnerships are common in the legal and medical professions.

**Discuss in a pair or a group:** Is it important to an economy to have more than one form of business ownership? Justify your answer.

### ACTIVITY 2.1

#### Twitter goes public

Twitter founders Evan Williams and Jack Dorsey became multimillionaires overnight when Twitter sold 70 million shares at \$26 each. The decision to convert the business into a public limited company was mainly to allow directors to spend capital on expanding the 'micro-blogging' business with expensive purchases of other internet businesses.

- 1 Analyse **two** potential benefits to the founders of the company from the decision to sell so many shares to the public.
- 2 Analyse **two** potential drawbacks to Twitter of becoming a public limited company.

### Legal formalities in setting up a company

All governments insist that certain legal stages are completed before a company may be established, to protect investors and creditors. The following documents are commonly required in many countries:

- 1 A **Memorandum of Association** must be completed. This document is of great interest to shareholders. Knowing the maximum share capital means that the relative importance of a single share can be determined. Being aware of the company's aims means that shareholders can avoid businesses that may operate in markets and products – such as weapons – that they may not want to be associated with.

- 2 The other main document is called the **Articles of Association**.

When these documents have been completed satisfactorily, the registrar of companies will issue a certificate of incorporation. Private limited companies may now begin trading.

### KEY TERMS

**Memorandum of Association:** this states the name of the company, the address of the head office through which it can be contacted, the maximum share capital for which the company seeks authorisation and the declared aims of the business.

**Articles of Association:** this document covers the internal workings and control of the business, the names of directors and the procedures to be followed at meetings.

### ACTIVITY 2.2

#### Footie Ltd to stay private

Footie Ltd, the shoemaker and retailer that planned to ballot the owning family on a possible public flotation on the stock exchange, is to stay private. The chairman said yesterday that the board had received overwhelming advice against trying to float the company and convert it into a plc. The company has no need of further capital to fund further expansion. The business was formed over 100 years ago and is one of the world's largest private limited companies. It recently announced annual profits up from \$40 million to \$58 million on sales of \$825 million. That was its third year of record profits. It has invested heavily in its brands and shops.

Footie Ltd is now more of a retailer and wholesaler than manufacturer, owning or franchising 650 shops and importing shoes from abroad. Ten years ago, 75% of its shoes were manufactured in Footie's European factories. Now it is just 25%, with 40% of the business based in Asia. The chief executive stated: 'I am confident that we can continue to build the business as the benefits of moving to lower-cost countries come through, along with investment in our brand and retailing operations.'



## CONTINUED

Despite ruling out a public flotation for now, the company said it would continue periodically to examine 'the most appropriate legal structure to meet shareholders' interests in the light of its strategy for future growth and the conditions in the footwear market'.

- 1 Is Footie Ltd in the private or public sector? Explain your answer.
- 2 Analyse **two** possible reasons for the directors deciding to keep Footie Ltd as a private limited company.
- 3 Analyse the main benefits to the business and to existing shareholders if the company did become a public limited company.

## BUSINESS IN ACTION 2.2

The World Bank ranks Mauritius as the easiest country to do business with in the region. The government has made the establishment of new companies very simple indeed. Some specialist legal advisers claim to be able to create a new company or convert a sole trader business into a limited company in just two hours.

**Discuss in a pair or a group:** Is it a good idea for a government to allow the easy establishment of limited company businesses? Justify your answer.

## Cooperatives

These are a very common form of business organisation in some countries, especially in agriculture and retailing. It is common to differentiate between producer or worker **cooperatives**, which are involved with making goods, and consumer or retail cooperatives, which sell goods and services. Certain features are common to all cooperatives:

### KEY TERM

**cooperative:** a jointly owned business operated by members for their mutual benefit, to produce or distribute goods or services – as in consumers' cooperatives or farmers' cooperatives.

- All members can contribute to running the business and sharing the workload, responsibilities and decision-making. In larger cooperatives, some delegation to professional managers takes place.

- All members have one vote at important meetings.
- Profits are shared equally among members.

In agricultural cooperatives, the members arrange for the purchase of seeds and materials in bulk so that they may benefit from economies of scale. The cooperative often buys the produce of the members and then sells it collectively to obtain a better price.

The advantages of such business units are:

- buying in bulk
- working together to solve problems and take decisions
- good motivation for all members to work hard as they will benefit from shared profits.

The potential drawbacks can include:

- poor management skills, unless professional managers are employed
- capital shortages because the sale of shares to non-members is not allowed
- slow decision-making if all members are to be consulted on important issues.

## Franchises

A **franchise** is not strictly a form of legal structure for a business, but it is a legal contract between a **franchiser** and a **franchisee**.

### KEY TERMS

**franchise:** the legal right to use the name, logo and trading systems of an existing successful business.

**franchiser:** a person or business that sells the right to open stores and sell products or services, using the brand name and brand identity.

**franchisee:** a person or business that buys the right from the franchiser to operate the franchise.

This contract allows the franchisee to use the name, logo and marketing methods of the franchiser. The franchisee can then, separately, decide which form of legal structure to adopt.

Franchises are a rapidly expanding form of business operation. They have allowed certain multinational businesses, which are now household names, to expand much more rapidly than they could otherwise have done. McDonald's and Ben & Jerry's are just two examples.



**Figure 2.6:** Many McDonald's restaurants are franchised outlets – like this one in Malaysia

Why would a business entrepreneur want to use the name, style and products of another firm? Consider Activity 2.3, which includes all of the main features of a typical franchise contract. Table 2.7 outlines the advantages and disadvantages of franchises.

### ACTIVITY 2.3

#### Harry goes it alone

Harry used to work in the kitchens of a large hotel. He became tired of being ordered around by the manager and the head chef. He had always hoped to use his talents preparing food for customers in his own restaurant. The main problem was his lack of business experience. Harry had just been to a franchising conference and exhibition. One of the businesses offering to sell franchises was Pizza Delight. This firm sold a new type of pizza recipe to franchisees and provided all the ingredients, marketing support and help with staff training. They had already opened 100 restaurants in other countries and offered to sell new franchises for a one-off payment of \$100 000. If Harry signed one of these franchising contracts, then he would have to agree to:

- buy materials only from Pizza Delight
- fit out the restaurant in exactly the way the franchiser wanted
- make an annual payment to Pizza Delight of a percentage of total turnover.

In addition, he would have to find and pay for suitable premises, and recruit and motivate employees. Pizza Delight claimed that its brand and products were so well known that success was guaranteed. As the

### CONTINUED

product had been tested already, there would be less risk than most small firms experience. Pizza Delight would pay for national advertising campaigns.

Harry was told that no other Pizza Delight restaurant could open within five kilometres of one already operating. Harry was almost convinced that this was the business for him. He had inherited money from a relative. However, several things still bothered him: for example, would it give him the independence he wanted so much?



**Figure 2.7:** One important function of the franchisee is motivating staff

- 1 Analyse **two** potential benefits to Harry of opening a franchised Pizza Delight restaurant.
- 2 Analyse **two** potential drawbacks to Harry of agreeing to the terms of the franchise contract.
- 3 Evaluate whether Harry should take out a franchise with Pizza Delight.

### REFLECTION

In preparing your answer to Q3 in Activity 2.3, how did you decide whether Harry should take out a franchise or not? How did you assess the arguments for and against a franchise operation in this case?

Discuss your conclusions with another learner. Did your partner reach different conclusions? How would you defend your own conclusion? Or can you now criticise your own conclusion?

### KEY CONCEPT LINK

**Context** affects the business owner's choice of which form of business ownership to adopt. The business may be trying to compete with famous and established brands, for example. Buying a franchise in this context means that the business can gain the benefit of using a well-known name and logo.

Advantages of franchises	Disadvantages of franchises
<ul style="list-style-type: none"> <li>There are fewer chances of a new business failing because it is using an established brand name and product.</li> <li>Advice and training are offered by the franchiser.</li> <li>The franchiser pays for national advertising.</li> <li>Supplies are obtained from established and quality-checked suppliers.</li> <li>The franchiser agrees not to open another branch in the local area.</li> </ul>	<ul style="list-style-type: none"> <li>A share of the profits or revenue has to be paid to the franchiser each year.</li> <li>The initial franchise licence fee can be expensive.</li> <li>Local promotions may still have to be paid for by the franchisee.</li> <li>The franchisee cannot choose which supplies or suppliers to use.</li> <li>Strict rules over pricing and layout of the outlet reduce the franchisee's control over their own business.</li> </ul>

Table 2.7: Advantages and disadvantages of franchises

### ACTIVITY 2.4

#### Shah's garage

Salman Shah has been in business as a sole trader for many years, owning a small garage and petrol station. He has two sons and a daughter, and they want to be involved in his business. Each of them is married and has a family. The garage sells petrol and oil. However, there is little profit in petrol retailing. The car repair side of the garage is facing increasing competition from large franchised operations of the major car manufacturers. Salman wants to expand the business so that his children can become involved – at present, the profits could not support more than one family. He is thinking of a possible way to expand the business.

