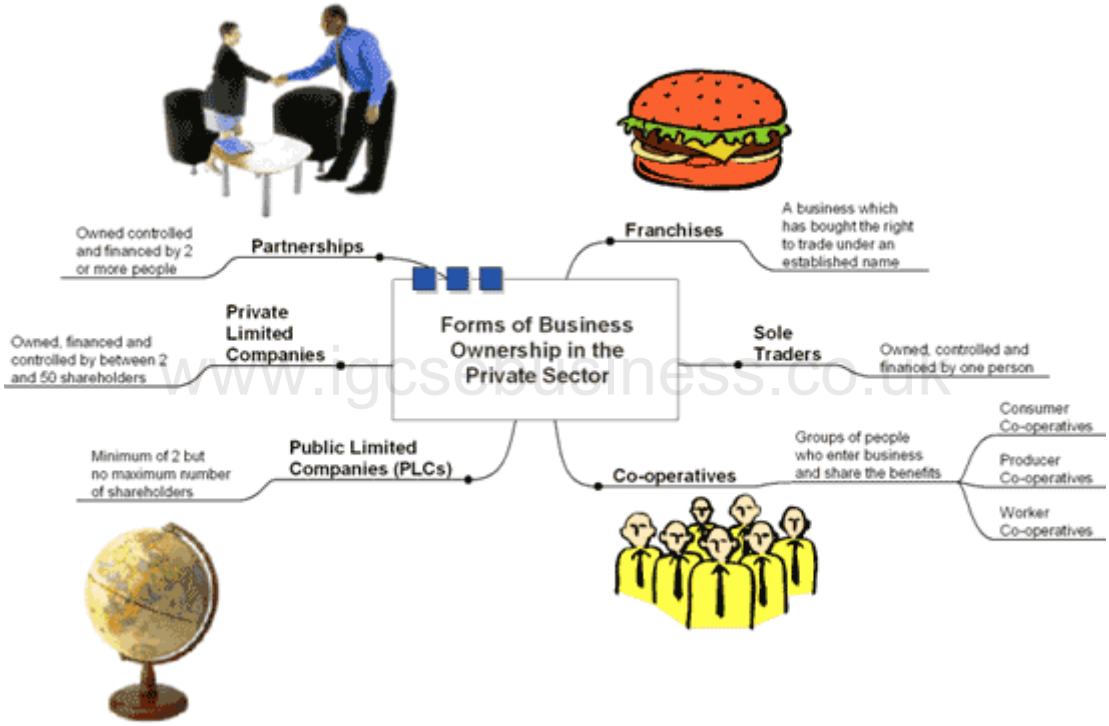
Types of Business Organisations



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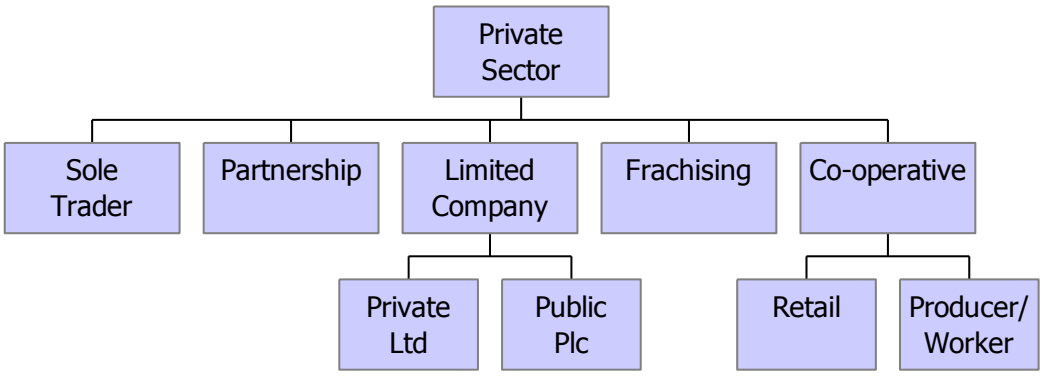
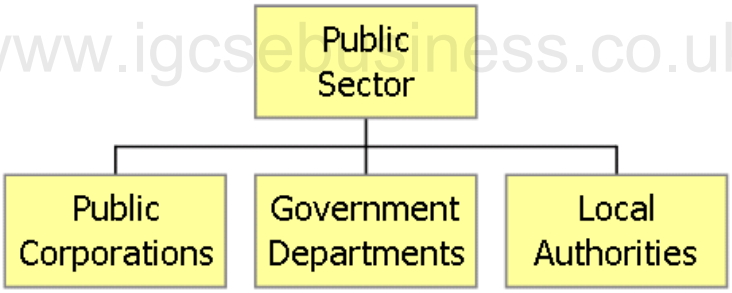
Business Ownership

THE PRIVATE SECTOR – these are businesses that are owned and operate by one or more private individuals or other groups. They keep any profits.



THE PUBLIC SECTOR – these are businesses that are owned and operated by national or local government. Profits are used in the organisation.



Sole Traders or Sole Proprietors

A sole trader is the most common form of business in the Private sector.

A trader is someone who carries on a trade, while a proprietor is one who owns a business.

DEFINITION:

A sole trader can be defined as ……

……

……

EXAMPLES OF SOLE TRADERS WORDSEARCH

H	D	B	A	K	E	R	S	D	F	G	J	H	N	M	B	R
A	R	U	F	M	W	G	H	K	L	F	B	M	S	A	O	V
I	T	I	H	C	Y	H	F	R	Z	P	R	T	Y	T	S	C
R	Y	L	J	T	T	K	B	M	X	L	L	D	C	O	T	N
D	U	D	P	Y	N	L	N	B	S	A	Y	U	G	R	D	A
R	J	E	P	I	E	K	M	N	U	S	R	N	M	K	X	I
E	N	R	O	K	G	J	T	A	B	T	S	D	T	B	S	C
S	G	T	U	N	A	H	Y	D	S	E	C	W	Q	H	E	I
S	F	S	D	D	S	G	P	N	F	R	L	H	F	X	D	R
E	W	Q	B	T	W	B	I	D	T	E	Y	G	E	M	T	T
R	N	C	G	F	E	G	E	Y	Y	R	X	Q	N	R	Y	C
Z	B	E	D	A	N	D	B	R	E	A	K	F	A	S	T	E
Q	E	A	R	I	K	L	G	T	Y	J	S	C	V	B	M	L
C	B	W	V	N	Y	T	N	K	F	S	C	B	H	S	S	E
V	U	I	A	M	G	R	E	E	N	G	R	O	C	E	R	F
H	R	Y	R	L	A	D	F	G	M	K	L	X	Z	S	B	G
D	W	Q	T	T	R	A	V	E	L	A	G	E	N	T	E	T

