

### 1.4.1. The Options For Start Up & Small Business

#### The Concept of Liability

##### Unlimited Liability

Unlimited liability is where business debts are the responsibility of the business owner. If the owner can not pay the debts then they could have their personal assets seized (car, house).

##### Implications Of Unlimited Liability

- ☐ Unlimited liability applies to sole traders and partnerships
- ☐ Sole traders are business owners that consist of one person
- ☐ Partnerships can have up to 20 partners

##### Limited Liability

Limited liability is where you can not lose any more than you have invested into the business. No personal assets can be seized.

##### Implications Of Limited Liability

- ☐ People who own shares in a business can only lose their original investment
- ☐ Business owners can not have personal assets seized.



## 1.4 Making The Business Effective

### The Types Of Business Ownership For Start-ups

Start up business normally start up under one of three types, they are:

- ☐ **Sole Trader-** Businesses which are owned by one person, they may have employees however the employees do not own the business. They have **unlimited liability** and must pay tax on all of their profits examples include:
  - ☐ Small shops
  - ☐ Plumbers, electricians, cleaners
  - ☐ Gardeners
- ☐ **Partnership-** Between 2 – 20 partners who own a business. All partners are joint owners of the business. Like a sole trader they have **unlimited liability**. Profits are shared amongst the partners to which they have put into the business. E.g. one partner who put in 50% will receive 50% of the profits compared to someone who owns 20% who will receive 20% of the profits. Examples of partnerships:
  - ☐ Doctors
  - ☐ Dentists
  - ☐ Solicitors
- ☐ **Private Limited Company (Ltd.)-** This is a company made up of friends and family who buy shares in a business. Shares can not be bought by the public. Owners control who can buy shares. Money can be raised (capital) by selling more shares. Private limited companies have **limited liability** meaning only money invested will be lost.

### The Option Of Starting Up And Running A Franchise Operation

Franchising arises when a franchisor grants a licence (franchise) to another business (franchisee) to allow it trade using the brand / format. Think of it as selling a business idea. This allows a franchisee to buy a business which is already successful and is known to customers.

#### How Franchises Work

The *franchisor* (established business) offers their business for sale to a *franchisee*. This gives the franchisee the rights to sell their products and services under the same name.

There is usually a set up fee which can be costly as well as a percentage of turnover will be paid yearly to the franchisor.

#### How a Franchise can use the marketing mix

**Promotion** - The Franchisor can advertise nationally, a franchise can benefit from this  
**Price** – If it is a known brand then the franchisee can charge more for the products offered.  
**Place** – The Franchisor can help set up the new business in a good location and can help with research and architects making setting up easier.  
**Product** – the product will be already well known because of all the national advertising



### **Advantages of Franchising**

- ☐ Advertising on national level
- ☐ You're buying a well known brand
- ☐ Market research conducted at head office
- ☐ Less competition as the other stores are in different locations
- ☐ Brand already has a reputation
- ☐ Training and staff development provided

### **Disadvantages of Franchising**

- ☐ Less control of the business as most decisions made by head office e.g. what promotions to run
- ☐ You must pay royalties to the franchisor
- ☐ Can be expensive to set up

### **Key Term Summary**

**Franchisor-** A business that offers its trading name for sale. Including its products and services e.g. Dominos. A franchisor will provide:

- ☐ Training
- ☐ Equipment such as machinery or shop fittings
- ☐ Materials for products
- ☐ Trading name

**Franchisee-** This is the person who buys a franchise and can trade using the brand name.

**Royalty-** Payment made to the franchisor from the turnover of the franchise



## **1.4 Making The Business Effective**

### **1.4.2 Business Location**

There are numerous factors which can affect the location of a business. These include the proximity to:

- ☐ **Market-** people need to be close in proximity to their customers (convenience). The location will depend on what type of business it is. An online retailer wouldn't have to be close to his market for example.
- ☐ **Labour-** The business should be located where there is a supply of labour and skills easily available.
- ☐ **Materials-** Business will need to think of its proximity to its materials. The closer to the materials the more convenient as well as the lower the cost of production
- ☐ **Competitors-** Businesses may locate in a known area for a certain product e.g. Hatton Garden in London is known for jewellery.

### **Nature of Business Activity**

The nature of the business activity may also affect the location of the business.

For example a retail business would need to be closer to where the shoppers are. Therefore they would need parking for their customers to make it convenient.

A service e.g. hairdresser would need to be in the same area as its customers. But not necessarily need to have a premises.

A manufacturing business would need to be close to transport links to be able to supply their goods. They would also need to be in an area where labour is available as well as the right skills



### **Impact Of The Internet On Location Decisions**

Internet has had a major impact on the location of the business. It allows for businesses to operate online and be open to a whole new market.

New businesses can also start up easily as the set up costs are much lower than having a physical presence.

Businesses can now have a premises or alternatively operate completely online. The benefits of e-commerce are that businesses costs are significantly reduced and products can be sent out to the customers.