### CONTINUED

Local shops have been closing because of competition from supermarkets. Salman could build a small extension to the petrol station shop and stock it with groceries and everyday household items. His daughter Stella would be keen to manage this shop.

Salman wants to keep control of the business and to pass it on to his children as a profitable firm. He has very little money saved and the expansion plan will require capital. He is keen to avoid business risks and he has always been opposed to borrowing money for his business.

- Which form of business structure would you recommend for Salman's business? Justify your answer.

### Joint ventures

A **joint venture** is when two or more businesses work closely together on a project. This is not the same as a merger, but can lead to a merger if businesses' interests coincide and if the joint venture is successful. The reasons for joint ventures are:

- The costs and risks of a new business venture are shared, which is a major consideration when the cost of developing new products is rising rapidly.
- Different companies might have different strengths and experiences, and therefore fit well together.
- They might have major markets in different countries and they could exploit these with the new product more effectively than if they both decided to 'go it alone'.

### KEY TERM

**joint venture:** two or more businesses agree to work closely together on a particular project and create a separate business division to do so.

Such agreements are not without their risks:

- Styles of management and culture might be so different that the two teams do not blend well together.
- Errors and mistakes might lead to one company blaming the other for mistakes.
- The business failure of one of the partners would put the whole project at risk.



### ACTIVITY 2.5

#### Nestlé and Fonterra in dairy joint venture in Trinidad and Tobago

A joint venture has been announced by Nestlé and Fonterra. The business will concentrate on milk processing and the marketing of dairy products. It will strengthen the position of both companies in the Caribbean market. Nestlé concentrates mainly on marketing branded dairy products. Fonterra is much better known as a milk product processor. By combining forces in Trinidad and Tobago, the joint venture will gain from Fonterra's production and processing facilities and experience and Nestlé's marketing expertise. The potential for success of the new joint venture, which will make and sell dairy products in Trinidad and Tobago, appears high. Employees from both businesses will be expected to work together to make the venture a success.

- 1 Analyse **two** benefits to Nestlé of its joint venture with Fonterra.
- 2 Evaluate the chances of success for the Nestlé and Fonterra joint venture in Trinidad and Tobago.

Most social enterprises have these common features:

- They directly produce goods or provide services.
- They have social aims and use ethical ways of achieving them.
- They need to make a profit to survive as they cannot rely on donations as charities do.

### ACTIVITY 2.6

#### Social enterprise research

- 1 Research a social enterprise in your country. Find out:

- its objectives
- how it differs from a charity
- how it differs from a purely profit-focused business.

Present your findings to your class in the form of a large poster. Invite class members to write comments on it with sticky notes. Review the feedback and consider how you might improve your poster.

## Social enterprise

**Social enterprises** are businesses that aim to make profit in socially responsible ways. Much of any profit is used to benefit society. However, social entrepreneurs do not operate businesses as charities. They can and often do keep some of any profit they have made.

### KEY TERM

**social enterprise:** a business with mainly social objectives that re-invests most of its profits into benefiting society rather than maximising returns to owners.

Social enterprises do have objectives that are often different from those of an entrepreneur who is only profit motivated. However, they compete with other businesses in the same market or industry. They use business principles to achieve social objectives.

## Changing the form of business ownership

Most businesses do not change their form of business ownership over time, but many do. The most likely advantages of changing from one form of ownership to another (for example, sole trader to private limited company) can be summarised as:

- access to more finance
- gaining legal identity
- protecting owners' capital through limited liability.

The most likely disadvantages of changing the form of business ownership (for example, from sole trader to private limited company) can be summarised as:

- legal costs and formalities
- some loss of control and ownership by the original owner
- profits are shared.

## EXAM-STYLE QUESTIONS

### Short answer questions

- 1 Explain **one** difference between private-sector and public-sector organisations. [3]
- 2 Explain **one** difference between a sole trader and a private limited company. [3]
- 3 Analyse **one** reason why there is usually a distinction between who owns and who controls a public limited company. [5]
- 4 Explain **one** benefit for a business of engaging in a joint venture. [3]
- 5 Analyse **one** reason why the directors of a public limited company might decide to convert the business back into a private limited company by buying back all of the shares. [5]
- 6 Explain **one** way in which legal identity and continuity help companies to operate effectively. [3]
- 7 Explain **one** way in which limited liability makes it easier for companies to raise finance. [3]
- 8 Analyse **one** way in which the relationship between ownership and control differs in two forms of business ownership. [5]
- 9 Analyse **one** reason why the form of business ownership affects a business's ability to raise finance. [5]
- 10 Explain **one** reason why an entrepreneur might decide not to take out a franchise agreement but to establish an independent business instead. [3]
- 11 Analyse **one** difference between private limited companies and public limited companies. [5]
- 12 Explain **one** key feature of social enterprises. [3]
- 13 Explain **one** reason why the owners of a business might decide to establish it as a social enterprise. [3]
- 14 Define the term 'cooperative'. [2]
- 15 Explain **one** difference between the primary sector and the tertiary sector. [3]
- 16 Analyse **one** reason why an entrepreneur opening a hairdressing business might have a greater chance of success if they bought a franchise licence than if they attempted to establish an independent business. [5]

### Essay questions

- 1
  - a Analyse **two** differences between sole traders and limited companies. [8]
  - b Evaluate the factors that the owners of a rapidly expanding private limited company should consider before deciding whether to convert it into a public limited company. [12]
- 2
  - a Analyse **two** potential benefits to an entrepreneur of setting up a franchised business. [8]
  - b Evaluate the use of joint ventures by a food manufacturing business planning to expand sales in other countries. [12]

### Data response questions

#### 1 Joe to expand his business

Joe Sharma owns a small tea and coffee blending and packaging business. He buys in coffee beans and tea leaves and processes them. He sells the finished product to chains of retail stores. His business is facing increasing competition from large processors of tea and coffee based in other countries. Sales of his product to retail stores are falling for another reason. The rapid increase in consumer income is leading to many more people eating and drinking in hotels and restaurants and buying less tea and coffee to consume at home.

## CONTINUED

The situation with his business is becoming so serious that he is thinking of selling his factory and using the capital to purchase a few cafés and tea shops. He would then be able to benefit from the changes in consumer spending habits. Joe realises that he will need more capital than the sale of his factory would raise. Therefore, he is considering converting his sole trader business into either a private limited company or a partnership with a friend who used to own a shop.

- a i Identify **one** benefit to an entrepreneur of being a sole trader. [1]
- ii Explain the term ‘partnership’. [3]
- b i In which sector of industry is Joe’s business currently operating? Explain your answer. [3]
- ii In which sector of industry is Joe planning to set up his new business? Explain your answer. [3]
- c Analyse **two** problems Joe might face in switching from making tea and coffee products to entering the café and tea shop market. [8]
- d Advise Joe on the most suitable form of business ownership, given that extra capital will be required. Justify your answer. [12]

### 2 Capital Waste Disposal Ltd (CWD)

Rajesh started collecting waste from factories ten years ago. He operated as a sole trader. He recycled much of the waste and sold it as a raw material to be re-used by industry. When he wanted to expand the business, he took on a partner who invested capital. His business partner Eva was not interested in management.

Four years ago, Rajesh and Eva decided to create a private limited company. CWD became very profitable and now operates several trucks and two waste recycling plants. The two shareholders invested the profit back into the business and paid themselves high dividends. Rajesh and Eva were encouraged by the company accountant to consider applying for a listing on the stock exchange to convert the business to a public limited company.

The IPO was a huge success and Rajesh and Eva are now wealthy. Rajesh is still the CEO but he does not like interference in his decisions by major shareholders. CWD now controls 56% of the waste recycling business in Country X. Rajesh has received a takeover offer for CWD from a multinational waste management company. The price offered for each share is very high and Rajesh is recommending that all shareholders accept the offer.