BAKER	GREENGROCER
BED AND BREAKFAST	HAIRDRESSER
BUILDER	NEWSAGENT
BUTCHER	PLASTERER
DRIVING INSTRUCTOR	PLUMBER
ELECTRICIAN	TRAVEL AGENT

These are all examples of any business that is owned and controlled by one person, although they may employ workers

Unscramble the tiles to reveal a message.

RA	SO	LE	RS	DE	T

The questions below will help you to assess whether you have the right personal qualities for running your own business. Circle your answers – a, b, or c – then check your scores at the end.

Personality Check

1. If you find studying at home difficult, do you:
   a) keep trying
   b) have a rest and then go on with it again
   c) give it up and do something else?

2. Would you say you are enthusiastic about:
   a) everything you do
   b) things you like doing
   c) very few things?

3. Do you take risks:
   a) if you have to
   b) often
   c) never?

4. Would you rather have:
   a) a steady job you really liked even if you didn't make much money
   b) a steady job
   c) an easy job with lots of money?

5. Do other people come to you for help and advice:
   a) almost never
   b) occasionally
   c) often?

6. Do you think a business person is someone:
   a) who makes use of the workers
   b) makes a reasonable profit
   c) provides a useful service for society?

7. Do any members of your own family have their own business:
   a) none
   b) one
   c) more than one?

8. Do you enjoy working alone:
   a) never
   b) always
   c) whenever you need to?

9. If you were left a large amount of money, would you:
   a) buy a house
   b) invest it in something you'd always wanted to do
   c) spend it wildly on things you've always wanted?

10. Do your friends ask you to organise events:
    a) sometimes
    b) frequently
    c) never?

11. Do you write down what you intend to do during the next week:
    a) always
    b) sometimes
    c) never?

12. If you were doing a complicated task would you:
    a) ask other people who knew more about it for advice
    b) try to do everything yourself
    c) not bother with the difficult parts?

Score Chart

Questions 1-4	a)5 b)2 c)0
Questions 5-8	a)0 b)2 c)5
Questions 9-12	a)2 b)5 c)0

Add up your total number of points.
The maximum is 60.

What you score means

40-60	You have excellent personal qualities for setting up your own business.
20-40	You could do well in your own business, but you might be happier working for a firm.
0-20	You need to think seriously about your personal characteristics if you want to get a job at all.

Your Score -

ADVANTAGES AND DISADVANTAGES OF A SOLE TRADER

Sort out the following statements into advantages and disadvantages.

Difficulty of raising capital
Flexibility
Unlimited Liability
Hands on Approach
You are your own boss
Wage bill is often small
The profits don't have to be shared
tax benefits
No one to share responsibility
Staffing issues with holidays and sickness
Long working hours
May not have all the skills
Easy to run
Small and easy to set up
Only a small amount of capital is needed

ADVANTAGES	DISADVANTAGES

KEY TERM: UNLIMITED LIABILITY

In the eyes of the law the individual and the business are the same [they are **UNINCORPORATED**]. This means that the owner has **unlimited liability** for any debts that result from the running of the business. They may have to sell off some or all of their possessions to meet the debts of the business because there is no limit to the amount of claims that can be mode against them. As a result they may be forced into bankruptcy.

THE ADVANTAGES OF BEING A SOLE TRADER

1. Easy to set up

A sole trade can set up in business immediately. There are few, if any, complicated forms to fill in. They must however:

- ✓ Fill in an income tax return – for the Inland Revenue
- ✓ Approval from local council – planning permission
- ✓ Register for VAT with Customs and Exercise

2. Be your own boss

The owner in a sole-proprietorship is in complete control and so can make whatever decisions or changes that they want.

What type of decisions do they typically make?

3. Keep all the profits

All the profits of the business are kept by the sole trader. They don't have to be shared with anyone.

4. Privacy

Only the Inland Revenue and Customs and Excise need to know how well the business is doing. The business does not have to publish any information for the public – financial information affairs remain confidential.

5. Good labour relations

Many sole traders work on their own, others employ one or maybe several workers.

How does this affect their labour relations?

THE DISADVANTAGES OF BEING A SOLE TRADER

1. Unlimited Liability

Sole traders have unlimited liability. This means that the owner is fully liable for all the debts of the business. In the eyes of the law, there is no distinction between the assets and debts of the business and the personal assets and debts of the owner.

Example:

2. Difficulty in raising capital

Most small businesses find it difficult to get start-up capital. Most have to invest their own savings into the business.

3. Long hours and ill health

Many sole traders have to work very long hours to keep their business afloat. Some may even work 10hrs a day, 6 days a week.

What happens if sales are still low?

If the sole trader were to fall ill then they may be forced to shut the business.

What consequences may this incur?

TASK: Read the case study and answer the questions that follow.

George Sanders was employed by a national newspaper but was made redundant in January 2003. He spent seven months searching for another reporting job, but eventually gave up and decided to set up his own business. He had always enjoyed books and opened up a second-hand book shop in Cardiff. In a room above the bookshop he opened up a small café. He used £4,000 of his own savings and a £1,000 bank loan to meet the set up costs. He also qualified for £40 per week from the government's Enterprise Allowance Scheme. George employed two part time students to help out in the café during weekends and school holidays. After a slow start business picked up and his café gained popularity with students from three local colleges. He spotted an opportunity and lowered prices slightly to encourage even more students to visit.