Businesses could operate online and have a premises which means they have both an online and physical presence. They would however incorporate more costs as they need to pay for their building as well as its bills on top of the online costs.









#### 1.4.4. Business Plans Continued...

##### Identifying Sources Of Finance

A business plan will identify where they plan to obtain finances from. This can be venture capitalists, investors or family members.

Potential lenders will want to see how the business intends to grow to see if they can make a return on their investment (profit).

If more financial information has been provided it is more likely that possible investors will invest. As there is a clearer picture. A business plan will also be used to possibly obtain finances from lenders such as a bank.



##### Identifying The Location

The business plan should outline where the business will operate from, this could be a retail shop, factory, office or even a home address.

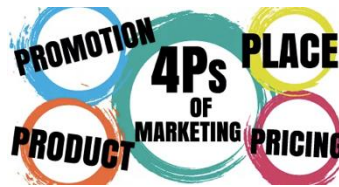


### 1.4 Making The Business Effective

##### Identifying The Marketing Mix

The business plan must also include details of how the business plans to do the following:

- ☐ **Price**- How they will plan to price their products and services. They may include competitor prices here
- ☐ **Product**- The products and services that will be offered by the business
- ☐ **Promotion**- How the business plans to promote the products and service
- ☐ **Place**- how the business will operate and where from



##### The Purpose Of Planning Business Activity

- ☐ A business plan can help to reduce the risk of failure for a start up business
- ☐ If the owner has to write future plans and finances of the business – they will be more likely to spot a potential problem e.g. a business owner may prepare a cash flow forecast and find they need finance in certain months
- ☐ A well planned business plan will also reduce the risk of business failure. Information such as forecasts will help with this



##### Identifying Resources

A good business plan will also identify the resources needed in order to run effectively. E.g. a café would need a chef, ovens, tables, chairs, fridges etc. in order to run effectively.

##### Some Resources Are:

- ☐ **Human resources**; the staff needed for a clothes shop
- ☐ **Equipment**; For example scissors and a sewing machine
- ☐ **Raw Materials**; for example cloth
- ☐ **Technology**; such as a till
- ☐ **Vehicles**; the company van used for deliveries

##### Importance Of A Business Plan to Obtain Finance

If an entrepreneur is trying to obtain finance from a bank they would want to know how they intend to pay back the loan. The bank manager in this case may review the business plan and scrutinise the forecasts to ensure that the business will be a success and that they will have enough finances to pay back the initial loan



## Revision Questions

*These questions are based around the previous slides. Test your knowledge to see if you can answer them!*

1. What is meant by unlimited liability? [1]
2. What are some of the implications of having unlimited liability?[3]
3. What is meant by limited liability? [1]
4. What are some of the implications of having limited liability?[3]
5. State the characteristics of the following types of business start ups:
  - ☐ Sole Trader [3]
  - ☐ Partnership [3]
  - ☐ Limited Company [3]
6. What are some factors which can influence a business' location?[4]
7. What are some of the impacts that e-commerce has had on the location of a business?[4]
8. What are some of the strategies that could be employed in a competitive environment [3]
9. What is the marketing mix? How would a business use this? [4]
10. How has the marketing mix been affected by the introduction of e-commerce / digital marketing? [8]
11. What is the purpose of a business plan? [1]
12. What items would you expect to find in a business plan? [4]
13. How would a business plan be used to apply for a bank loan? [4]
14. What factors of a business plan could be used to attract possible investors? [3]

## 1.4 Making The Business Effective

15. Which of the following describes a franchise?[1]
  - ☐ An individual setting up their own business
  - ☐ An individual trading under an existing brand name
  - ☐ 3 people setting up a business together
16. Which of the following is a characteristic of a Private Limited Company?[1]
  - ☐ The ability to sell shares on the stock market
  - ☐ Unlimited liability
  - ☐ Shares can not be bought by the public
17. What is the maximum amount of people that can be in a partnership business [1]
  - ☐ 2
  - ☐ 10
  - ☐ 20
18. Which of the following is a characteristic of a Sole Trader?[1]
  - ☐ Limited liability
  - ☐ Unlimited liability
  - ☐ Shares can not be bought by the public
19. Which of the following is a resource [1]
  - ☐ Raw Materials
  - ☐ Sales
  - ☐ Revenue
20. Which of the following is NOT a raw material [1]
  - ☐ Human Resources
  - ☐ Profit
  - ☐ Equipment
  - ☐ Technology



## Tips

For an essay style question use the following tips to ensure that you are maximizing your marks:

- ☐ Read through the question underlining any key points
- ☐ For these types of questions an extended answer is expected.
- ☐ Discuss both the advantages and disadvantages of the given context
- ☐ When discussing a point ensure that you contextualise your answer. This means give examples which relate to the scenario
- ☐ Remember to give a well reasoned conclusion

Liam is ready to open up his own business selling sports footwear, he's currently thinking of setting up as a sole trader or operating under a franchise. Evaluate whether its better for Liam to set up as a sole trader or operate under a franchise [12]