- a i Identify **one** benefit of private limited companies. [1]
- ii Explain the term ‘initial public offering (IPO)’. [3]
- b Explain **two** reasons why the business ownership of CWD has changed over the years. [6]
- c Analyse **one** advantage and **one** disadvantage to Rajesh of the decision to convert CWD to a public limited company. [8]
- d Evaluate the most appropriate form of business ownership for CWD. [12]



## SELF-EVALUATION CHECKLIST

After studying this chapter, complete a table like this:

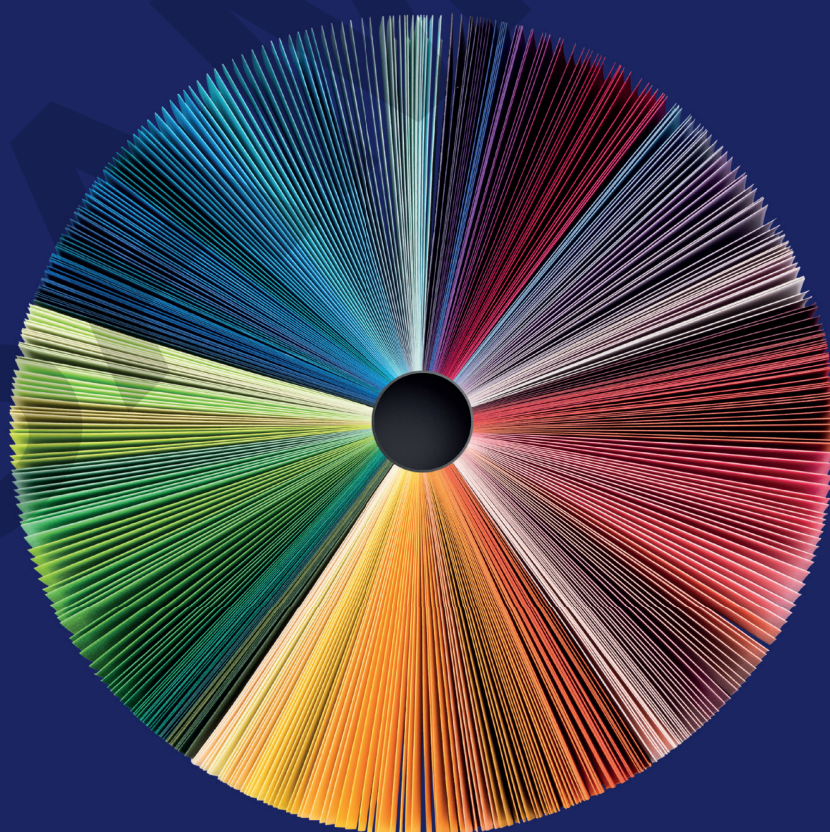
You should be able to:	Needs more work	Almost there	Ready to move on
Understand that different methods of classifying business activity exist			
Classify businesses by economic sector: primary, secondary, tertiary or quaternary			
Classify businesses by the form of business ownership			
Classify businesses by public sector or private sector			
Evaluate the most appropriate forms of business ownership in different situations			
Evaluate the advantages and disadvantages of changing from one type of business ownership to another			



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# Business

## for Cambridge International AS & A Level



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Acknowledgements

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# > 1 Enterprise

## Teaching plan

Topic	Approximate number of learning hours	Learning content	Resources
1.1 The nature of business activity	5 hours	A basic exploration of what businesses do  Identifying ways to add value  The impact of a dynamic business environment	Coursebook: Activity: 1.1 Exam-style short answer questions: 1, 5, 10–12 Exam-style essay question: 1a  Workbook: Key skills exercises: 1–4, 13, 17–18 Exam-style data response question: a (i), (ii)
1.2 The role of the entrepreneur	4 hours	Reasons for the success of entrepreneurs  Developing new business opportunities	Coursebook: Business in context Business in action: 1.1, 1.2 Activities: 1.2–1.4 Exam-style short answer questions: 2–4, 6–7, 13–15 Exam-style essay questions: 1b, 2a, b Exam-style data response question: 1  Workbook: Key skills exercises: 5–8, 11–12, 14–16, 19–21 Exam-style short answer questions: 1, 2 Exam-style essay questions: 1a, 1b Exam-style data response questions: b, c, d, Language worksheet 1.1
1.3 Business plans	3 hours	Identifying the main elements of a business plan  Construction of a basic business plan	Coursebook: Activity 1.5 Exam-style short answer questions: 8–9 Exam-style data response questions: 2  Workbook: Key skills exercises: 9–10

## BACKGROUND KNOWLEDGE

- Learners may not have previously studied business, but no background knowledge is needed for this chapter.
- Some learners may have studied business at IGCSE level and could have some background knowledge.
- There may be differences in background knowledge between the members of the class. It is suggested when teaching, to treat all learners as though they have no background knowledge. This will support those with no background knowledge and allow those with some knowledge to revise what they already know.
- Learners may have experience of part-time work, work experience or family businesses, so may have some background knowledge.
- You may want to assess learners' current knowledge. This could include giving learners introductory level key words (capital, marketing, business plan) and asking learners if they can define or explain the terms.
- This is a chapter that will be referenced at various points through the course as it underpins all business activity and decisions.

## LANGUAGE SUPPORT

- For many learners this will be the first time they have heard some of the words used in this chapter. Encourage learners to ask for help with explanations for any term they are unfamiliar with.
- A full list of key terms required are available in the workbook. Learners need to make sure they can define all the key terms listed, as well as provide examples to explain them.
- It is important to make sure learners have an understanding of the key language, which can be supported through the Language worksheet 1.1.
- The following words will be useful in this chapter: entrepreneur, intrapreneur, consumer, customer, adding value.
- Learners could use the online Cambridge Dictionary to find meanings and possible synonyms.
- You could introduce assessment criteria for this course (knowledge, application, analysis, evaluation) which may provide a challenge for learners. Guidance can be found in the specification.

## Common misconceptions

Misconception	How to elicit	How to overcome
Some learners think that all entrepreneurs are successful.	Ask the learners to identify ways in which entrepreneurs can be successful and ways they can fail.	Provide learners with examples of entrepreneurs who have been successful and those who failed (assess the reasons for failure).
Learners are often confused with the difference between consumers and customers.	Check whether learners use the correct terms in their work. Ask them to write definitions of each term and then to use them correctly in a sentence along with relevant examples.	Make sure learners consider the role of the customer and the consumer in business decisions. The consumer is the end user and the customer buys the product/service.



## 1.1 The nature of business activity

### LEARNING PLAN

Syllabus learning objectives	Learning intentions	Success criteria
<p>1.1.1 The nature of business activity</p> <ul style="list-style-type: none"> <li>the purpose of business activity</li> <li>the factors of production needed for business activity: land, labour, capital and enterprise</li> <li>the concept of adding value</li> <li>the nature of economic activity, the problem of choice and opportunity cost</li> <li>the dynamic business environment</li> <li>why businesses succeed or fail</li> <li>differences between local, national, international and multinational businesses</li> </ul>	<ul style="list-style-type: none"> <li>Analyse what business activity involves.</li> <li>Recognise that the 'economic problem' requires choices to be made which always result in opportunity cost.</li> <li>Analyse the meaning and importance of adding value.</li> </ul>	<ul style="list-style-type: none"> <li>Understand that business activity uses resources to satisfy customers' needs.</li> <li>Understand that businesses aim to add value to the resources they buy in.</li> </ul>

### Starter idea

#### Introduction to business (10 minutes)

**Resources:** None

**Description and purpose:** On your whiteboard write, '*What do businesses do?*'. This starter can be done as a class discussion or a group discussion. There is an opportunity to also draw a mind map of learners' ideas on the board. This gives learners the opportunity to think about why businesses exist, which is the focus of this chapter. It also allows you to check learners' current understanding.

**What to do next:** This is an activity to see what learners know about business. This can help you discover who has some prior knowledge. You may want to ask the learners the same question again at the end of the chapter to consolidate understanding.

### Main teaching ideas

#### 1 Adding value (50 minutes)

**Learning outcome:** Analyse the meaning and importance of adding value

**Resources:** Coursebook Activity 1.1

**Description and purpose:** In small groups, learners should discuss the answers to the questions in the activity. This should help the learners to understand the different ways that businesses can add value to their product/service. They should explain their answers and why it is important for businesses to add value.

Learners should then complete Question 17 from the Workbook Chapter 1.

**Answers:**

See Coursebook answers for Activity 1.1 and Workbook answers for Question 17.

➤ **Differentiation ideas:**

- **Support:** If learners find the concept of adding value difficult, ask them how they can add value to themselves and to list some ways this can be done (e.g. gain qualifications, learn a new language, join clubs and extra-curricular activities).
- **Challenge:** In small groups, provide learners with an item (such as a pencil, potato or piece of paper) and ask them to think of ways to add value to it. They should share their ideas with the class.

➤ **Assessment ideas:** Learners could rate their level of understanding of this topic: 1 = don't understand topic, 2 = neutral, 3 = understand topic.

## 2 Dynamic business environment (45 minutes)

**Learning outcomes:** Understand the dynamic business environment and its impact on real-world businesses.

**Resources:** Coursebook Exam-style data response question 1d

**Description and purpose:** Learners should read the relevant section of the coursebook on the dynamic business environment. In pairs or small groups, learners should identify two local businesses, two national businesses and two global businesses and make notes on how each business may be affected by the changes in the dynamic business environment. They should try to use specific real-world examples where possible. If facilities are available, learners could do additional research online into the businesses. This task should develop learners' knowledge of how different businesses are affected by constant changes in the business environment.