After one year he extended his bank loan to £2,000 and bought some more kitchen equipment to provide substantial lunch time meals. Again he kept prices low and targeted the student market. The business expanded and George was beginning to enjoy good profits. The book shop only made a small contribution to turnover, but George felt that it helped the image of the café which attracted his customers.

One morning when he was opening, a local authority representative arrived unannounced to inspect the business premises. After a two hour investigation the inspector left saying that George would hear from the authority the next day. A letter from them informed George that his kitchen must conform to a long list of health regulations. George estimated that the cost would be £3,000. He arranged a meeting with the bank that same afternoon. Unfortunately they could only lend him half the amount. George was eventually forced to borrow from a private loan company, paying high rates of interest.

(a) What features of a sole trader does the example of George Saunders' business show? [2]

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(b) In what way does the above case highlight the advantages and disadvantage of being a sole trader? [4]

Advantages: .....

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Disadvantages: .....

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Partnerships

A partnership is where there is more than one single owner of a business.

The law says that in an ordinary partnership there can be between 2 - 20 partners.

The partners are the ***joint owners*** of the business. When forming a partnership it is sensible to draw up what is know as a Deed of Partnership.

The **DEED OF PARTNERSHIP** is a legal document which sets out:

- Who the partners of a business are
- How much money (capital) each partner has put into the business
- How profits will be shared
- How many votes each Partner will have in any meetings
- What happens if any of the partners want to leave the business

DEED OF PARTNERSHIP

- This legal Partnership is between:
- The name of the Business will be:
- The Business activities are:
- Each Partner agrees to provide the sum of: £
- The duties of the partners will be as follows:
- The bank account will be in the name(s) of:
- Profits will be shared out:
- Wages paid will be:
- Regular Meetings:
- Overall Decisions on business:
- Leaving the Partnership:
- Signed: xxx Dated: xxx
- Witnessed: xxx

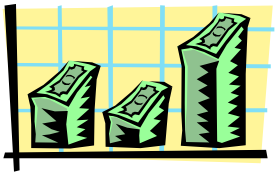
If there is **no** Deed of Partnership then under The Partnerships Act 1890 the law states that each partner is equal and gets an equal share of the profits and the same voting power as any other partner.

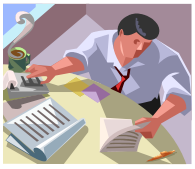
SLEEPING PARTNERS + LIMITED LIABILITY

A Sleeping Partner is someone who invests money into the Partnerships but does not play an active role in the business

Sleeping Partners have **LIMITED LIABILITY**

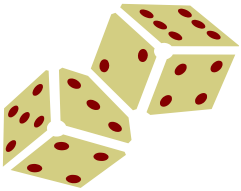
The Advantages and Disadvantages of a Partnership





ADVANTAGES

Many are the same as a sole trader plus…



DISADVANTAGES

Limited Companies

A limited company has a separate legal identity to that of its owners. This means that the owners of the company (the shareholders) have **Limited Liability** - ff the company goes bankrupt then the owners only lose the money that they have invested in the business (the value of their shares) and will not be forced to sell off their own personal assets

How do you form a company?

In order to set up a company, two documents must be drawn up:

- THE MEMORANDUM OF ASSOCIATION
- THE ARTICLES OF ASSOCIATION

Memorandum of Association

- The name of the company
- The address of the registered office
- The nature of the company's activities, i.e. what it will do
- A statement that shareholders have limited liability
- The type and amount of share capital

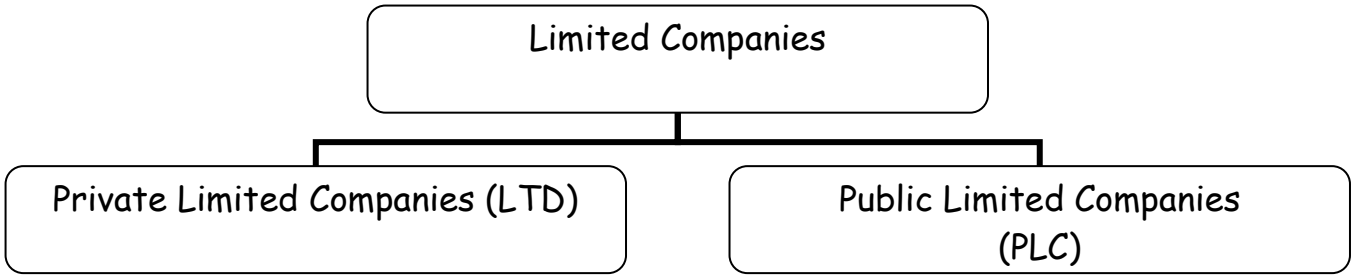
articles of association

- Procedures to be followed at annual general meetings (AGM)
- The duties of the directors of the company
- The voting rights of the shareholders
- How profits and losses will be distributed

You should send off both these documents have to **The Registrar of Companies** at "Companies House" in Cardiff.

A **CERTIFICATE OF INCORPORATION** can then be issued – this is the company's birth certificate!!! - Once they have this then the company is allowed to start trading. ☺

TYPES OF LIMITED COMPANIES



There are important differences between Private Limited Companies and Public Limited Companies:

1. Sales of Shares

The shares of a PLC are sold on the stock exchange – anyone can buy shares. The shares of an LTD cannot be openly bought by the public – private individuals only.

2. Share Capital

A PLC must by law have at least £50,000 in share capital to set up. An LTD can start up with just £2 share capital.

3. Size and Number of Shareholders

The number of shareholders is likely to be far greater in a PLC than in an LTD – due to the way in which shares can be obtained.
PLC's are usually larger than LTD's.

4. Control

In theory, it is the shareholders who own and control a limited company. Each year at the AGM they appoint Directors who represent the shareholders and they in turn appoint managers who run the company.

SHAREHOLDERS (OWNERS)

↓

BOARD OF DIRECTORS (RESPONSIBLE TO OWNERS)

↓

MANAGERS (DAY TO DAY RUNNING OF THE BUSINESS)

IN LTD ➔ MANAGERS = DIRECTORS = SHAREHOLDERS ➔ **COMPLETE CONTROL**

IN PLC ➔ MANAGERS AND DIRECTORS ONLY OWN A SMALL PART OF THE COMPANY AND SO IN PRACTICE THE SHAREHOLDERS DON NOT CONTROL THE BUSINESS ➔ **DIVORCE OF OWNERSHIP AND CONTROL**

FEATURES OF LIMITED COMPANIES

- Separate legal identity from owners – means they can own assets, form contracts, employ people, sue and be sued in their own right.

