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Business Studies for OCR GCSE

Preface

About this book

This book has been prepared specifically for the new Specifications in GCSE Business Studies for first teaching in September 2001. Whilst it is not intended to be a scheme of work, the book will clearly provide the necessary teacher support to deliver the specification. Students will find the book a valuable resource in preparing for GCSE Business Studies.

The effectiveness with which this resource is used will depend on the skill and professionalism of the teacher. In writing the book we have endeavoured to include materials which cater for the full range of ability from A* to G. Some of the material is specifically aimed at the upper end of the ability range and hence may prove difficult for less able candidates. Where this is the case, we have included visual material in the form of charts, pictures, diagrams, etc to help teachers make the material more accessible to less able candidates. All the materials have been trialled with mixed ability classes in the schools in which we teach and we are confident that the resource will work with all levels of ability.

Whilst the material in the book has been written to support the OCR Full and Short Course Linear GCSE Business Studies Specifications, large amounts of the material in the book will be relevant to Specifications offered by other Awarding Bodies. All GCSE Business Studies Specifications in England, Wales and Northern Ireland are written to the same criteria specified by QCA, ACCAC and CCEA.

The contents have been designed to provide a knowledge base appropriate to GCSE Business Studies. Activities and exercises have been included to help students practise and develop the skills of application analysis and evaluation within similar contents to those they will experience in the GCSE examinations.

It must also be remembered that GCSE question papers writers are extremely skilled and inventive in seeking new ways to test the ability of


candidates. For this reason, it is vital that teachers prepare their candidates to apply the information they have available in providing an answer to the question which has been set.

Teacher's Book

A complementary Teacher's Book with additional student activities and advice is available. It contains a series of tests and work sheets linked to the sections of the book to help monitor the progress of their students.

How to use this book

The **Introductory Activity** to each Section is designed to give students an overview of the content of the Units in that Section. The student activity is designed to get students involved in an investigatory or active series of tasks which will help broaden understanding and prepare them for the detailed content of the Units.

Each Unit follows the same basic pattern. The subject content in each Unit is supported by a series of student **Activities**. Where this symbol  appears the Activity is capable of providing a range of opportunities for candidates to acquire evidence which can be included in the Key Skills Portfolio. Further guidance on what candidates need to do to meet the Key Skills requirements at various Levels is provided in a section at the end of each Unit.

Adapted **Examination Questions**, which have appeared in previous examination papers, are also provided in most Units. Where the Specification content is new and has not been examined previously, practice questions similar in style to those used in examinations have been included. These questions should help to reinforce and support learning as well as providing an opportunity for candidates to become accustomed to the type and style of questioning which they can expect to experience on certain topics. Our interpretation of what the examiner was looking for, **Advice on How to Answer the Question**, gives guidance on how candidates will need to respond in order to answer the question successfully. The **command word** used in a



question is perhaps one of the most important pointers with regard to what candidates have to do in order to answer a question successfully. Candidates will need to be trained to recognise **command words** and respond accordingly.

For candidates to be successful they will also need to have a sound understanding of basic business knowledge and terminology upon which they can build and develop their skills. This basic information can be found in the **Key Terms** section of each Unit. It is essential that candidates are familiar with all the Key Terms and able to both provide a definition and apply this information to unfamiliar situations.

Finally, each Unit contains an **Examination Summary Tips** section giving further guidance on the key features of each Unit which candidates will need to be able to do if they are to improve their chances of success.

Full course options

For the full course, each candidate is required to study **one** of two options. The Specification content of each option should be seen as an extension of the core content of the Specification. The options should not be taught in a 'bolt-on' manner but as part of an integrated whole. This is particularly important as the Option examination papers may seek to test elements of the core content.

Where a topic is particularly relevant to the Business and Change option, this symbol  appears. Where a topic is particularly relevant to the Business Communications and Marketing option, this symbol  appears. However, the use of one of these symbols does not necessarily mean that the topic can be ignored because a candidate is entered for the other option – the content may be questioned in the core paper if the topic is part of the core specification. Teachers will need to use their judgement in deciding how much detail to include when seeking to integrate the material for the Core and Option.

The short course

The short course has a subject content which equates to approximately half the content of the full course. The content of the book more than covers the GCSE Specification content and teachers will need to exercise care when using the book as the resource to deliver this course. Careful reference will need to be made to the specification content.

The case study

A written examination paper with a pre-seen case study scenario is available as an alternative to course work for both the full and short courses. The short course version will be a reduced version of that used for the full course, making co-teachability of the two courses possible.

The subject material and questions for the full course version of the case study will be drawn from the Core content of the Specification and **not** the Option content of the Specification.

The examination paper for the case study will assess the same skills as those assessed by the coursework. Therefore, **no** marks will be available for pure recall of basic business knowledge. Candidates will be assessed on their ability to demonstrate skills of Application, Analysis and Evaluation.

Acknowledgements

We are grateful to a number of people in helping us to prepare this book, in particular our families, who have been patient with us while the preparation of the material was being carried out. The OCR Business and Commerce Subject Team, especially Jane Wykes, were very supportive and helpful throughout. Finally, without the drive and determination of Llinos Edwards from Hodder & Stoughton this publication would not have been possible.

