1. Know the range of different businesses and their ownership

1.1 Range of different businesses

There are many different types of business that you come across as a customer or employee or that you hear about in news stories. It is helpful to develop a picture of the **range of businesses**.

Key term

Range of businesses – the variety of different types of business. Three useful ways of classifying business are: according to where they operate; what the businesses are trying to achieve; and the sector of business activity they are involved in

Local, national, international and global businesses

A new business that sets up in your town is a local business. However, one day it may set up outlets in other parts of Britain so that it becomes a national business. Soon after, it might start to sell its products overseas – becoming an international business. Finally, it may produce goods and develop selling outlets across the globe – by which time it will be a global business. Toni & Guy is an example of a business that has expanded very quickly.

Marks & Spencer and the Body Shop are good examples of British organisations that started off as small local businesses. Both then went on to become national, international and global businesses. However, both have also faced difficulties – particularly in developing an international presence. In 2006 the Body Shop was taken over by a larger global business, the cosmetics giant L'Oréal.

Public and private businesses

Public sector businesses are those that have been set up or taken over by the government. Private businesses are owned by private citizens. In many countries, the majority of businesses are owned by private individuals. Public sector businesses are less likely to take risks, because they operate for the benefit of the wider public rather than just to make a profit. Large private sector businesses, like the mobile phone company Vodafone, are owned by shareholders. Anyone can buy shares in Vodafone.

Case study: Hair Fashion

The Hair Fashion chain was originally a simple local family business. Now it has almost 500 salons spread across the globe, many of which are on a franchise basis. In addition to this, the chain sells a range of hair care and styling products worth hundreds of millions of pounds each year. The latest part of the strategy has been the setting up of a website to market these products.

The business started with the father, Luigi, who emigrated from Italy to England in the 1960s. He taught his two sons the hairdressing trade. They set up their own salon in London, and created the world's best-known brand in hairdressing. The daughter, Maria, set up a Hair Fashion salon in the United States in the 1990s. The chain is now owned by the brothers and their sister.

1. At what point did Hair Fashion become an international business?
2. What benefits do you think that businesses like Hair Fashion gain from becoming national rather than local businesses?
3. What difficulties might arise from becoming an international business?
4. How might the website help the business to succeed globally?

Many people believe that businesses are run better when they are privately owned. Private owners risk their own money, so are determined for their business to succeed. However, they may take too many risks or be too greedy, as with the financial crisis in 2008–09 when many banks got into difficulty because they had lent too much in order to try to make higher profits.

In the UK there are very few public businesses left. Most businesses have been **privatised**.

Key term

Privatised – when the ownership of a business has been transferred from the government to private owners

Examples of public sector businesses include:

- Her Majesty's Customs and Revenue – the UK's tax-collecting body.
- National Archives – the body responsible for looking after government records and records from the courts of law.

Examples of private businesses include Virgin, Innocent, Tesco and lastminute.com.

In some countries, the public sector continues to play a major part in the economy. For example, the biggest employer in India is Indian Railways, and millions of people work for the government in departments such as the Public Works Department (PWD), maintaining roads, looking after government buildings and doing other important work.

Activity: Football teams

What do you think would be the advantages and disadvantages of top football teams, such as Arsenal men's or women's football teams, being owned by the government rather than by private shareholders? Discuss this with another learner.

Not-for-profit/voluntary businessess

Not all businesses are set up to make a profit. Many organisations are set up for quite different purposes. For example, the international charity Médecins sans Frontières provides doctors and nurses across the globe to areas where there are wars, famines and other situations in which people are suffering. The organisation runs on business lines (for example, seeking to use the money it receives in donations as efficiently as possible) and has many paid workers, but it does not seek to make a profit, just to cover the cost of running.

A voluntary organisation is also a not-for-profit organisation. It is set up, organised, staffed and run by people who are working purely on a voluntary basis, usually for a good cause. Examples of voluntary organisations are the Women's Royal Voluntary Service (WRVS) and Voluntary Service Overseas (VSO).

Case study: Voluntary Service Overseas

Voluntary Service Overseas (VSO) is an example of a not-for-profit global organisation. It is UK-based and seeks to match volunteers with projects in areas of the world that need help. For example, a volunteer might teach English to children in an African country, or teach them how to use computers. Many volunteers are young people, but volunteers include older people with specialist skills who can make a real difference to the lives of people in need.