- Owners have **LIMITED LIABILITY**.

- The **CAPTIAL** of a limited company is dividend into shares. Each member or **SHAREHOLDER** owns a number of these shares. They can vote and take a share of the profit. (Those with more shares have more control and can take more profit.)

- They are run by **DIRECTORS** who are appointed by the shareholders. The Board of Directors, headed by a **CHAIRPERSON**, should run the company as the shareholders wish.

- Companies pay corporation tax – a tax on company profits.

- A limited company must submit a copy of its annual accounts to the Registrar each year.

- The shareholders have a legal right to attend the **AGM** (Annual General Meeting☺).

NAME:……

LIMITED COMPANIES – CHECKLIST QUESTIONS

Classwork – Teacher Assessed

Answer the questions in **FULL SENTENCES** – look at the marks allocated to each question and use this as a guide as to how much detail needs to go into your answers.

1. A company goes out of business leaving debts of £100m. How much will shareholders of the company have to pay as a result? Make sure you explain your answer. **[2]**

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2. Who owns a company? **[1]**

……

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3. What documents does a company have to give to the Registrar of Companies before it can begin trading? Briefly explain what information is contained in each. **[4]**

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4. If a company has LTD after its name what does this mean? **[1]**

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5. What are the main differences between a private limited company and a public limited company? **[5]**

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6. What is meant by the 'divorce of ownership from control'? **[3]**

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7. Why is it easier for a company to raise money than say a partnership? **[2]**

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8. Are there any disadvantages of becoming a company? **[2]**

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Total : _____ [20]

NAME: ……

BUSINESS OWNERSHIP EXERCISE SHEET
EXAM STYLE QUESTIONS
HOMEWORK – PEER ASSESSED

---

1. Provost plc makes animal feed and is in competition with many small businesses operating as sole traders.

a) How might Provost plc differ from sole traders in the following ways:

I. Ownership? [2]

……

……

……

II. Where to obtain finance to setup the business? [4]

……

……

……

III. Distribution of profits? [2]

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2. The following are features of different kinds of business organisation:

a) Between 2 and 20 owners
b) Issues shares
c) Owners have limited liability
d) Owners usually have unlimited liability

i. Which two are features of a partnership? …… [2]

ii. Which two are features of a private limited company? …… [2]

iii. What is meant by limited liability? [2]

……

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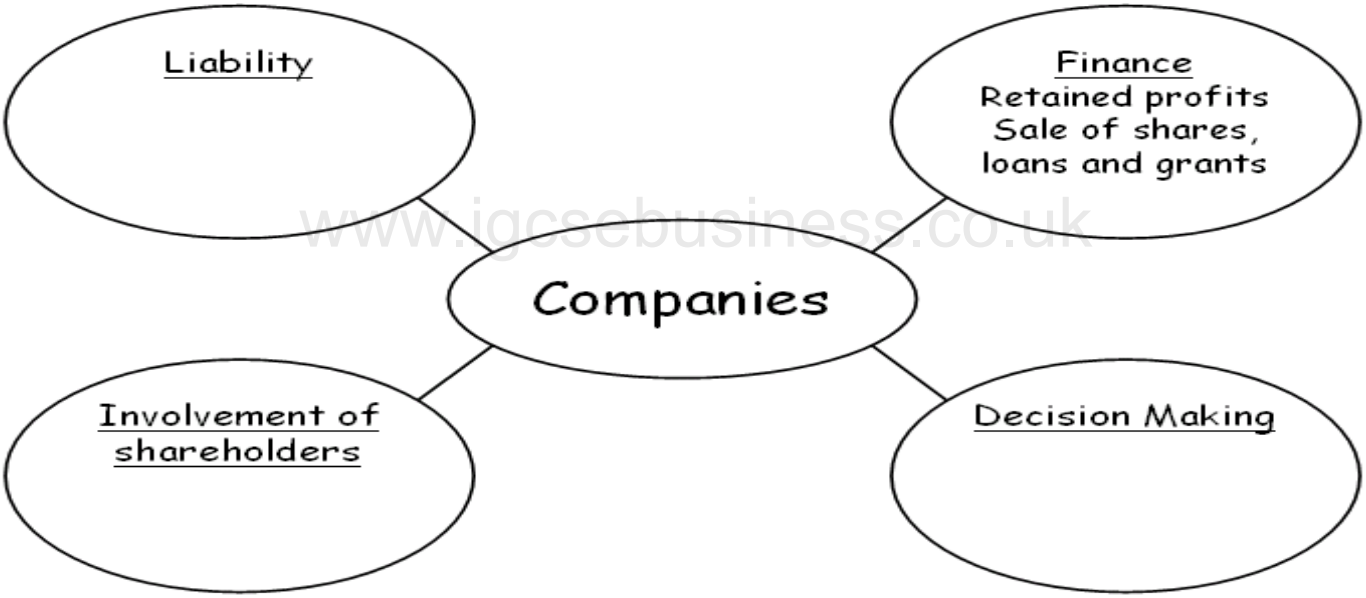
3. Complete the table below. [4]

	Sole Trader	**Partnerships**
Decision making	Sole Responsibility	
Profits		Shared between partners
Start-up finance	Needs to find all the finance	
Liability	Unlimited	

4. Complete the diagram showing features of companies. [2]



Peer Assessed Total : _____ [20]

Peer Assessment Comments:

Teacher Comments:

HOMEWORK: ESSAY [TEACHER ASSESSED]

"Compare and contrast the different types of business ownership in the UK"

Your Essay should include the following:

TEACHER COMMENTS : Strengths

TEACHER COMMENTS : Areas for further development

PUPIL REVIEW of Essay :

Co-operatives

A co-operative is an organisation formed by people joining together to organise production, makes decisions, and share profits. All members have an equal say in running the business and share equally in the profits.