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**Answers:**

See Coursebook answers.

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➤ **Differentiation ideas:**

- **Support:** You could provide the learners with a list of six business examples (local, national and global) to support learners.
- **Challenge:** Ask the learners how these firms have adapted due to these changes in the dynamic business environment.

➤ **Assessment ideas:** Each pair/group could create mind maps to show the different ways each firm is affected by changes in the business environment. They could also share their ideas with the rest of the class (small presentations or class discussion). The answers from Question 1d could be used to assess learners' understanding of the topic when applied in an exam-style situation (see Coursebook answers).

## Plenary idea

### Think, pair, share (10 minutes)

**Resources:** Mini-whiteboards (if available) or paper

**Description and purpose:** Individually, learners should write down two things they have learnt in the lesson. They should then join with another learner to discuss their lists and combine their ideas to create a list of four key learning points. Two pairs then combine to share their ideas to create a list of eight key learning points. These can then be shared with the class (if class size allows).

➤ **Assessment ideas:** You can move around the groups and assess their responses to check that key messages from the lesson have been taken. Any key learning points missing can be reinforced and this can be the basis for the starter of the following lesson.

## 1.2 The role of the entrepreneur

### LEARNING PLAN

Syllabus learning objectives	Learning intentions	Success criteria
<p>1.1.2 The role of entrepreneurs and intrapreneurs</p> <ul style="list-style-type: none"> <li>• qualities entrepreneurs and intrapreneurs need for success</li> <li>• the role of entrepreneurship in creating and starting up a business</li> <li>• the role of intrapreneurship in the ongoing success of a business</li> <li>• barriers to entrepreneurship</li> <li>• business risk and uncertainty</li> <li>• the role of business enterprise in the development of a country</li> </ul>	<ul style="list-style-type: none"> <li>• Recognise the key characteristics of successful entrepreneurs and intrapreneurs.</li> <li>• Evaluate the importance of enterprise, entrepreneurs and intrapreneurs to a country's economy.</li> </ul>	<ul style="list-style-type: none"> <li>• Understand that entrepreneurship is about taking risks to set up new businesses.</li> <li>• Analyse the characteristics of successful entrepreneurs and intrapreneurs.</li> <li>• Analyse the benefits to an economy from entrepreneurship.</li> <li>• Understand the challenges and barriers faced by entrepreneurs, including a dynamic business environment.</li> </ul>

### Starter idea

#### Entrepreneur sees a gap in the market (15 minutes)

**Resources:** Coursebook Chapter 1: Business in context

**Description and purpose:** Learners should read through the Business in context feature and discuss the two questions that follow. This could then lead to a class discussion about 'what makes an entrepreneur successful?' This task is to introduce learners to the concept of enterprise and entrepreneurs. At the start of the lesson, you could write the term 'entrepreneur' on the board and ask the learners what they think when they see that word, before they are given a definition of the term to support the reading of the Business in context text. Learners should look for definitions of 'entrepreneur' and 'intrapreneur' and note them down to support their use of language for this topic.

**What to do next:** When reading through the case study learners could be asked to identify words they do not understand in the text and explore the meaning of these using the coursebook. This would provide learners with a basic level of terminology.

### Main teaching ideas

#### 1 Understanding what makes an entrepreneur successful (50 minutes)

**Learning outcomes:** Identify benefits of enterprise to a country's economy and understand reasons for the success and failure of entrepreneurs

**Resources:** Coursebook Activity 1.4

**Description and purpose:** Learners should read the case study and answer Questions 1, 2 and 3 that follow. This activity will allow learners the opportunity view a real-world application of the topic.

**Answers:**

See Coursebook answers.



> **Differentiation ideas:**

- Support: Ask the learners to search for a video clip of Levi Roots. This will support learners with their comprehension of the case study.
- Challenge: Learners can refer to the reflection questions that follow the case study in the coursebook and discuss these with a partner to extend the task.

> **Assessment ideas:** You should move around the classroom and ask the learners to share their answers and assess the content of these based on suggested Coursebook answers.

## 2 Entrepreneur research task (60 minutes + additional time for presentations)

**Learning outcome:** Recognise the key characteristics of successful entrepreneurs and intrapreneurs

**Resources:** None

**Description and purpose:** Learners should research an entrepreneur of their choice and create an entrepreneur factsheet on their chosen entrepreneur and their business activities. Learners can use the following questions as guidance for completing the task:

- What is the name of the entrepreneur?
- What business/businesses are they famous for starting?
- How did they start their business? Were they successful on their first try? Have they been involved in more than one business? Write a short background explaining their career.
- Have they been involved in other activities that could be good for an economy/society? (sometimes this may be called philanthropy). Explain the benefits these projects bring.
- Have they faced any challenges/barriers to entrepreneurship? What impacts did this have on them and the business?

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**Answers:**

Learners should provide their own answers based on their findings. Suggestions of what to look for are outlined in the example below:

- Mark Zuckerberg.
- Facebook.
- Zuckerberg started Facebook whilst at Harvard University in 2004. He is still the CEO of the company. After founding Facebook, Zuckerberg dropped out of Harvard to run the business. He also developed other pieces of software and computer games as he was growing up.
- Zuckerberg has donated money to schools and signed a pledge to give 99% of his Facebook shares to charity – worth about \$45 billion.
- Zuckerberg faced many challenges in the early days of Facebook. He got into trouble with the Harvard Administration Board for one of the first websites he created there, and nearly lost his place at the university. He also got into a legal battle where some internet entrepreneurs said he stole their idea when he created Facebook. It doesn't seem to have had much impact as Zuckerberg has gained great success with Facebook.

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> **Differentiation ideas:**

- Support: If learners need support in selecting an entrepreneur to research they could choose from famous examples of entrepreneurs include Mark Zuckerberg (Facebook), Steve Jobs (Apple), Jack Ma (Alibaba), Bill Gates (Microsoft), Larry Page (Google), Amancio Ortega (Zara), Walt Disney (Disney).
- Challenge: To make this activity more challenging, the learners could each prepare a small PowerPoint presentation instead of a factsheet, which they can use to present their findings to the class. They should use the questions on the factsheet as a guide for the content of their presentation and could be encouraged to also include further information about the entrepreneur.

> **Assessment ideas:** Learners can be assessed on the quality of the work they have produced. Have they answered all of the questions? Is the information easy to read? Good examples that the learners have produced could be used as an in-class wall display to use as examples in future lessons.

## Plenary idea

### Class debate (15 minutes)

**Resources:** Workbook Chapter 1, 'Sami's new business' case study

**Description and purpose:** To assess understanding of entrepreneurial characteristics.

Learners should read the case study. In pairs they think of two points that they would include in an answer to Question 18. Each pair could be asked to present their two most important characteristics that Sami would need to the class, justifying why they have chosen them. This could then lead to a debate surrounding the most important characteristic overall as decided by the class.

> **Assessment ideas:** Assess the quality of the responses given by learners through identifying the skills they have shown in their answers using the four assessment objectives. This also provides a brief introduction to the course assessment criteria.

## 1.3 Business plans

LEARNING PLAN		
Syllabus learning objectives	Learning intentions	Success criteria
1.1.3 Business plans <ul style="list-style-type: none"> <li>the meaning and purpose of business plans</li> <li>the key elements of business plans</li> <li>the benefits and limitations of business plans</li> </ul>	<ul style="list-style-type: none"> <li>Analyse the meaning, purpose, benefits and limitations of business plans.</li> </ul>	<ul style="list-style-type: none"> <li>Analyse the main elements, benefits and limitations of business plans.</li> </ul>

## Starter idea

### What is a business plan? (10 minutes)

**Resources:** Tennis ball, Coursebook Chapter 1

**Description and purpose:** Ask the learners the following question: 'If you had to write a plan to start up a new business, what information would you need to include?' The purpose of the task is to identify which pieces of information learners think are important to a business and might be found in a business plan. Give the tennis ball to the first learner and ask them to suggest an answer to the question (saying an item that could be in the business plan). The learner should then pass the ball to another learner who will provide a different answer. This should continue until there are no more answers provided.

**What to do next:** Learners can then read Coursebook Chapter 1, Section 1.3 in preparation for the main teaching activities.

## Main teaching ideas

### 1 You be the entrepreneur (60 minutes)

**Learning outcomes:** Apply knowledge from the chapter successfully to the task, show understanding of added value and analyse potential barriers to entry in a market

**Resources:** You may want an example of a business plan available for learner support.

**Description and purpose:** In small groups learners need to create a business plan for a new business idea. They should include information about:

- a What the business idea is – what are they going to sell?
- b Who is the target market (who do they hope to sell to?)
- c How are they going to add value to what they are selling?
- d What barriers might there be to the success of their new business idea – what are the risks from the external environment?

