

Knockout.Economics by Kru P'Eve & Kru P'Da

IGCSE -Business studies

The main features of different forms of business organisation



- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam

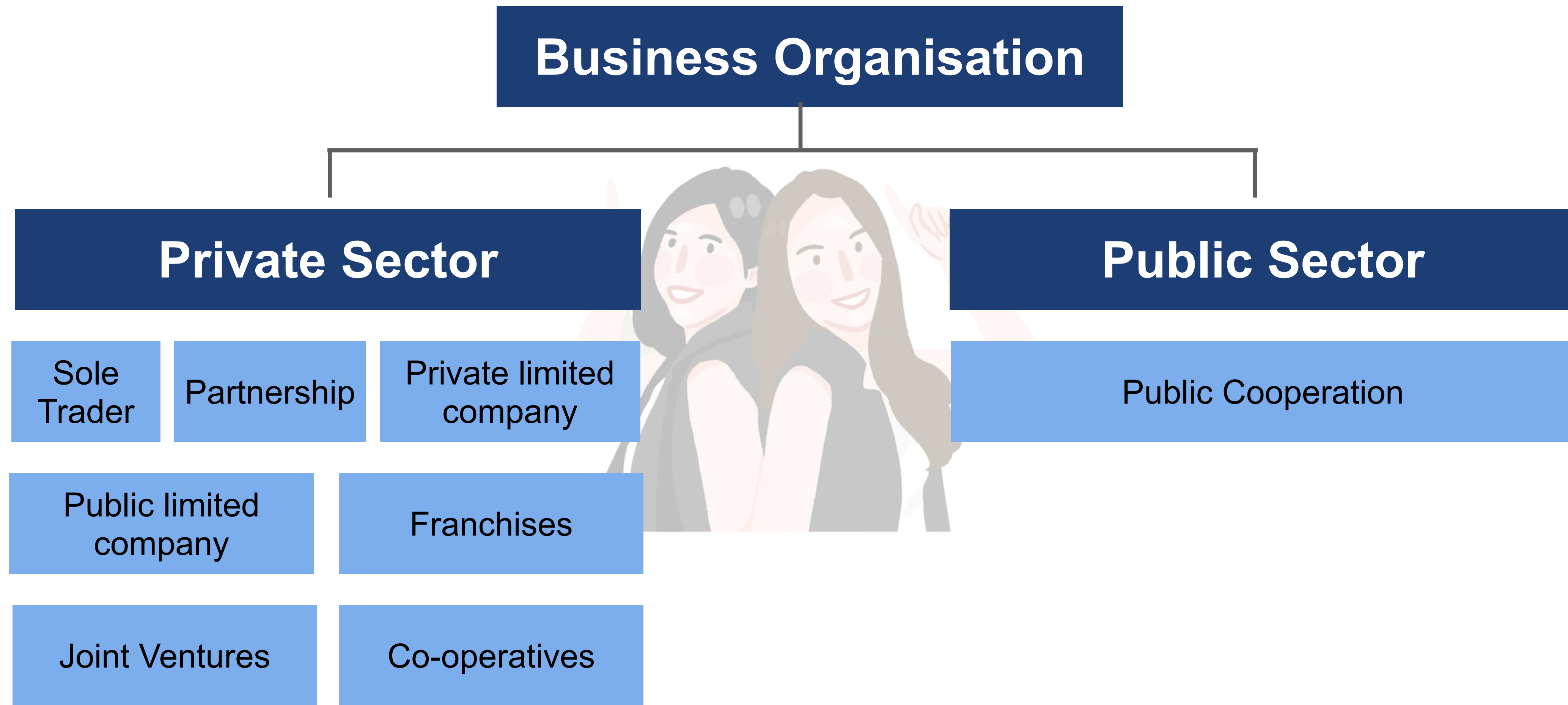


Overview

1. Overview- types of business organisation
2. Sole traders
3. Partnership
4. Private limited companies
5. Public limited companies
6. Joint ventures
7. Franchises
8. Public sector



1. Overview- types of business organisation



2. Sole traders

2.1 Characteristics

- Is a business which owned by only one person.
- For example, small coffee shop etc.



2. Sole traders

2.2 Advantages and disadvantages

Advantages

- Sole trader has few regulation so it is easy to set up the business.
- Owner makes decision easier without discussion with any others.
- There will be less conflict and faster in decision making.
- Owner can gain all profits.
- Owners can contact directly to consumers
 - : There is a quick response to the change in demand
- Owners have close relationship with employees
 - : Employees feel important and valued
 - : This can increase moral to employees.