- ☺ It has limited liability
- ☺ Non-transferable shares (bought and sold to the society)
- ☺ Society control is democratic, each member is permitted one vote regardless of shareholding.

WORKER CO-OPERATIVE: They pool their money to buy equipment and share equally in decision-making and any business profits.

RETAIL CO-OPERATIVES: are shops run for the benefit of their customers.

THE ADVANTAGES AND DISADVANTAGES OF WORKER CO-OPERATIVES

Worker- co-operatives have several advantages, all linked to the fact that the workers own the business.

- ☑ There is less likely to be a conflict of interest between the owners and the workers because the profits made by the business go to the workers or are invested in the business to ensure its long-term success.
- ☑ Co-operatives have a separate legal existence so have LIMITED LIABILITY.

However, there can be problems with worker co-operatives.

- ☒ It is difficult to persuade workers to form a worker co-operative because it is much easier to set up a partnership.
- ☒ New workers usually have to become owners of the business but may find it difficult to raise money to buy a share in the business.
- ☒ Very successful worker co-operatives often end up being sold to other limited companies, with workers/owners/ only too happy to pocket the money gained from selling shares.
- ☒ If the worker co-operative needs extra money to expand the business it can't look to new members – they have to rely on bank overdrafts and bank loans.
- ☒ At worker co-operatives all workers are roughly paid the same (top managers only getting about 3 times the amount of ordinary workers) and so it is difficult to recruit workers like managers who would otherwise be able to get a high salary.

Read the following information about 'Paperflow' and the answer questions that follow.

Paperflow is a small worker co-operative with 10 members – shareholders who are also workers. It buys recycled paper from manufacturers and sells it on in small quantities to other businesses. Three of the members are known as co-ordinators – the equivalent of managers. Wai Mai is in charge of the finances and the office, Jenny Pugh is in charge of sales and Mike Foster is in charge of the warehouse and deliveries. One member is secretary whilst the other six work in the warehouse.

Workers are paid what they would earn in a normal company. However, the three co-ordinators are limited to a maximum wage of twice what the lowest paid worker receives. Wai admits that they would find if difficult to recruit a manager from outside because a manager could earn three or four times the wage of the lowest paid worker at Paperflow.

Day-to-day decisions are taken by the co-ordinators. However, each month there is a members meeting where more important policy issues are discussed. Profits are usually put back into the business to pay for new equipment. However, if profits are paid out, they will be paid to each of the members equally.

1. Explain:

(a) Who owns Paperflow? **[2]**

.....

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(b) How decisions are made in the business? **[2]**

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2. Who owns a company? **[3]**

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3. Mike want Carol, his wife, to become a member of the co-operative. Carol is currently paid less than any of the co-operative workers. Under the rules of the co-operative, she would have to pay £3,000, the amount each of the other members paid, to buy in. Last year, the co-operative paid each member a bonus of £1,500 from the profits made. If the co-operative is sold (at least three quarters of the members would need to vote for this to happen) then proceeds of the sale would be split amongst all the members – old and new – the business is currently worth £300,000.

Carol's membership is to be discussed at the next meeting.

What arguments do you think might be put forward by members:

(a) In support of Carol's application? **[4]**

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(b) Against Carol's application? **[4]**

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Total : _____ [15]

FRANCHISES

AN INTRODUCTION TO FRANCHISING :
PUPIL RESEARCH & PRESENTATION TASK

[Classwork – Peer Assessed]

EXERCISE – IN GROUPS OF 4

a) You will need to carry out research and make a group presentation which covers the following points

1. What is a Franchise
2. The advantages and disadvantages for the franchis**or**
3. The advantages and disadvantages for the franchis**ee**

Skills Needed ?

Habits of Mind Needed ?

Franchising is really the 'hiring out' or **LICENSING** of the use of 'good ideas' to other companies. A franchise grants permission to sell a product and trade under a certain name in a particular area. The person taking out the franchise puts down a sum of money as capital and is issued with equipment by the franchising company. The firm selling the franchise is called the **FRANCHISOR** and a person paying for the franchise is called the **FRANCHISEE.**

WHAT DOES THE FRANCHISOR PROVIDE?

The franchisor provides a number of services when a franchise agreement is made.

1. **TRAINING**

   The franchisor will provide training on how to start and operate the business followed by on-going training after the business has been launched. Courses usually cover:
   - skills the team need
   - in-store sales technique
   - advice and guidelines on running the business

2. **EQUIPMENT**

   The franchisor will often dictate how the store is to be decorated and which shop fittings are to be used – these are sometimes provided by the franchisor.

3. **MATERIALS TO USE IN THE PROMOTION OF A GOOD OR SERVICE**

   The franchisor usually has a central supplier and insists that all franchisees' order and purchase raw materials and packaging etc/ from their distributors.

4. **ADVERTISING**

   The franchisor usually undertakes in advertising campaigns which all the individual franchisees benefit from – as they all carry the same brand.

5. **A BRAND NAME**

   The brand name is usually very strong and established in the market place and so this reduces risks and the uncertainty faced by the franchisee.

6. **AREA PROTECTION**

   A franchisee is usually given an exclusive area in which to sell where no other franchises will operate.

General Facts - Worldwide

- Worldwide, McDonald's is the largest franchised food service organisation.
- Globally, 70% of restaurants are operated by franchisees or affiliates.

General Facts - UK

- In the UK as at 31st December 2007 , 183 Franchisees operated 610 restaurants.
- Outstanding Company employees with more than 10 years service are able to apply for a franchise.
- The UK's first franchised restaurant opened in 1986.
- The cost of a McDonald's franchise starts from £150,000 upwards. Applicants are required to have at least 25% of this sum in personally-owned funds. For outstanding applicants without this level of initial capital, there is a low-cost earn-in scheme - the Business Facilities Lease (BFL).
- McDonald's only franchises to individuals, not partnerships or absentee investors. However, sometimes franchisees run their franchise business as husband and wife teams.