1. **Why do you think that voluntary organisations work on a not-for-profit basis?**
2. **To what extent would you say that it is important for voluntary organisations to be businesslike?**
3. **What sorts of people are most likely to work for voluntary organisations and why?**
4. **Visit the VSO website at www.vso.org.uk and set out four examples of ways in which VSO can be said to operate in a businesslike way.**

Did you know?

To become a charity in the UK, an organisation has to meet tight requirements set out by law. It must register with the Charity Commission and present a set of accounts each year. Charities have to be set up for a specific purpose, such as to provide educational benefits or humanitarian aid.

Primary, secondary and tertiary sectors

Most of you will have tasted fresh orange juice drinks which appear as branded drinks under names such as Tropicana or innocent. The production of fresh orange drinks in plastic bottles and cartons provides a good example of the three sectors of business activity.

The **primary sector** stage is concerned with extracting the primary products of nature. Oranges are grown on trees by orange farmers. Oranges typically grow in a Mediterranean-type climate in countries like Spain, Morocco or Israel. When the oranges are ripe they are transported to market.

The second stage of producing a fresh orange drink is to remove the skin and pips, and to squeeze the oranges. Bottling, packing and labelling the finished fresh orange drinks is part of this process in the **secondary sector**.

Bringing the finished product to your local supermarket involves the **tertiary sector**. Tertiary activities involve providing services – both to businesses and to consumers. Examples of services involved in providing fresh orange drinks include:

- transporting the oranges and the finished drinks
- selling the fresh orange juice in a shop or supermarket
- advertising the fresh orange juice
- providing insurance services to the transport, **manufacturing** and **retailing** companies.

Activity: Classification

Classify the following lists into primary, secondary and tertiary sector businesses:

- a mining company
- a newspaper
- an advertising agency
- a newspaper delivery business
- a canning factory
- a forestry business
- an oyster-gathering business
- a furniture manufacturer
- a building company
- a second-hand furniture shop.

Key terms

Primary sector – extracting raw products from nature

Secondary sector – transforming those raw products into finished or part-finished goods

Tertiary sector – providing services to individuals and businesses

Manufacturing – making things (in the secondary sector)

Retailing – selling things in small quantities (shops in the tertiary sector)

1.2 Business purposes

Supply of products or services

Business activity typically involves one person or organisation providing a product or service that they supply to someone else. Usually this involves payment. Think of the things that you might have needed or wanted this week. Business activity helps you to meet these requirements and various businesses have been set up to do this, as Table 1.1 shows.

Table 1.1: Examples of products or services supplied.

Product or service	Want or need that it satisfies	Business
Internet music download	For entertainment	Online music store
Sandwich	Because you were hungry	Bakery or supermarket
Tooth filling	Because a filling had come out and was causing pain	Dentist
Haircut	Because you wanted to look more attractive	Hair salon

The growth of expensive hair salons in Britain provide a good illustration of the way in which private businesses have responded to the increased demand for such services from customers. People in Britain spend more money on their hair than anywhere else in Europe, and many are prepared to pay £100 or more to have their hair cut in an expensive salon. Another type of business that has responded to growing customer demand is coffee shop chains like Costa Coffee and Starbucks.

Costa Coffee is a business that has expanded nationally and internationally in response to growing customer demand.

A physical product is an item that you can touch and see, like a loaf of bread or a jar of coffee. A service is something that provides satisfaction to the buyer because it is helpful to them, but does not consist of a physical item. Good examples of services are insurance and banking.

A visit to a coffee shop will provide you with both a physical product and a service. The physical product is the cake that you eat or the coffee that you drink, and the service includes being waited on and having your drink poured for you.

Profit and not-for-profit organisations

Many businesses are set up to make a profit. To make a profit, a business needs to make sure that the money it receives from sales activities more than cover all of its **running costs**. The business needs to provide goods that customers are willing to buy at prices that are higher than the costs of supplying those goods. Everywhere you look, you will find businesses seeking to make profits, ranging from huge international oil companies like British Petroleum (BP) to big supermarkets like Tesco. While BP has generated record profits for a UK-based business in recent years, its profits fluctuate considerably. While Tesco is responsible for £1 in every £7 of retail sales in the UK, it only makes seven pence profit for every pound's worth of goods that it sells. Even these giant businesses suffer in periods of recession such as the downturn in business activity in 2008–09.