Disadvantages

- Owner cannot discuss with others. There are no different ideas.
- It is difficult to find source of finance (personal's saving, profits, or small bank loans)
- Business is likely to be small, so business cannot take advantage of economies of scale (Lower average cost when there are large scale of production)
- It is unlimited liabilities. If the business fails, the owners may lose money more than initially invested in the business.
- It is an unincorporated business (A business that does not have a separate legal identity from its owner.
- If the owner pass away or unable to work, the business cannot be transferred to others.

3. Partnerships

3.1 Characteristics

- Is a group of 2-20 people agree to own and run business together.
- They contribute money, share responsibility and profit together.



3. Partnerships

3.2 Advantages and disadvantages

Advantages

- Partnerships have more capital than a sole trader.
- The responsibility can be shared between partners.
- Partners

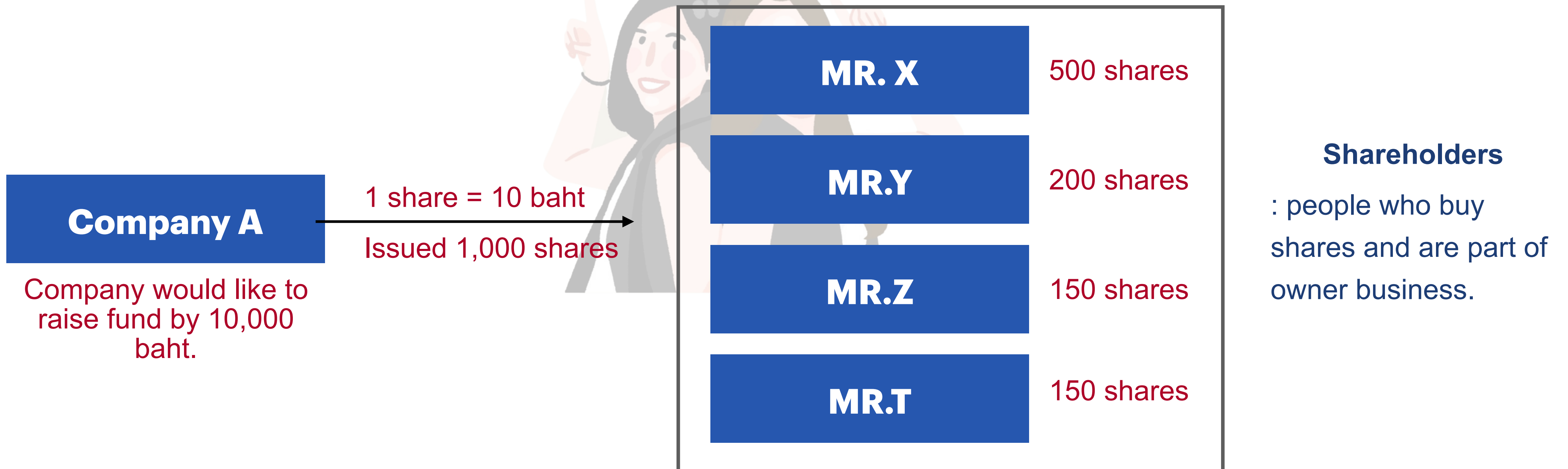
Disadvantages

- It is unlimited liabilities. If the business fails, owners need to spend personal money to repay debt.
- It is an unincorporated business (A business that does not have a separate legal identity from its owner)
- It may have disagreement among partners and it may slow down in decision making.
- It has limited finance and also limited growth of the company.

4. Private limited companies

4.1 Characteristics

- A group of 2-50 people agree to run business, formed as a company.
- A company is incorporated businesses. (A company is separated legal unit from its owner.)



4. Private limited companies

4.2 Advantages and Disadvantages

Advantages

- Private limited companies have more capital than sole traders and partnership.
: This can raise fund up to 50 persons
- It is limited liability. If the business failed, the shareholders no need to use their personal's saving to repay debts.
- It is an incorporated business. (A business that does have a separate legal identity from its owner)
If some of owners pass away, company will continue to exist.

Disadvantages

- Private limited companies cannot advertise and sell shares publicly in the stock market.
: This leads to limit source of fund.
- It is less liquidity.
: When shareholders would like to covert shares to money
: Shares cannot be transferred and sold to anyone without any agreements from other shareholders.
- Private limited companies need to prepare financial statements, and there are many regulations leading to high cost to businesses.