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**Answers:**

Learners' own answers. Guidance is provided below:

- a This should be clearly explained, and the business idea should be new.
- b Learners should identify the demographic they are aiming at – age, gender, occupation.
- c Learners should highlight ways they can stand out in the market and how they will convince customers to pay more than the cost of the inputs.
- d Depending on the industry, the business plan could include competitor actions, laws, regulations, changes in the economy or any other reasonable suggestion.

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> **Differentiation ideas:**

- Support: An example of a business plan could be provided (e.g. <https://www.princes-trust.org.uk/help-for-young-people/tools-resources/business-tools/business-plans>). If learners face difficulties in creating an initial product idea, you may be able to offer some ideas here by providing examples.
- Challenge: Learners who have a good subject knowledge could be used as a panel of potential investors. They could listen to all the business plans and decide which one they would invest in, providing reasons for their choice.

> **Assessment ideas:** Learners can be assessed on the content of their business plans/presentations. You can use the main points required in the task as the basis for measuring the success of the learners and to assess understanding of the core concepts.

## 2 Exam-style questions: AS Level – knowledge and understanding (60 minutes)

**Learning outcomes:** Application of chapter knowledge and introduction to exam-style questions

**Resources:** Coursebook Chapter 1: AS Level exam-style questions

**Description and purpose:** Learners should answer the AS Level exam-style questions at the end of the chapter. They should do this individually. This will introduce learners to some command words and exam-style questions to help them prepare for examination. It will also provide an opportunity for learners to produce written work to develop their literacy skills.

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**Answers:**

See Coursebook answers.

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> **Differentiation ideas:**

- Support: Learners may require additional support in understanding the command words in the questions. Ask them to read the guidance at the start of the coursebook.
- Challenge: Ask the learners to provide two relevant real-world business examples to develop their answers.

> **Assessment ideas:** Teacher-led assessment by collecting in the written answers and marking these using the assessment objectives outlined in the syllabus.



## Plenary idea

### Give me five (20 minutes)

**Resources:** Pen and paper or mini-whiteboards

**Description and purpose:** For each statement below, learners should write down five bullet points that answer the question. You could write these on the whiteboard or have them printed on a handout for the learners to write on. This is to review the learners' understanding of the chapter. The statements are:

- a characteristics of successful entrepreneurs
- b examples of opportunity cost in action
- c examples of risks faced by a business
- d benefits of intrapreneurship
- e benefits to an economy of successful business enterprise
- f examples of human needs
- g examples of ways to add value to a product/service
- h things that need to be identified for a successful business opportunity.

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#### Answers:

Suggested answers are:

- a Motivated, hard-working, risk-taking, innovative, multi-skilled, leadership skills, self-confidence.
- b Any examples can be used here – where one thing was given up so another could be taken. For example, doing A Level Business instead of A Level Mathematics (A Level Mathematics is the opportunity cost).
- c Uncertainty, changes in the economy, loss of customers, a new competitor, failure, financial (not having enough money).
- d Injection of creativity and innovation into a business, new ways of problem solving, driving change, creating a competitive advantage, motivated and happy workers.
- e Reduced unemployment (employment creation), exports, increase in workforce skills, economic growth, innovation and technological advances.
- f Food, shelter, water, clothing, warmth.
- g Better customer service, branding, improved product features, customer convenience, skilled staff, longer opening hours, improved delivery times.
- h An idea, finance, location, a market, a way to be competitive (a reason for customers to buy from you).

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> **Assessment ideas:** You should compare learners' lists with the suggested answers provided and offer guidance on any gaps in knowledge or misconceptions.

## Language worksheet (downloadable)

### 1.1 Enterprise terminology

A Language worksheet to support learners with the terminology within Chapter 1. This worksheet can also be used to introduce the concept of subject-specific glossaries and can be used to encourage learners to create similar tables at the end of each chapter.

# > 2 Business structure

## Teaching plan

Topic	Approximate number of learning hours	Learning content	Resources
2.1 Economic sectors	4 hours	<p>The different classification of firms within the economic sectors (primary, secondary, tertiary, quaternary)</p> <p>Identifying the difference between the public and private sectors</p>	<p>Coursebook: Exam-style short answer question: 1 Exam-style data response question: 1b, c</p> <p>Workbook: Key skills exercises: 1–5, 15–16, 18–19, 21 Exam-style short answer question: 1</p>
2.2 Business ownership	6 hours	<p>Identification of the main types of business ownership</p> <p>The advantages and disadvantages of different types of business ownership</p>	<p>Coursebook: Business in context Business in action: 2.1 Activity: 2.1–2.6 Exam-style short answer questions: 2–16 Exam-style essay questions: 1, 2 Exam-style data response questions: 1a, d; 2a–d</p> <p>Workbook: Key skills exercises: 6–14, 17, 20, 22–23 Exam-style short answer question: 2 Exam-style essay question: 1a, b Exam-style data response question: a–d</p> <p>Language worksheet 2.1 PowerPoint slides 2.1</p>

## BACKGROUND KNOWLEDGE

- Some knowledge about the role of entrepreneurship and the impact on the economy would be useful.
- Learning from Chapter 1 would be beneficial before embarking on this chapter.
- Links can be made to Chapter 3 where joint ventures are discussed as a method of growth.
- Learners should be familiar with the reasons why businesses fail or succeed.
- The context surrounding all businesses is important, so learners need to appreciate all case studies from a local, national and multinational dimension.

## LANGUAGE SUPPORT

- It will be useful to understand the following words in this chapter: primary sector, secondary sector, tertiary sector, quaternary sector, sole trader, partnership, limited liability, companies, franchise, social enterprise.
- A full list of key terms required are available in the workbook. Learners need to make sure they can define all the terms in the key terms lists and supply examples to explain these.
- The terminology in this chapter can be difficult for some learners. Encourage learners to use proper terminology where needed. Correct any mistakes they make when discussing or writing about the topics.
- Language support for this chapter can be found in Language worksheet 2.1.

## Common misconceptions

Misconception	How to elicit	How to overcome
A common issue is for learners to confuse the public and private sector with public and private limited companies.	When teaching each topic ask the learners to explain the difference between the public and private sector and the difference between public and private limited companies.	Correct learners when they confuse each term. Encourage learners to make a list of which types of legal structure are found in each sector of the economy. Further research into the differences between free-market, mixed and command economies will also support you with this.
Learners often think that social enterprises are charities.	Ask the learners to research some charities and social enterprises and explore how different their goals and activities are.	When exploring different types of business organisation, make sure to include a mix of social enterprises and charities. This will show learners these are different in their objectives, ownership and activities.



## 2.1 Economic sectors

### LEARNING PLAN

Syllabus learning objectives	Learning intentions	Success criteria
<p>1.2.1 Economic sectors</p> <ul style="list-style-type: none"> <li>the primary, secondary, tertiary and quaternary sectors and businesses within those sectors</li> <li>the public and private sectors and businesses within those sectors</li> <li>the reasons for and consequences of the changing relative importance of these sectors</li> </ul>	<ul style="list-style-type: none"> <li>Classify industries into levels of economic activity – primary, secondary, tertiary and quaternary, and analyse changes in their relative importance.</li> <li>Understand the differences between the private sector and public sector in your country.</li> </ul>	<ul style="list-style-type: none"> <li>Understand that different methods of classifying business activity exist.</li> <li>Classify businesses by economic sector: primary, secondary, tertiary or quaternary.</li> <li>Classify businesses by the form of business ownership.</li> <li>Classify businesses by public sector or private sector.</li> </ul>

### Starter idea

#### How it is made (10 minutes)

**Resources:** Whiteboard

**Description and purpose:** Understand how the primary, secondary and tertiary sectors all work together – this activity will provide a way to introduce this relationship. Show learners a picture of an item (an item of clothing or a food product). Ask them to write down all of the processes (activities) that were needed to produce the item and get it to the consumer (e.g. a t-shirt would require gathering the raw materials, processing them, designing, fabric sourcing, cutting, stitching, quality checking, selling to the customer and other areas). As a class activity, you should create a list on the board of all the learners' suggestions. Alternatively, this task can be done individually, in pairs or in small groups. Learners can be issued different items to work on or they can choose their own item and create a list of processes for it.

**What to do next:** Ask the learners to keep this list of processes in their books/folders as it will be used in one of the main teaching idea activities, so you will come back to it later in the teaching of this chapter.

### Main teaching ideas

#### 1 What industry is it? (40 minutes)

**Learning outcome:** Classify industries into levels of economic activity – primary, secondary, tertiary and quaternary

**Resources:** Coursebook Chapter 2. Learners will also need the list of activities they created in the starter activity for this Main teaching idea.