Key term

Running costs – day-to-day costs incurred in operating a firm or facility

Case study: Poundland

Poundland is a good example of a profit organisation that boomed during the recession in 2009 – reporting a doubling of its profits to £400 million. Poundland, based in the West Midlands was established in April 1990, opening its first store in Burton-on-Trent by two businessmen, Steve Smith and Dave Dodd. The company was taken over by a company (Advent International) that bought up the shares in Poundland.

Since then Poundland has grown from strength to strength and is now Europe's biggest single price discount retailer with 254 stores nationwide, which includes eight stores in Northern Ireland.

Poundland is an irresistible shopping experience where shoppers are guaranteed to find quality brands and something new each time they visit. Customers are spread across all age groups, but recently it has seen an increase in professional and managerial classes to 22 per cent.

The secret of Poundland's success is the quality of the products it offers, as well as the £1 price point. Poundland offers 3000 everyday product lines across 16 categories, including food and drink, health and beauty, household, baby, pets, party and DIY. It also offers 1,000 top brands, including Cadbury, Pampers, Colgate, Walkers and Kodak.

Poundland is able to buy in bulk from suppliers because it has over 2.5 million customers every day and has excellent relationships with its supplier base. Stock falls into three main categories: main lines bought direct from manufacturers, seasonal ranges and clearance stock. 65 per cent of Poundland's products are bought from British suppliers.

1. **Why do you think that 2.5 million customers shop at Poundland every day?**
2. **How is Poundland able to make a profit despite selling items at only £1 each?**
3. **Is Poundland a local, national, international or global business? Justify your choice.**
4. **To what extent would the recession of 2008–09 have affected Poundland's profits?**

PLTS

This case study encourages you to reflect on what you have learned so far about private sector businesses. Think about how you introduce concepts like demand, profit, risk and size of business into your answers.

To show how a business makes a profit, we can take the example of a bookshop selling a dictionary for £20. It may have paid the book supplier only £12 for the dictionary. However, the difference between the £20 selling price and the £12 buying price is not profit. The bookshop also has to deduct from the money that it receives part of the cost of running the shop (electricity, rates, and so on) and the wages of staff. These costs need to be spread across all of the books that the bookshop sells. If the bookshop has worked out that these costs come to £6 for each book sold, then the profit from the dictionary will only be £2.

Businesses do not always seek to sell their products for a profit. Sometimes they do so 'at cost'. Supplying at cost occurs when the money received from selling a product is equal to the cost of supplying that product and may be done for a variety of reasons. For example, the England Netball Association may offer schools low-cost seats at an England netball fixture to increase interest in the sport.

Another good example of a not-for-profit organisation is Oxfam. Oxfam raises money for famine relief. However, it is not just a charity, it is also a highly professional organisation. Oxfam shops sell second-hand items on high streets and other retail locations. As a charity, Oxfam receives an 80 per cent business rates reduction. This makes it very competitive and because of the high quality of its service and its low cost of operation, it has

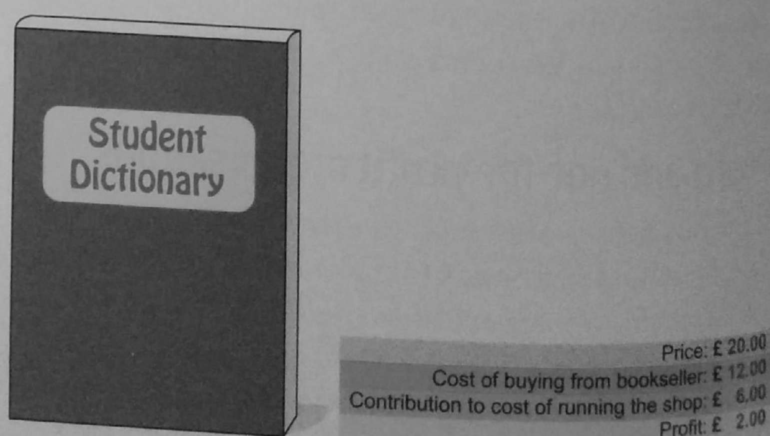

Fig. 1.1: How a business makes a profit.

recently driven a number of independent second-hand book sellers out of business.