Franchise Agreement

The Franchise Agreement grants to the Franchisee the right and authorisation to operate a specific McDonald's restaurant, at a single address. The franchise term is usually for a period of 20 years. These franchise rights include the use of McDonald's trademarks, restaurant decor designs, signage and equipment layout, the formula and specifications for menu items, use of McDonald's method of operation, inventory control, book-keeping, accounting and marketing. A separate franchise lease covers the right to occupy the restaurant premises.

In return, the franchisee agrees to operate the business in accordance with McDonald's standards of quality service, cleanliness, food safety and restaurant safety. The franchisee is expected to take a 'hands on' role in running the business, and to be involved in local civic and charitable activities. Throughout the franchise term, the franchisee's sole business interest should be McDonald's.

TASK: Read the Case Study information below and answer the questions which follow.

McDonald's is the largest food service company in the world. It served over 16 billion customers in 2002. Its success is based on selling quality products cheaply and quickly. Ray Kroc took over the business in 1955. He based its further success on rapid growth. He saw that a quick way to grow was through franchises. Around 70% of McDonald's are now franchises.

The McDonald's Franchisee buys a share of an already established business, selling a product, which is already familiar to the general public. This product is seen all over the world as a result of massive advertising campaigns carried out by the parent company. These campaigns promote the product and help make the brand 'McDonald's' a household name, so although there is a risk to the Franchisee, it is less of a risk than setting up a new business with a brand new product of their own.

This tried and tested formula is exchanged for an initial payment of £150,000 for a 20 year agreement - paid by the Franchisee. This fee also entitles them to an in depth training programme, which will give them the skills required to start the business. Plus, they receive regular news bulletins from head office which detail information about the whole company – the sharing of this information is vital, as the company is so large that it is not easy to meet up with other franchisees to share experiences.

The Franchisee is able to operate the business as their own boss and is in control of its day to day running. However strict guidelines have to be stuck to, which are laid down by Head Office and it is essential that the franchisee does not damage the company reputation by trading inappropriately – if this happens the agreement can be withdrawn.

By setting up Franchise agreements, McDonald's has been able to expand much quicker than if it had to invest in the same number of sites itself. The cost and risk of this type of expansion is far less, as it is the Franchisee who finances the business and who has to put in the effort to make it a success. The Franchisor maintains ultimate control and can end the agreement if they are unhappy with the performance of the Franchisee.

People who usually buy a Franchise are entrepreneurs who are prepared to take a risk in the hope of achieving success. They are able to have the freedom of working for themselves but gain from the benefits of using someone else's idea. They are usually hardworking individuals who are determined to succeed and this is what McDonald's expect.

Such people also bring added value to the business and will often come up with new innovative ideas which the Franchisor can benefit from if they think they are appropriate. A number of new products have been developed by franchisees including the Egg McMuffin, the Filet-o-Fish and drive-thrus but these can only be introduced after full approval is granted by Head Office.

As well as the receipt of the set up fee the Franchisor benefits form royalties paid by the Franchisee, these are calculated as a percentage of the sales. A regular income is therefore received for little input. The Franchisor just has to make sure that the Franchisee is keeping to the agreement and maintaining the reputation of the Brand. .... But this is not always an easy task with over 1500 franchises in the UK alone.

1. Who is the Franchiser in the Case Study? **[1]**

.....

2. How has McDonald's achieved additional success? **[2]**

.....

.....

3. What do all McDonald's around the world have in common? **[1]**

.....

4. What is the benefit of the training programmed offered by McDonald's? **[2]**

.....

.....

5. What is the name for business people who are prepared to take a risk in the hope of achieving success? **[1]**

.....

6. How much does it cost to buy a McDonald's Franchise and how long is it for? **[1]**

.....

7. What does McDonald's expect from its Franchisees? **[2]**

.....

.....

Total : _____

[10]

ADVANTAGES	DISADVANTAGES

New ideas have to be approved by franchisor

Training

less risk

Franchisor can end the agreement

Company Avertising

Sharing of information

Your own boss

Franchisor has total control

PROFITS SHARED

SOMEONE ELSE'S IDEA

ADVANTAGES	DISADVANTAGES

The PUBLIC SECTOR

The public sector is run and owned by the state. The two most important parts of the state are **central government** and **local government**.

What is the difference between central government and local government?

PROVIDER, PRODUCER AND BUYER

The public sector is a provider, producer and buyer.

PROVIDER: The public sector in the UK provides a large range of services:

Part is provided free of charge to consumers, like secondary school education. Prices are charged for the rest. E.g. the BBC often sells DVDS of its programmes.

PRODUCER: The public sector produces some of the goods and services it provides, like defence, education, and health care. Because the BBC is owned by the public sector, it also therefore provides radio and television programmes.

BUYER: The public sector buys the rest of what it provides from private sector businesses, including tanks, new roads and places in old people's homes.

Place the following into the grid below: Police, education, roads, street lights, RAF, stamps, doctors, post office, tanks, parks, libraries, sports centres, traffic lights, parcel deliveries, old people's homes

PROVIDER	PRODUCER	BUYER

PUBLIC CORPORATIONS

What are **Public Corporations**?

PRIVATISATION

During the 1970's the list of public corporations was very long. It included: British Telecom, British Gas, the railways, Rover cars, Rolls Royce, British Airways and British Steel, The Post Office and the BBC.

However, the government decided it wanted to raise more money so it sold these companies (except the BBC and the Post Office) to private owners. This method of selling national industries is called: PRIVATISATION.

Examples of businesses that were privatised include British Petroleum (1979), Forestry Commission (1983), British Telecom (1984), British Gas (1986), British Airways (1987), British Steel (1988), Water Authorities (1989), Electricity Supply (1990), Electricity Generation (1991), British Rail (1994). Examples of businesses that were privatised include: British Telecom, Electric Gas, British Rail, British Airways, and the Water Board

If the government decides to buy back the businesses and return them to the control of the government then it is called: NATIONALISATION.