**Description and purpose:** Learners should read the sections of the coursebook related to economic activity to make sure they understand what is involved in each stage. Learners should then produce a table with four columns: Primary, Secondary, Tertiary, Quaternary. Learners should place items from their list of tasks into the correct column based on what section of industry the task can be identified as. This will support learners in being able to identify which sector of economics activity different tasks can be found in, helping them gain an understanding of the relationships between the sectors. Ask the learners whether they can add any more tasks to their initial list now they have read this section of the coursebook. If so, the learners should add these new activities into their table.

### Answers:

Learners' answers will depend on the product they selected in the starter activity. Below are suggestions of tasks and industries that could be included in this activity:

Primary	Secondary	Tertiary	Quaternary
Industries involved in extraction of natural resources, forestry. This could also include farming and fishing.	Firms that manufacture and process products from the primary stage – examples are likely to include specific factory processes and construction.	Firms providing services to consumers and other businesses, such as retailing, transport, insurance, banking, hotels and tourism.	Firms providing information services, such as computing, web design, ICT (information and communication technologies), management consultancy and R&D (research and development, particularly in scientific fields).

### Worked example

Product: T-Shirt. Learners' answers might include:

Primary	Secondary	Tertiary	Quaternary
Cotton farming – gathering materials to make any fabric dye colours (such as plants).	Cotton is manufactured into a fabric.  Fabric is then manufactured into a T-shirt.	T-shirt is transported to a shop, where it is sold to a customer.	Research may be undertaken to find the most sustainable resources to use to make the T-shirt, or new ways of manufacturing them.

### > Differentiation ideas:

- Support: You may want to do an example with the class as a whole (use the worked example above) to show learners how to do the task before they complete a table by themselves for a different product/item.
- Challenge: Using Table 2.1 in the Coursebook as stimulus, learners should try to suggest reasons why there may be differences in employment in each sector of the economy in the three different countries.

> **Assessment ideas:** You can speak to each learner individually to assess their understanding throughout the task. Suggest that each learner should have three processes or tasks in each column of their table.

## 2 The private sector (40 minutes + additional time for presentations)

**Learning outcome:** Understand the role of the public sector in the learners' country

**Resources:** None

**Description and purpose:** This research should allow learners the opportunity to learn more about the public sector and public corporations in their own country to help them get a better understanding of the concepts. Learners should research the public sector within their own country and create a large poster displaying their findings. This task can be done in pairs or small groups. For this task, the learners should:

- Identify whether their country has a mainly free market, mixed or planned economy, providing reasons for their answer.
- What services are provided by the government for its citizens?
- What are the benefits and drawbacks of the government providing these services?
- Do private firms also offer the same services? Do citizens have a choice of what services they can use?

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**Answers:**

Learners' own answers are acceptable for this task, based on their research findings.

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> **Differentiation ideas:**

- **Support:** Learners may benefit from being presented with a list of suitable public sector organisations within your country as well as sources they could use to access accurate information.
- **Challenge:** In addition to exploring the public sector in their own country, learners should research the public sectors in other countries. They could add their findings to the poster.

> **Assessment ideas:** Peer assessment can be used for this task. Invite each pair/group to present their findings to the class. Following this, the class can provide the speakers with feedback on their presentations – one thing they really enjoyed about it and one thing they think could be improved.

## Plenary idea

### What am I? (5 minutes)

**Resources:** Images of different types of business activities/industries on large cards or projected on the whiteboard (e.g. farmer, scientist, shop)

**Description and purpose:** This task is a development of the main teaching idea (What industry is it?) to help consolidate learners' understanding of economic sectors. Show the learners a selection of different business activities/industries and ask them to identify which economic sector they are in. This should be done as a whole class activity where everyone is encouraged to join in. Try to make this a fast-paced activity and do not allow learners too long to think about their answers. This will help you assess how well they understand the concept.

> **Assessment ideas:** You can identify if there were any common errors made by learners in categorising the industries. Any learners who struggle to get involved in this activity could be indicating they need additional support.



## 2.2 Business ownership

LEARNING PLAN		
Syllabus learning objectives	Learning intentions	Success criteria
<p>1.2.2 Business ownership</p> <ul style="list-style-type: none"> <li>the main features of different types of business ownership: sole traders, partnerships, private limited companies, public limited companies, franchises, cooperatives, joint ventures and social enterprises</li> <li>the appropriateness of different types of business ownership</li> <li>the concepts of unlimited liability and limited liability and their importance</li> <li>the advantages and disadvantages of changing from one type of business ownership to another</li> </ul>	<ul style="list-style-type: none"> <li>Identify the different forms of legal structures of business and evaluate the most appropriate one for different businesses.</li> <li>Analyse the advantages and disadvantages of changing from one type of business ownership to another.</li> </ul>	<ul style="list-style-type: none"> <li>Classify businesses by the form of business ownership.</li> <li>Evaluate the most appropriate forms of business ownership in different situations.</li> <li>Evaluate the advantages and disadvantages of changing from one type of business ownership to another.</li> </ul>

### Starter idea

#### Business in context (10 minutes)

**Resources:** Coursebook Chapter 2: Business in context

**Description and purpose:** In pairs, learners should read the Business in context feature. Ask the learners to write down any words they are unsure of. Once they have done this, the learners should discuss the questions that follow the text and then share their answers with another pair. Do they agree with each other? Make sure the learners explain their answers fully to try to develop their speaking skills.

**What to do next:** Provide the learners with definitions of the words they have written down in this activity. This will support them with the rest of the topic.

### Main teaching ideas

#### 1 You be the expert (60 minutes + additional time for presentations)

**Learning outcome:** Classify businesses by the form of business ownership

**Resources:** None

**Description and purpose:** This task can be done individually, in pairs or in groups depending on class size. Split the class into eight groups and allocate each group one of the main types of business ownership (sole trader, partnership, private limited companies, public limited companies, franchises, cooperatives, joint ventures, social enterprises). Each group needs to become the experts for the business type they have been allocated. To do this, learners need to create a one-page factsheet on their given business ownership type, including a definition of any related key terms and the advantages and disadvantages of the type of ownership. They should then share their factsheets with the rest of the class, as well as supply a short five-minute presentation covering the main features of their allocated business ownership type. By becoming experts and creating a factsheet, learners should be able to break down the key information on each business structure in an easy-to-understand way. This will also support learners in developing their use of technical vocabulary and how they communicate using this vocabulary. Sharing the factsheets with the rest of the class will provide them with revision guides.

#### Answers:

Learners' own answers. See Coursebook for examples of key term definitions, and advantages and disadvantages for each of the types.

#### > Differentiation ideas:

- **Support:** In addition to the coursebook, learners could have access to other learning resources to give them a pool of information to choose from. There are some useful online resources and videos that learners could explore to learn more about their allocated form of business ownership to inform their work.
- **Challenge:** Instead of creating factsheets, learners could prepare a 15-minute micro-lesson on their allocated form of business ownership to deliver to the class, making sure to cover the main points from the coursebook.

> **Assessment ideas:** Award each presentation a mark out of five: 1 = not very well presented, some areas of knowledge are unclear; 3 = presentation conducted to an acceptable standard and key points are covered; 5 = extremely well presented and excellent coverage of topic demonstrated.

## 2 Harry goes it alone (45 minutes)

**Learning outcome:** Evaluate the most appropriate forms of business ownership in different situations

**Resources:** Coursebook Activity 2.3

**Description and purpose:** This activity will supply learners the opportunity to explore different types of business organisation and develop their skills when evaluating the suitability of their chosen method. It would be useful if learners understood what a franchise is before this activity. You may want to provide them with a definition of the term. Following this, you should work through the task below:

- **Task 1:** Ask the learners to answer questions a) and b) and ask them to share their answers with the class – the answers could be written up on the whiteboard. This is to find out what they know already. a) Why would a business entrepreneur want to use the name and products of another firm in a franchise agreement? b) What are the advantages and disadvantages of trading as a franchise?
- **Task 2:** Learners should read the section of Chapter 3 of the Coursebook related to franchises.
- **Task 3:** Using the case study in Activity 2.3, learners should create a table detailing three forms of business ownership that could be suitable for Harry (one must be franchise) and write down three advantages and three disadvantages of each type. This should then lead to a class discussion where learners can share their answers.
- **Task 4:** Learners can answer Questions 1–3 from Activity 2.3

#### Answers:

See Coursebook answers. For Task 3, suggested answers are shown in the table below. Any other reasonable answer should be accepted. Note that a co-operative and public limited company would not be suitable forms of business organisation for Harry's context, so would not be acceptable:

Primary	Advantages	Disadvantages
Sole trader	<ul style="list-style-type: none"> <li>• owner (Harry) would keep all of the profits</li> <li>• easy to set up</li> <li>• Harry can decide what food he wants to sell</li> </ul>	<ul style="list-style-type: none"> <li>• unlimited liability</li> <li>• intense competition from established food retailers</li> <li>• Harry may have to work long hours to establish his business</li> </ul>
Partnership	<ul style="list-style-type: none"> <li>• a partner may bring in more skills</li> <li>• losses are shared between partners</li> <li>• additional capital can be contributed by a partner</li> </ul>	<ul style="list-style-type: none"> <li>• unlimited liability</li> <li>• shared decision-making</li> <li>• shared profits</li> </ul>

Primary	Advantages	Disadvantages
Private limited company	<ul style="list-style-type: none"> <li>• limited liability</li> <li>• capital can be raised from the sale of shares</li> <li>• Harry can still retain control</li> </ul>	<ul style="list-style-type: none"> <li>• can be expensive to set up due to administration and legal fees</li> <li>• accounts are available for public inspection</li> <li>• difficult to sell shares</li> </ul>
Franchise	<ul style="list-style-type: none"> <li>• established name and product</li> <li>• less likely to fail than an unknown start-up</li> <li>• training may be offered – good for Harry as he has limited experience</li> </ul>	<ul style="list-style-type: none"> <li>• limited independence</li> <li>• little or no control over food being sold – could be a problem for a chef</li> <li>• initial licence fee can be high</li> </ul>

#### > Differentiation ideas:

- Support: If learners find it too challenging to answer the questions in Task 1 they may need to read the franchise section of the coursebook at the start of the lesson, so change the order of Task 1 and 2.
- Challenge: Learners can complete the reflection task that follows the activity in their coursebook and discuss their conclusions with a partner.

> **Assessment ideas:** You can walk around the class and discuss learners' understanding of the topic and their answers with each individual, using the suggested answers to support you with this. Additionally, the answers from Task 4 could be collected and marked to assess learners' written progress.

## Plenary idea

### 3 – 2 – 1 (10 minutes)

**Resources:** None

**Description and purpose:** To support learners in reviewing their learning, ask the learners to write down three things they learned from this lesson, two concepts they need to work on to fully understand, and one question they still have about the topic.

> **Assessment ideas:** You can take in the learners' answers and this will provide you with an indication of what they did and did not understand. You can make a list of their questions and provide the learners with the answers to these at the start of the next lesson.

## Language worksheet (downloadable)

### 2.1 Business structure

A Language worksheet to support learners with the terminology relating to business structure, as this can be challenging.

## PowerPoint presentation (downloadable)

### 2.1 Business ownership

A PowerPoint presentation that can be used to introduce the main features of the different types of business ownership or can be used as a revision tool.

We are working with Cambridge Assessment International Education towards endorsement of these titles.



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UNIVERSITY PRESS

# Business

## for Cambridge International AS & A Level

**WORKBOOK**

Peter Stimpson



**Second edition**

Digital Access

 **Cambridge Assessment**  
International Education

Endorsed for learner support



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› Unit 1

# Business and its environment

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## > Chapter 1

# Enterprise

### LEARNING INTENTIONS

In this chapter you will:

- analyse what is meant by business activity, opportunity cost and the economic problem
- analyse how businesses add value
- analyse why businesses succeed or fail
- apply the characteristics of successful entrepreneurs and intrapreneurs
- evaluate the role of entrepreneurs and intrapreneurs in businesses
- analyse the role of enterprise in a country's development
- evaluate the benefits and limitations of business plans.

### KEY TERMS

Added value   Adding value   Business plan   Capital goods   Consumer   Consumer goods   Consumer services  
Customer   Entrepreneur   Factors of production   Intrapreneur   Multinational business   Opportunity cost

## Key skills exercises

### Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- the nature of business activity
- important factors of production
- skills and personal qualities needed by successful entrepreneurs and intrapreneurs
- why businesses succeed or fail
- role of enterprise
- business plans.

- 1 Identify the **four** factors of production.
- 2 Explain how a good reputation for quality can help a business add value.
- 3 Define the term 'opportunity cost'.
- 4 What is meant by 'the business environment is dynamic'?
- 5 Identify **five** characteristics of a successful entrepreneur or intrapreneur.
- 6 Identify **three** reasons why a recently established business might fail.
- 7 Explain **one** difference between business risk and uncertainty.
- 8 Identify **three** ways in which a country benefits from the start-up of new businesses.
- 9 Identify **three** elements of a business plan.



- 10 Identify **three** benefits to an entrepreneur of preparing a business plan.
- 11 Identify **two** possible barriers to entrepreneurship.
- 12 Explain the difference between an entrepreneur and an intrapreneur.
- 13 Explain the difference between a national business and a multinational business.

## Application

### Sami's new business

Sami lives in a low-income country with few job opportunities. He is bored with his job in a petrol service station where he has worked since leaving school. He feels that he is being watched all the time by his manager. He plans to set up a business with a small sum of money given to him by a relative. He will make and decorate ceramic pots to sell to tourists. Sami started making pots in an art class at school and enjoyed it. He will use a simple pottery wheel and an electric kiln. He cannot work from home as pottery can be very dusty work. Clay and paint to decorate the pots will be bought from suppliers. He wants to use his skill to make pots for most of the working day. However, he knows that he will have to keep records of all of the transactions his business has with suppliers and customers. He thinks that he will have to employ someone to help him with selling the pots and administration of the business.

- 14 Explain **two** reasons why Sami decided to set up his own business.

### WORKED EXAMPLE FOR Q14

#### One reason

One reason is that Sami wants to be independent by owning his own business **[K]**. This is shown by the fact that 'he feels he is being watched all the time by his manager', which does not give him any independence at all **[Ap]**.

### TIP

Do not make up your reasons! Read the case study carefully and identify two reasons why Sami took this decision.

- 15 Explain **two** factors of production that Sami will need before he can start operating his business.
- 16 Explain **two** challenges that Sami will face in starting his business.
- 17 Explain how Sami will add value in his business.

## Analysis

- 18 Analyse **two** benefits to Sami's country of his decision to start up his own business.

### WORKED EXAMPLE FOR Q18

#### One benefit

Sami will employ at least one other worker **[K]**. He will need someone to help him sell pots and carry out administrative tasks such as looking after the paperwork **[Ap]**. This will help reduce unemployment in Sami's country **[An]**. This will lead to more people in jobs earning income to increase demand for products **[An+]**.

- 19 Analyse **two** reasons why Sami's business could fail.

## Evaluation

- 20 Do you think Sami's business will be successful? Justify your answer.
- 21 Evaluate the most important entrepreneurial characteristics that Sami will need to help make the business a success.

### TIP

For Q20, think of at least one reason why Sami's new business might be successful (e.g. it might be something to do with his own skills). Then consider what problems might arise that would impact on the success of Sami's business. Analyse how and why these factors would affect the success of Sami's business and come to an overall and justified conclusion.

## EXAM-STYLE QUESTIONS

### Short answer questions

- 1 Analyse **one** way in which a country might benefit from entrepreneurs opening new businesses. [5]
- 2 Analyse **one** reason why a business might fail. [5]

### Essay questions

- 1 a Analyse the role of intrapreneurship to the success of a business. [8]
- b 'Any hard-working person can become a successful entrepreneur.' Evaluate whether you agree with this statement. [12]

### Data response questions

#### Sadiq Boat Repairs (SBR)

Sadiq set up SBR three years ago. He prepared a detailed business plan. He found several investors and banks prepared to offer him finance. The business repairs boats and boat engines. Sadiq located his business in a small workshop next to a large harbour. There are many small boats in the harbour.

Sadiq is a skilled mechanic and a keen boat owner. He used to work for a large car manufacturer but found the work repetitive. He works long hours as he does not employ any workers. He likes dealing with customers directly. He does all of the paperwork for the business.

Sadiq belongs to a sailing club and is friends with many of the members. He buys in boat and engine repair parts for his customers. His final price for each job includes the cost of these parts and the time he has spent on the job. He thinks he might be able to add further value by selling new boat engines to customers whose engines cannot be repaired. He has been offered some low-cost spare parts for engines, which would also help to increase added value.

- a i Identify **one** type of business capital. [1]
- ii Explain the term 'add value'. [3]
- b Explain **two** factors, other than Sadiq's own personal qualities, that have led to the success of SBR. [6]
- c Analyse **two** ways in which Sadiq's business could increase added value. [8]
- d Evaluate Sadiq's role in the success of his business. [12]

## CONTINUED

### Improve this answer

This is a sample answer to data response Qb.

Location is important for any business [K]. If the site is too expensive, it can mean that costs are too high and no profit is made [Ap]. Sadiq must have chosen a cheap location. All new businesses need customers and the quicker customers are gained, the more successful the business is likely to become [K]. Sadiq's customers will pay money to the business and this can then be used to pay the costs of the business and pay back any loans that were needed to set it up [Ap].