1.3 Ownership

Public, private and voluntary sectors

In the public sector, businesses are owned by the government or by agencies appointed by the government to provide a service. In the private sector, businesses are owned by individuals. An individual owner is typically a single owner or a group of partners, or the owners will be shareholders. In the voluntary sector, organisations typically have groups of trustees responsible for overseeing the work of the organisation.

Table 1.2: Owners and objectives of businesses.

Sector	Owners	Objectives
Private	Owned by individuals or shareholders	Profit is often the major driving force
Public	Owned by government	Has wider objectives than profit – often has wider social service aims
Voluntary	Supervised by trustees	Usually set up to provide a service to the wider community

Types of ownership

Owners are the people to whom a business belongs. For example, Fred's corner store may be owned by Fred on his own – he is a sole trader. In contrast, the solicitors Makepeace, Patel and Amin would be a partnership.

Sole trader and partnership businesses are not only owned by the owners, they are also controlled by them. Control refers to decision making. Fred makes his own decisions about what he sells, whom he employs and when he opens and shuts his shop.

In companies, however, there is a distinction between the ownership and the control of the business. Companies are owned by shareholders but it is often directors or managers who make decisions and hence control the business.

Shareholders are people who put capital (money) into a business. They receive a reward for the risk they take in the form of a return called a dividend, which is paid out from company profits.

Sole traders

A sole trader business is owned and controlled by one person. It is the most common type of business and is found in a wide range of activities (for example, window cleaning, plumbing, electrical work). No complicated work is required to set up a sole trader business. Decisions can be made quickly and close contact can be kept with customers and employees, and all profits go to the sole trader.

But there are disadvantages. As a sole trader you have to make all the decisions yourself, and you may have to work long hours. (Then what happens if you are ill or want a holiday?) Another disadvantage is that you do not have the legal protection of limited liability. This means that should the business run up debts, these become the responsibility of the business owner and may be unlimited. The sole trader typically provides much of their own finance, although they may also borrow from a bank or friends. As a sole trader you need to be a jack-of-all-trades, to cover all aspects of the business.

Partnerships

A partnership is usually formed by signing a Deed of Partnership (which sets out how profits will be shared and the different responsibilities and payments to partners) with the paperwork being supervised by a solicitor. Partnerships are typically found in professional work, for example, a medical or dental practice, or a group of accountants or solicitors. People in business partnerships can share knowledge, skills and workload, and it may be easier to raise the capital needed. When one of the partners is ill or goes on holiday, the business can cope.

The main disadvantages of partnerships are that:

- people can fall out ('she doesn't work as hard as me!')
- ordinary partnerships do not have limited liability
- partnerships can rarely borrow or raise large amounts of capital
- business decisions may be more difficult (and slower) to make because of the need to consult all the partners
- there may be disagreements about how things should be done
- profits have to be shared.

A 'limited liability partnership' was created in Britain in 2003. This exists in businesses like accounting and the law, where there are hundreds of partners. This is to protect individual partners, should another partner's actions cause the partnership trouble.

Public and private limited companies

A limited company has to be registered before it can start to operate. The owners of the limited company are its shareholders. They elect directors to represent their interests. A managing director is the senior director on the Board. The Board consists of executive directors who make the major policy decisions about the business, and some non-executive directors. These provide specialist advice and offer links with other businesses.

Shareholders put funds into a limited company by buying shares. They are able to have a say about the way the limited company is run when they attend an Annual General Meeting (AGM) each year. At this AGM, highlights of the Annual Report will be presented to shareholders as well as the annual accounts. At this meeting the shareholders are able to question company policy, vote out the directors and take actions such as refusing to approve pay rises to directors.

There are two main types of limited company.

- **Private limited companies** tend to be smaller than public ones (below) and are often family businesses. There must be at least two shareholders but there is no maximum number. Shares in private limited companies cannot be traded on the stock exchange, and often shares can only be bought with the permission of the Board of Directors. Private limited companies may find it possible to raise more cash (by selling shares) than unlimited-liability businesses. The shareholders can also have the protection of limited liability.
- **Public limited companies** have their shares bought and sold on the stock exchange. The main advantage of these are that large amounts of capital can be raised very quickly. One disadvantage is that control of a business can be lost by the original shareholders if large quantities of shares are purchased as part of a 'takeover bid'. It is also costly to have shares quoted on the stock exchange.