Arguments **FOR** Privatisation include:

- ☺ It encourages people to own shares
- ☺ Decisions are made faster
- ☺ Costs the government less
- ☺ Increases competition
- ☺ Increases efficiency

Arguments **AGAINST** Privatisation include:

- ☹ Monopolies are created which may change too much
- ☹ Decisions may not be in the best interests of the public because profit may be the motive
- ☹ Private companies may not invest enough money in something that is vital for the public
- ☹ Competition can waste money because more than one business is providing the service
- ☹ Job losses.

MUNICIPAL ENTERPRISES

Municipal Enterprises are businesses which are owned by local authorities and which get at least part of their revenues by charging customers for services.

Some examples of these are:

DEREGUALTION AND CONTRACTING OUT

What is the difference between **Deregulation** and **Contracting out**?

PUBLIC AND PRIVATE SECTOR WORDSEARCH

Business organisation in the UK can be separated into either the PUBLIC Sector or the PRIVATE Sector. Businesses in the Public Sector are owned by local or national government. Profits are used in the organisation. Businesses in the Private Sector and owned by private individuals. They keep any profits.

e	e	e	t	t	n	l	c	s	k	f	n	e	t	i	d	f	c	b	a	r	s	d	s	r
h	c	f	r	l	h	n	e	o	m	b	a	i	a	n	t	a	t	a	o	h	a	c	r	h
h	y	i	t	a	h	e	o	r	h	s	a	e	a	k	r	v	k	r	r	y	i	t	r	h
e	c	s	v	i	c	c	b	i	r	n	e	l	t	d	h	r	l	c	a	t	n	a	t	l
b	e	a	i	r	s	h	y	b	e	a	g	t	i	a	o	a	i	l	i	o	s	a	i	t
a	r	a	r	a	e	t	t	a	c	n	t	f	e	w	b	n	i	a	l	f	b	e	t	b
s	b	i	m	d	n	s	k	l	e	o	f	v	t	a	r	o	m	y	o	t	u	h	d	i
r	o	o	t	l	i	c	h	f	a	h	i	e	b	r	e	h	b	s	r	r	r	t	t	r
o	h	k	a	i	e	f	o	t	i	e	n	h	n	a	y	n	s	b	a	e	y	c	e	e
t	o	e	h	d	s	k	f	g	l	v	h	n	h	t	h	n	i	a	c	e	s	r	i	a
a	a	e	l	l	n	h	h	c	t	a	b	a	e	p	m	r	g	n	r	s	s	s	n	t
c	a	r	i	a	r	s	g	i	e	o	e	o	p	h	a	r	a	k	b	e	u	h	o	c
t	e	e	b	p	c	t	e	a	g	n	e	h	r	u	m	h	r	a	u	r	p	a	s	k
h	g	e	e	h	d	h	i	a	s	r	t	e	l	h	b	n	y	m	r	a	e	h	t	m
t	h	e	o	g	t	w	r	n	a	g	a	r	n	a	g	o	e	a	e	a	r	b	r	i
t	w	o	l	y	o	g	e	n	n	t	e	n	a	l	n	u	y	a	n	h	m	y	d	h
t	l	r	n	n	e	a	s	i	c	b	l	y	d	l	l	o	t	b	a	p	a	s	h	r
m	n	i	o	f	i	h	h	s	e	r	s	o	t	a	l	l	i	b	y	v	r	s	r	o
n	i	r	g	h	p	g	o	f	c	e	i	t	c	o	a	i	r	t	t	l	k	s	l	h
r	e	s	h	r	o	e	i	r	s	e	n	l	h	t	s	w	b	t	a	l	e	b	o	h
f	s	s	i	s	o	i	c	h	c	n	e	r	o	e	u	r	i	r	w	n	t	p	c	l
b	f	e	r	g	a	a	i	a	n	f	y	l	i	k	r	r	h	s	a	h	e	c	l	a
e	t	a	b	e	c	u	d	e	s	d	t	v	e	t	s	c	s	d	i	r	c	h	n	n
t	a	t	p	g	n	b	s	o	e	a	c	t	b	a	d	h	k	t	d	h	y	s	t	i
a	w	a	a	f	c	o	s	n	w	f	v	d	l	d	e	r	n	g	s	g	i	n	k	b

Find the following words in the word search above. Then decide whether they are part of the public sector of private sector.

BUSINESS	PUBLIC	PRIVATE
The Army		
Cardiff High School		
Barclays Bank		
Cardiff Central Library		
Sainsbury's Supermarket		
The BBC		
The Bank of England		
Bupa Healthcare		
The National Health Service		
British Gas		
Thomas Cook		
The ITV Network		

EXAM PRACTICE QUESTIONS

1. Hazel Lewis works as the manager of a newsagents shop in Sheepstow, a town on the coast of West Wales. She wants to set up a business for herself. A local shop selling gifts and fudge mainly to tourists has been put up for sale. Hazel decides to buy the gift shop.

   (a) Identify three reasons why Hazel wants to set up her own business. [3]

   (i) .....

   .....

   (ii) .....

   .....

   (iii) .....

   .....

   (b) Hazel wants to run her business as a sole trader. Suggest and explain **two** problems which Hazel might face if she becomes a sole trader? [4]

   (i) .....

   .....

   .....

   .....

   (ii) .....

   .....

   .....

   .....

   (c) Suggest **two** types of **short-term** finance which might help Hazel to set up her business. [2]

   (i) .....

   (ii) .....

2. Below is a list of features of different types of businesses.

Select **four** which **usually** apply to general partnerships and write the letters which match your choices in the box which follows.

For example, if you think general partnerships are usually owned by one person along (i) write **a.** and so on. [4]

Generally partnerships usually:

a. are owned by one person;
b. sell shares on the Stock Exchange;
c. have the letters plc at the end of their names;
d. have unlimited liability;
e. are owned by shareholders but cannot sell shares to the general public;
f. share responsibilities between the owners;
g. do not have more than twenty owners;
h. have limited liability;
i. share workload between the owners;
j. pay dividends to their shareholders.

Your answers

Generally partnerships usually:

(i) .....

(ii) .....

(iii) .....

(iv) .....

3. John and Karen Brandt have decided to set up a new business designing and manufacturing a range of novelty tea towels. They will manufacture the tea towels in the town of Minckley and sell them to retail outlets across the UK.