### Your challenge

See whether you can improve this answer. It clearly identifies two factors. Both of these are briefly explained in terms of how they contributed to the success of a business. However, it seems to lack detailed application. Just by referring to 'Sadiq' does not make the answer applied. A better answer is available online – but write yours out first!

## > Chapter 2

# Business structure

### LEARNING INTENTIONS

In this chapter you will:

- classify industries into levels of economic activity – primary, secondary, tertiary and quaternary – and analyse changes in their relative importance
- analyse the differences between the private sector and public sector in your country
- identify the different forms of legal structures of business and evaluate the most appropriate one for different businesses
- analyse the advantages and disadvantages of changing from one type of business ownership to another.

### KEY TERMS

Articles of Association   Command economy   Cooperative   Franchise   Free-market economy   Joint venture  
Limited liability   Memorandum of Association   Mixed economy   Public corporation   Partnership  
Primary sector business activity   Public sector   Public limited company   Private limited company   Private sector  
Quaternary sector business activity   Secondary sector business activity   Share   Shareholder   Social enterprise  
Sole trader   Tertiary sector business activity

## Key skills exercises

### Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- different levels of economic activity
  - the different sectors of an economy
  - the main forms of business ownership.
- 1 Identify **three** industries in the primary sector.
  - 2 Identify **three** industries in the secondary sector.
  - 3 Explain **one** difference between the tertiary sector and the quaternary sector.
  - 4 Identify **three** types of economic activity that are usually undertaken by the public sector.
  - 5 Are public limited companies in the private sector or the public sector?
  - 6 Explain the term ‘limited liability’.
  - 7 If a small sole-trader business expands by employing one worker, why is it not now a partnership?
  - 8 Identify **two** benefits that a partnership has over a sole-trader business.
  - 9 Identify **two** benefits that a public limited company has over a private limited company.
  - 10 Give **one** advantage and **one** disadvantage to an entrepreneur of setting up a franchise business.



- 11 Identify **two** objectives of most social enterprises.
- 12 Identify **two** examples of cooperatives operating in your country.
- 13 Outline **two** common differences between cooperative organisations and other forms of business ownership.

## Application

	Primary	Secondary	Tertiary	Quaternary
Country A	30 (45)	32 (20)	30 (28)	8 (7)
Country B	3 (4)	15 (25)	65 (57)	17 (14)

**Table 2.1:** Business sectors in Country A and Country B (% of output) in current year (and five years ago)

- 14 Explain **two** possible causes of the changes in the relative importance of the business sectors in Country A, as shown in Table 2.1. Country A is a low-income country experiencing rapid economic growth.
- 15 Explain **two** possible consequences of the changes in the relative importance of the business sectors in Country B, shown in Table 2.1. Country B is a high-income country.

### Gill's dresses: 1

Gill is a skilled dressmaker. She makes dresses to her own designs. She used to sell her dresses to clothes shops but she recently decided to sell them only at city centre markets. Selling at these markets takes up a lot of Gill's time. Currently, she works at home but needs additional space for the inventories of materials she has. She also plans to employ a worker who will help her cut material and sell finished dresses at the markets. Gill's old sewing machine keeps breaking down and she needs to replace it. She is worried that her savings might not be enough to pay for a new one.

### TIP

Read your answer for Q16 carefully. Does it make clear references to Gill and/or her business?

- 16 What evidence above suggests that Gill is a sole trader?
- 17 Explain **two** benefits to Gill of taking on a business partner.

## WORKED EXAMPLE FOR Q17

### One benefit

Gill is planning to expand her business by buying/renting additional storage space for materials [Ap]. This will need finance [K] and Gill may not have enough savings, so a partner will bring finance into the business [Ap].

- 18 Is Gill's business in the private sector or public sector? Explain your answer.
- 19 In which level of economic activity would you classify Gill's dressmaking business? Explain your answer.

## Analysis

### Gill's dresses: 2

Gill decides to form a partnership with her friend Maria, who is keen to make dresses but is not very skilled. She has told Gill that she will put a substantial amount of capital into the business and that she knows a lot about fashion.

A specialist clothing retailer has suggested a joint venture proposal to the partners. The owner plans to open a small fashion shop in the city and has asked Gill and Maria to supply dresses. The retailer would manage the sale of the dresses.

- 20 Analyse **one** disadvantage to Gill of taking on a partner.
- 21 Analyse **one** benefit and **one** drawback to Gill and Maria of converting the business into a private limited company.

### WORKED EXAMPLE FOR Q21

#### One benefit

The benefit would be that both Gill and Maria will have limited liability **[K]**. Maria plans to put a substantial amount of capital into the business **[Ap]**. Gill and Maria would benefit from only risking the capital they invested in the business **[An]**. This would protect their other assets from being liquidated if the business fails **[An]** and could encourage them to invest more into the business, leading to further expansion **[An+]**.

#### TIP

Your answer to Q21 should provide the basis of your answer to Q22. Include at least one paragraph in Q22 explaining your decision as to whether they should form a private limited company.

## Evaluation

- 22 Do you think that Gill and Maria should form a private limited company? Justify your answer.
- 23 Advise Gill and Maria whether or not to form a joint venture with the retailer. Justify your answer.

## EXAM-STYLE QUESTIONS

### Short answer questions

- 1 Explain the difference between primary sector business activity and tertiary sector business activity. **[3]**
- 2 Analyse **one** benefit to an entrepreneur of starting a franchised business. **[5]**

### Essay questions

- 1
  - a Analyse **two** benefits to a sole trader of forming a partnership. **[8]**
  - b 'The owners of all private limited companies should consider converting their businesses into public limited companies.' Evaluate this view. **[12]**

#### TIP

For short answer Q1, start with a definition of each type of business activity and then contrast the difference between them.

## CONTINUED

### TIP

Notice that there are more marks available for essay questions than for short answer questions, so you should expect to write more for essay questions. Write in clear paragraphs. For Q1b, the final paragraphs should explain and justify why owners of a private limited company might or might not consider converting the business to a public limited company.

## Data response questions

### Cassy's jewellery

Cassy makes wedding rings, and other items of jewellery, for women and men. Sajiv is her business partner. Their business is in the private sector. They sell jewellery through the business's website. The sold items are posted to customers. Sajiv is responsible for accounts, arranging finance from the bank and buying material supplies. The partners employ two skilled jewellery makers. Sajiv has invested more capital in the business than Cassy. He is thinking of the benefits of limited liability if their partnership is converted into a private limited company.

Both Cassy and Sajiv want new challenges. They could expand their business, called C and S Gems, by employing more workers and renting a large workshop. However, last week they were asked by a large company, MGC, which makes expensive jewellery, if they wanted to buy a franchise from MGC. The franchise licence would give Cassy and Sajiv the legal right to copy MGC's many well-known jewellery designs. These would then be sold through an MGC branded shop. The cost of the franchise licence is high and C and S Gems would have to be sold to finance this. 'This franchise would give us less risk and a well-known brand name,' said Sajiv.

- |   |    |   |      |
|---|----|---|------|
| a | i  | Identify <b>one</b> feature of the private sector.  | [1]  |
|   | ii | Explain the term 'limited liability'.   | [3]  |
| b |    | Explain <b>two</b> ways in which tertiary sector businesses could help Cassy's business.  | [6]  |
| c |    | Analyse <b>two</b> problems that Cassy and Sajiv might experience from changing the business from a partnership to a private limited company. | [8]  |
| d |    | Evaluate whether Cassy and Sajiv should sell their business and buy the MGC franchise.  | [12] |

### Improve this answer

This is a sample answer to data response Qd.

A franchise means buying a licence to trade under the name of another business [K]. If this business is well known with a good brand name, it can reduce operating risks [An].

MGC is a large company and appears to have a good brand name [Ap]. This means Cassy and Sajiv would not have to spend much on advertising as customers will already know about MGC jewellery designs [An]. Lower advertising and promotion costs, because of the well-known brand name, will help to make the franchised business more profitable [An+]. Risks will be reduced as MGC will have much experience in operating retail stores and will be able to pass this on to Cassy and Sajiv [An]. They are both ambitious and want new challenges [Ap]. Setting up a new shop and making well-known jewellery designs will give them these challenges [An]. The franchise is likely to be very profitable and they will get a good return on their capital.

### Your challenge

See whether you can improve this answer. It makes some relevant points and the consequences of these are explained in some detail, which is the skill of analysis. Some of these points are also applied to the data response question. However, it seems to lack the important skill of evaluation, although the final sentence could be used in a conclusion. The learner does not give an overall conclusion supported by the analysis shown. A better answer is available online – but write yours out first!