5. Public limited companies

5.1 Characteristics

- Public limited companies are most suitable for large businesses.
- A company can sell shares publicly in the stock market, public limited companies can raise capital to expand national or even globally.
- A company is incorporated businesses. (A business that does have a separate legal identity from its owner)

Sell to public

Company A

1 share = 10 baht
Issued 1,000 shares

MR. X	MR. B	MR. G
MR. Y	MR. C	MR. H
MR. Z	MR. D	MR. I
MR. T	MR. F	MR. G

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Public limited companies ≠ Public corporation

5. Public limited companies

5.2 Advantages and Disadvantages

Advantages

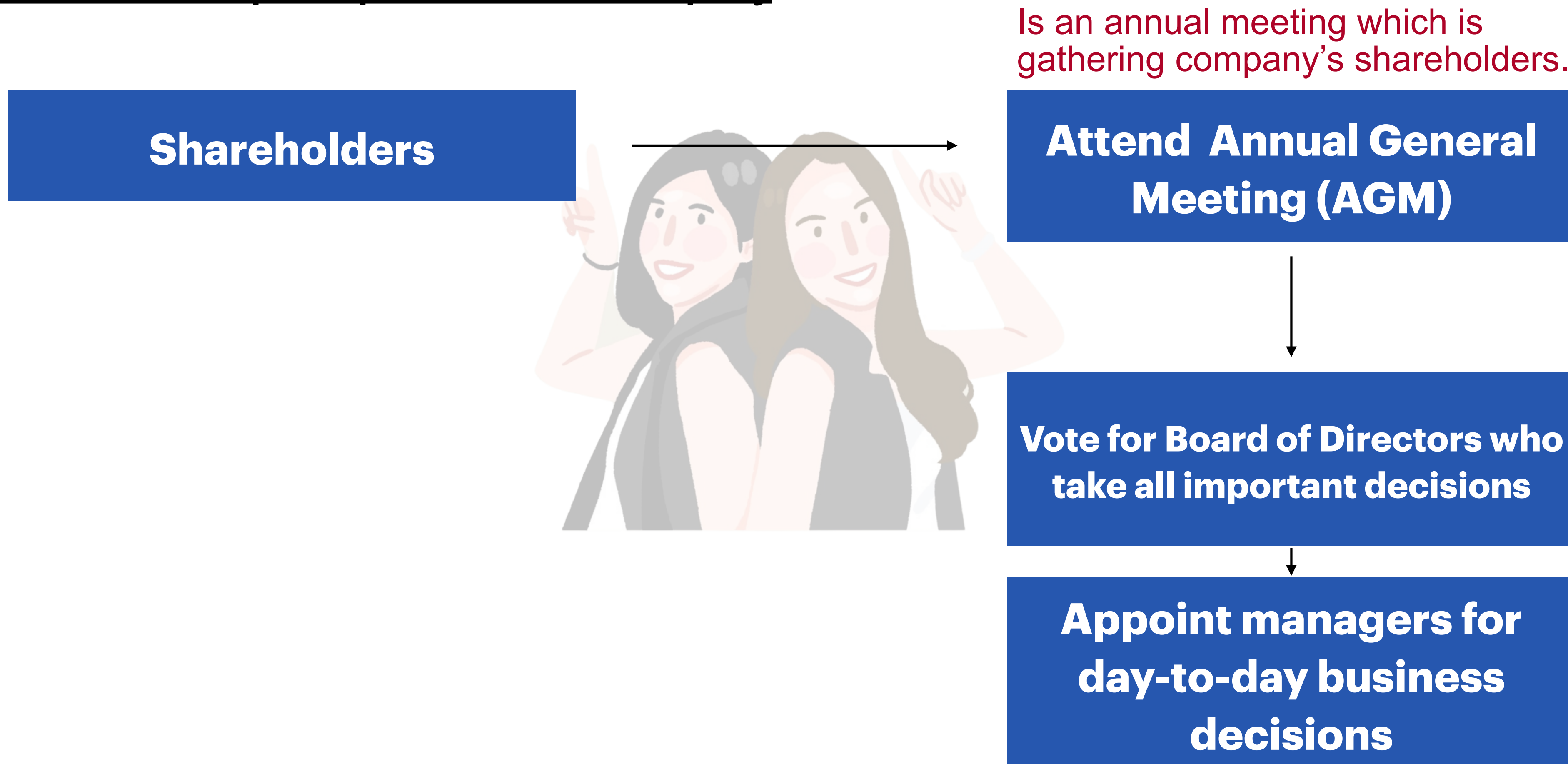
- Public limited companies can raise fund by selling share to public.
: This can be unlimited shareholders.
- There is no restriction on buying/selling/transferring shares.
- It is limited liability. If the business failed, the shareholders no need to use their personal's saving to repay debts.
- It is an incorporated business. If some of owners pass away, company will continue to exist.