Government departments and agencies

A government department like the Department for Customs and Revenue operates on behalf of the government and is staffed by civil servants, known in this department as customs and revenue officers. Their job is to collect income tax and other taxes on behalf of the government, to collect repayments on student loans and to make payments known as tax credits. Rather than seeking to make a profit, they will want to collect taxes efficiently and make sure that taxpayers get a fair deal.

Government agencies are more independent than government departments. The government sets these up to take responsibility for a particular activity. For example, the Child Protection Agency is a government-funded body responsible for looking after the rights of children. Although it is funded by government and accountable to government, it has considerable freedom to manage its own affairs. These bodies are set up with tight guidelines, but in the interest of fairness they need to be seen to operate in an independent way.

Did you know?

Local councils are responsible for supervising and, in a small number of cases, owning local services. What is your local council? In their specific area, the local authority will give contracts to private companies to run certain services such as refuse collection or street lighting. It is the job of the council to oversee the efficient running of these services. Local councils also own and supervise the collection of rents and repairs to social housing.

Worker co-operatives

A worker co-operative is a body that is owned by the people who work for it. A worker co-operative has limited liability. To become a member of a worker co-operative, an employee would have to buy a share in the organisation. Each member has one vote in making decisions. This is democratic and prevents one individual or a few individuals gaining control. Members receive a share of the profits of the busines in the form of a dividend. When they leave the co-operative, they can take their funds back. The basic principle behind a worker co-operative is that those who do the work should get the rewards. They tend to be small-scale, local enterprises.

Charitable trusts

A charity is an organisation that is set up to raise funds and support other people or a good cause. The business objective of charities is to create a surplus to use for helping others. A surplus occurs when the revenue (money coming into the charity) is greater than the costs of running the charity.

The management of charity work is overseen by a group of trustees, who are volunteers with reputations as responsible citizens. Many will have a range of experience in both charity and business activities. Charities have to register as such and must produce annual accounts that are available to be viewed.

Charities employ paid managers and workers (unlike voluntary organisations, which rely on the goodwill of their staff).

1.4 Key stakeholders

In 1988 the giant Swiss global company Nestlé took over the UK company Rowntree Macintosh. Rowntree's of York was famous for producing confectionery such as Smarties, Quality Street and a range of other leading brands. In September 2006 Nestlé announced that it would be losing almost 650 jobs at its York plant and that a number of brands would be cut back. Smarties would now be made in Hamburg.

Which individuals and groups do you think were affected by this decision – for better or worse?

People who have an interest in the decisions that businesses make are called stakeholders. Most decisions affect a number of stakeholders. Fig. 1.2 below shows a number of stakeholders in Nestlé's decision to pull out of York.

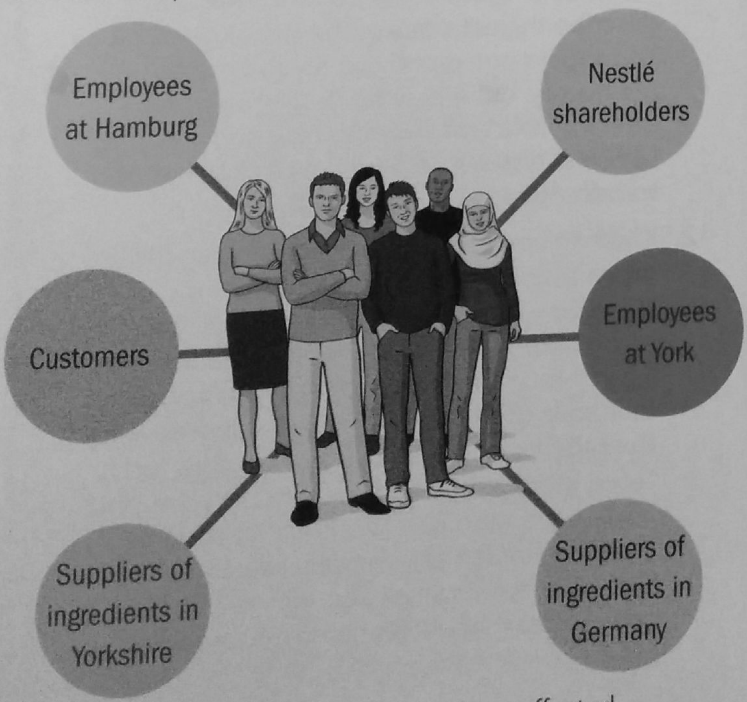

Fig. 1.2: How would Nestlé's decision have affected stakeholders?