Give one benefit and one drawback of setting up a business as a partnership. [2]

Benefit .....

.....

Drawback .....

.....

4. Frank James owns a small tearoom in a coastal resort in West Wales.

(June 07)

(a) Frank runs his tearoom as a **sole trader**. Suggest and explain **two** reasons why this type of business organisation is suitable for Frank. [4]

(i) .....

.....

.....

.....

(ii) .....

.....

.....

.....

(b) As the business grows Frank is considering taking on a business partner. Discuss whether or not Frank should take on a partner for his business. [8]

.....

.....

.....

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6. (a) What do the letters PLC mean when written after a company's name? [1]

.....

(b) What is the main difference between a PLC and a public corporation? [2]

.....

.....

.....

7. Which **two** of the following are **advantages** of a Public Limited Company (PLC)? [2]
N.B. *Do not tick more that **two** boxes.*

The owner can keep all of the profit	
A PLC usually finds it easier than a sole trader to raise larger amounts of capital	
A PLC is owned by the government and cannot go bankrupt	
If the owner of a PLC dies the business automatically closes	
A PLC normally has a number of sleeping partners	
A PLC is cheap to set up	
PLCs are large and can therefore purchase materials in bulk	
PLCs have to pay higher rates of corporation tax	

8. Burgerex Ltd is a growing business in the fast food industry selling a variety of products, including burgers, pizzas and baked potatoes. They have plans to expand in a number of ways including opening more outlets by **franchising** to independent businesses.

(a) What is meant by the term **franchising**? [1]

.....

.....

(b) Suggest **two** ways in which the franchisee benefits from a franchise agreement? [2]

(i) .....

.....

(ii) .....

.....

BUSINESS OWNERSHIP 1 quiz

Circle the correct answers.

1. If one person owns and controls a business they are known as a...?

   a) partner. b) sole trader. c) shareholder.

2. What type of business sells shares on the stock markets?

   a) A Partnership b) A Private Limited Company c) A Public Limited Company

3. A business that can only be made up of between two and twenty people is known as a...?

   a) partnership. b) franchise. c) public limited company.

4. If a business goes bankrupt, the partners within the business can lose their personal possessions to cover outstanding debts. This is known as...?

   a) limited liability. b) unlimited liability. c) sole liability.

5. A sole trader...?

   a) has shared responsibility. b) keeps all profits. c) has limited liability.

6. What type of business cannot sell shares?

   a) Private Limited Company b) Public Limited Company c) Partnership

7. What type of business has to pay royalties?

   a) Franchise b) Private Limited Company c) Sole Trader

8. What type of business has limited liability?

   a) Partnership b) Sole Tradership c) Private Limited Company

Name:

BUSINESS OWNERSHIP ② quiz

Circle the correct answers.

9 One disadvantage of being a Public Limited Company is that...?

a) investment is high.

b) there is unlimited liability.

c) there is a risk of being bought out.

10 What type of partner has limited liability?

a) Resting Partner b) Dreaming Partner c) Sleeping Partner

11 One disadvantage of being a partnership is...?

a) decision making can take longer.

b) there may be a lack of skill in certain areas of the business.

c) the profits are kept by one person.

12 A business that takes on an established reputation is known as a...?

a) partnership. b) sole trader. c) franchise.

13 Which of the following businesses would NOT have to complete a Memorandum of Association & Articles of Association?

a) A Franchise b) A Private Limited Company c) A Sole Trader

14 What type of business is most likely to benefit from economies of scale?

a) Public Limited Company b) Partnership c) Sole Trader

15 Which of the following types of business is known as 'Co. Ltd.'?

a) Public Limited Company b) Partnership c) Private Limited Company

Name:

BUSINESS OWNERSHIP KEY TERMS

Match the key terms with the statements below.

KEY TERMS:

Sole Trader	Memorandum of Association	Worker co-operative
Partnership	Articles of Association	Franchise
Sleeping Partner	Unincorporated	Franchisor
Deed of Partnership	Incorporation	Franchisee
Unlimited Liability	Limited Liability	Multi national company
Bankrupt	Shareholders	Public corporation
Private Limited Company	Co-operative	Nationalisation
Public Limited Company	Retail co-operative	Privatisation

	A business owned by 2-20 people. They will have unlimited liability.
	A document that gives details about the company.
	A business is only liable for the amount of money invested in the business.
	Someone who owns and controls their own business.
	A business organisation run and owned jointly by the members who have equal voting rights.
	The shares of this business can be bought and sold on the stock exchange.
	The legal contract which governs how a partnership will be owned and organised.
	An agreement where a business sells rights to other businesses allowing them to sell products or use the company name.
	The owner of the business is personally liable for the business debts.
	This is where one person provides capital but takes no part in the running of the business.
	When a business runs out of money and must stop trading.

	The business is not legally separate from the owner.
	This documents sets out the internal rules of a company.
	A business whose shares can not be advertised or sold on the Stock Exchange.
	Puts money into a business, takes no part in its management, receives limited liability
	Business owners can only lose what they put into the business.
	The owners of a company.
	Workers who are responsible for the day to day running of a company
	Legal separation in limited companies of the individuals in the company and the company itself.
	The right given by one business to another to sell goods or services using its name.
	A business owned, and run, by its workers.
	A business owned by its customers.
	The business which buys the use of the name.
	The business which sells the use of the name.
	A business with branches in more than one country
	A business owned by the government.
	When the government buys a business from the private sector.
	When the government sells a public corporation back to the private sector.

Summary of Business Organisations

	OWNERSHIP (WHO)	NUMBER OF OWNERS	CONTROL/ RESPONSIBILITY OF DAY TO DAY RUNNING	LIABILITY	OBJECTIVES	REASONS FOR ORGANISATION	MAIN SOURCE OF CAPITAL	PROFIT DISTRIBUTION
SOLE TRADER								
PARTNERSHIP								
(LTD) PRIVATE LIMITED COMPANY								
(PLC) PUBLIC LIMITED COMPANY								
RETAIL CO-OPERATIVES								
WORKER CO-OPERATIVES								
FRANCHISE								
CHARITIES								
PUBLIC CORPORATION								