Disadvantages

- Public limited companies need to prepare financial statements, many regulations which are costly.
- Selling shares to public is expensive since they need to pay for commission and advertising.
- It is difficult to control and manage the larger size of public companies.
- The original owners may lose control over the business.
: Decision-making is not rely on only one person but group of shareholders.

5. Public limited companies

Control and ownership in a public limited company



6. Joint ventures

6.1 Characteristics

: is when 2 or more companies agree to start a new product together.



Credit: facebook.com/bestpriceamravati/

6. Joint ventures

6.2 Advantages and Disadvantages

Advantages

- Joint ventures can share costs.
: Since some projects might spend huge investment cost.
: So, two or more firms can share investment cost into the projects.
- Risks are shared.
- Jointing with local firms can makes better understanding about local consumer preferences , local law and regulations.

Disadvantages

- It may has disagreement among partners and slow in decision making.
- There might be some conflicts from differences in cultures and languages.
- Profit needs to be shared.

7. Franchising

7.1 Characteristics

: A franchise is an authority that is given by business to someone (selling license to someone), allowing them to sell its goods and services, using brand names, trading methods, logos etc.



Franchisor
(A person or business who owned business model and trademark)

Franchisee
(A person or business who buy license from franchisor and operate business under franchisor's trademark)

Brand names
Advertising and Training
Products & services



License fee
Profit sharing
Training cost

Credit: bit.ly/2JsAOBF

7. Franchising

7.2 Advantages and Disadvantages (Franchisor)

Advantages

- Franchisor can expand business faster by selling license to franchisee.
: This could expand to other areas where franchisor might not be familiar.
- Selling franchising can increase customer base & market share
: This can result in higher revenue.
- Franchisor can make profit from selling raw material to franchisee.

Disadvantages

- It is difficult to control standards.
: If franchisee cannot control quality of products, It may create bad reputation for the company.
- The franchisee may keeps profit from the franchisor.

7. Franchising

7.2 Advantages and Disadvantages (Franchisee)

Advantages

- Franchisee has lower chance of business failure as franchisee sells the well-known products.
- There are existing customers so the franchisee does not need to spend lots of time to build the target customers.
- It is easier for franchisee to borrow money from banks due to relatively low risk.
- The franchisor pays advertising cost.
- : Brand will be well-known to everyone.
- : This can increase sale revenue and reduce work for franchisee.
- Franchisor provides training to staff.
- : Franchisee and employees know how to operate and deal with consumers.

Disadvantages

- It has less independence since the franchisee needs to follow franchisor's instructions.
- License fee need to be paid and profit need to be shared.

8. Public Sector

8.1 Characteristics

: a business organisation owned by the government which is designed to act in the public interest such as water supply, railway, and electricity.



8. Public Sector

8.2 Advantages and Disadvantages

Advantages

- Some industries are considered to be important so government should be the one who provide essential goods to citizen in the economy.
For example : Water supply, electricity, road.
- It can prevent private monopoly to supply goods and services at high price and low quantity.
- Government aims to maximise social welfare so goods and services provided by government are likely to have low price and high quality.
- If some business fail, government may nationalise an important industry in order to protect job.

Disadvantages

- Government might be slow in decision making.
: unable to respond consumer's wants.
- Due to the lack of competition and profit motive.
: It might cause inefficiency and low-quality products.
- Government corruption
- Governments can use these business activities for personal benefits. For example, Government may create or increase minimum wage before election to get vote.

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Exercise : Types of business organisation 🔍

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Exercise

1. Sarah started a **music school ten years ago**. Every year Sarah pays herself a salary and makes \$1,500 profit. The school **offers a range of music and exercise classes for children**. It is a **sole trader** business. Sarah believes using the right pricing method is important. Sarah wants to **expand the business by opening a second music school**. Based on her business plan, she forecasts that this will cost \$8000. Sarah cannot decide whether a bank loan is the best source of finance for this expansion.