You can see from the Smarties example that stakeholders' interests are intertwined. Sometimes a decision is good for a range of stakeholders. Sometimes a decision is good for some stakeholders and bad for others.

The key stakeholders in a business include the following.

1. **Customers** – They want a company to produce high-quality, value-for-money products. Customers often identify with the brands they buy. They like to see improvements that give them better value for money.
2. **Employees** – Their stake is that the company provides them with a livelihood. They seek security of employment, promotion opportunities and good rates of reward. They may also want to work for a company that they are proud of.
3. **Suppliers** – They want steady orders and prompt payment. They also want to feel valued by the company that they supply.
4. **Owners** – This may be a sole trader or a partnership. In a company it would be the shareholders. Owners are often thought to be the most important stakeholders because they might have put a good part of their life into setting up a business. They see themselves as being the principal risk takers. Owners like to see their share of profit increasing, and the value of their business rising.
5. **Trade unions** – These represent the interests of groups of employees. They seek to secure higher wages and better working conditions for their members.
6. **Employer associations** – These are the employer's equivalent of the trade unions. There are employer associations representing the interests of employers in specific industries.
7. **Local and national communities** – The actions of business can have a dramatic effect on communities. For example, the oil giant Shell has built vast pipelines in Nigeria, which run through the lands of various tribal people. The pipelines can be very dangerous and cause local pollution. Community leaders therefore represent important interest groups.
8. **Governments** – These want business to be successful, to create jobs and to pay taxes. They want to see prosperous businesses that take a full responsibility in looking after the welfare of society.

Influence of stakeholders on organisations

A business needs to take account of the interests of all of its stakeholder groupings. These interests are all linked together. For example, if Richard Branson decides to run his Virgin trains using greener fuels, this means that the cost of journeys on Virgin trains increases.

This may be seen as a bad thing because:

- customers may have to pay higher fares
- shareholders may get lower profits
- Virgin buys from new suppliers rather than the old ones
- some jobs may be at risk
- the government may lose taxes.

However, it may be seen as a good thing because:

- it is better for the environment
- more people may want to travel by train because it is greener
- employees feel better about working for a greener transport company
- the company may increase sales and make more profits.

Activity: Researching local businesses

You should base the following task on research carried out in your local town supported by knowledge that learners in your group acquire from work experience and part-time jobs.

Make a study of a sole trader, partnership, private limited company and public limited company.

1. Who own``s these businesses?
2. How much capital does each have? (If you cannot find out the exact sum, give a breakdown of the main forms of capital it relies on, for example, x per cent owner's capital, y per cent borrowings.)
3. What are the advantages and disadvantages of this organisational form for this particular business organisation?

As a group, you could present the work as a newspaper feature using a desktop publishing package.

Assessment activity 1.1

P1 P2 BTEC

Carry out an investigation into two contrasting types of business organisation from different sectors (you could choose one in the private sector and one in the public sector or voluntary sector). You should consider stakeholder influence in the two organisations, and your report should focus on:

- business activity, for example, local, national, global
- business sector
- business purpose
- ownership of the business
- key stakeholders of the business.

1. Describe the type of business, purpose and ownership of two contrasting organisations. P1
2. Describe the different stakeholders who influence the purpose of these contrasting organisations. P2

Grading tips

1. An Internet search using the name of the business/organisation will be a good starting point. You should send off for a company report for any private sector company – addresses will be supplied on the company website. You should also study recent news reports to get the latest changes in the activities of these organisations. Make sure you describe the activities of the two organisations. You should not spend too much time on the history, but it may be helpful to give a brief introduction showing how and why the business was set up, and how it has changed to become what it is today. P1
2. Reading company reports about your chosen organisations and other literature they produce will give you a good idea of who the main stakeholders are in these organisations. Look through the report to identify specific mentions of stakeholder groups and ways that the organisation is seeking to engage with these groups, for example, through meetings and other communications. What sorts of relationships is the company seeking to build with different groups? You may feel that some groups get more attention than others. Why do you think this happens? P2