(A) Identify two features of a sole trader [2 marks]

Command word :

Identify - Name, select and recognise

Feature 1 :

.....

Feature 2 :

.....

Exercise

(B) Explain one advantage and one disadvantage to Sarah of being a sole trader. [6marks]

Command word :

Explain : Set out purposes or reasons / make the relationships between things clear / say why and/ or how and support with relevant evidence

Advantage 1 :

.....

Explanation :

.....

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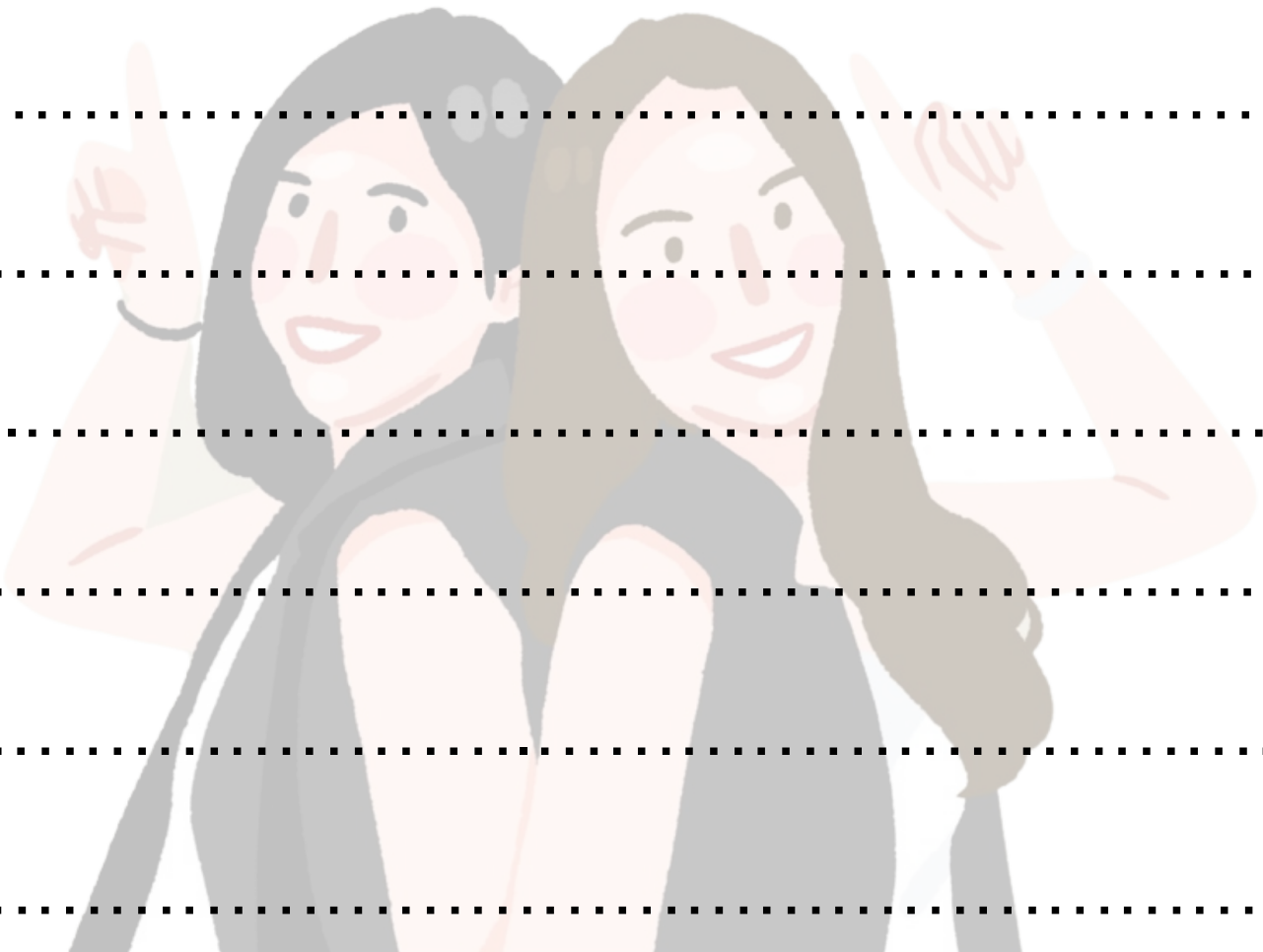
Disadvantage1 :

.....

Explanation :

.....

.....



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