Business Studies for OCR GCSE

Unit 2.4

Franchises, holding and multinational companies, management buyouts

In the previous Units we have seen how businesses in the private sector are organised into four basic business forms.

The way in which these businesses structure the method by which they operate can vary significantly, depending on a wide range of factors. This Unit looks at some of the different ways in which businesses can operate.

Franchises

A franchise is **not** a form of business organisation but a type of marketing arrangement. A business which is trading as a franchise can be organised into any one of the four main forms of business organisation. Franchises have become extremely popular in the UK in recent years and are available in most sectors of business activity.

One of the most well-known businesses in the UK, McDonalds, operates restaurants which are either owned by the company or trade as franchises

There are many other well-known business names which are operated as franchises. An example is shown below.

ESSO – BUSINESS TO BUILD ON

A Leading Player in a tough market place

This is one of today's most exciting and challenging business opportunities. Working with one of Britain's largest retail operations, it's your chance to build on this opportunity now and into the future.

Esso moves with the times, developing its marketing in line with the increasing expectations of consumers. As a result, customers expect Esso to provide wider ranging retail outlets with the blend of services and products they want, wherever they want.

We provide the framework and setting within which you can manage a thriving retail business; you provide the drive and enthusiasm.

A business to build on

As a self-employed business person and agent for Esso, you are responsible for the day-to-day running of a substantial retail outlet.

- It will be a high turnover business, operating 365 days a year.
- Effective advertising helps you to sell fuel on behalf of Esso.
- You trade in the shop and sell goods on your own account.
- You employ, train, manage and motivate your own staff.

A job for enthusiasts

Are you someone with good communication skills who positively wants to be a retailer? A numerate, literate, techno-fearless person who's not afraid of computers?

You need to be a committed businessman or woman with good organisational skills.

You will also need between £10 000 and £20 000 capital dependent upon the size and turnover of the service station shop to which you might be appointed.

An example of a franchise being offered for sale.

Business Structure and Organisation

What is a franchise?

Franchise opportunities exist where an already established business (the **franchisor**) offers for sale to other businesses or individuals (the **franchisee**) the right to use its products, services and logos, usually in a defined area. Franchises are not cheap to buy. Usually, a considerable initial payment is required (as in the Esso example) and a percentage of the sales turnover of the business, known as a **royalty**, has to be paid on an annual basis in addition to the initial fee.

Advantages of franchises

A designated area of operation with no competition from other franchises made available from the same company.

A tried and tested business idea.

Logos and products which are usually already established in the market.

National advertising and promotion campaigns may be paid for by the franchisor.

Training and advice on how to run the business.

Reduced risk of business failure.

Disadvantages of franchises

All supplies must usually be purchased from the franchisor at the price that they determine.

A large amount of initial capital may be required.

Annual royalty payment based on profit or sales turnover may be required.

The owner of the business might not have total control over the way in which the business operates.

The business may not make enough profit to help cover the cost of the initial payment.

Losses have to be paid for by the franchisee.

Holding companies

This is a form of business which will trade as a private or public limited company. It will normally own all or the majority of shares in other businesses which will probably trade under different names. The table on page 52 shows how part of The Boots Company plc is organised.

There are a large number of other subsidiary companies owned by The Boots Company plc. Two of these are mentioned in the article below which explains about the purchase of the 'Clearasil' brand.

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Business News

Boots pays £230m for Clearasil

BY ADAM JAY

BOOTS, the high street healthcare and chemists company, is to buy the acne treatment brand Clearasil from Procter & Gamble in a bid to expand its global coverage.

Boots Healthcare USA and Hermal Kurt Herrman GmbH — both wholly owned subsidiaries of Boots Health-care International (BHI) — are to pay \$340m (£230m) cash for the world's best-selling pimple-fighting medication.

The sum is payable on completion of the deal, which requires regulatory approval in the US, Germany and Japan.

BHI is the division of Boots that develops and markets medicines for over-the-counter sale, with brands including Nurofen painkillers and Strepsils throat lozenges. It is Europe's fastest-growing OTC medicines company, with skincare products accounting for 36pc of last year's £327m turnover.

than 50 countries and market leader in eight — including the US, UK and Germany — had sales last year amounting to \$137m (£94m).

Clearasil, sold in more

A newspaper headline announcing the purchase of another business.

Until relatively recently, another well-known company owned by The Boots Company plc was 'Do It All' which traded as a retailer providing do-it-yourself tools, and equipment and home furnishings. This business has now been sold to another company and now trades as Focus Do It All.

There are numerous businesses which choose to operate as **holding companies** and there are a number of reasons why this happens:

- A wide range of different business activities can trade under separate names.
- Economies of scale may be obtained by having one head office for all the companies owned by the holding company.
- The company may be able to trade in a number of different markets more easily.
- The overall management of the business may be improved.
- It is relatively easy to sell sections of the business.
- New businesses which have been bought can be integrated quickly into the overall structure.

Business Studies for OCR GCSE

ACTIVITY 1



The World Wide Web has a lot of pages of information about franchises. Using Internet access:

1. Use a **search engine** to find some web pages providing information about franchises. www.franchisebusiness.co.uk may be a good starting point.

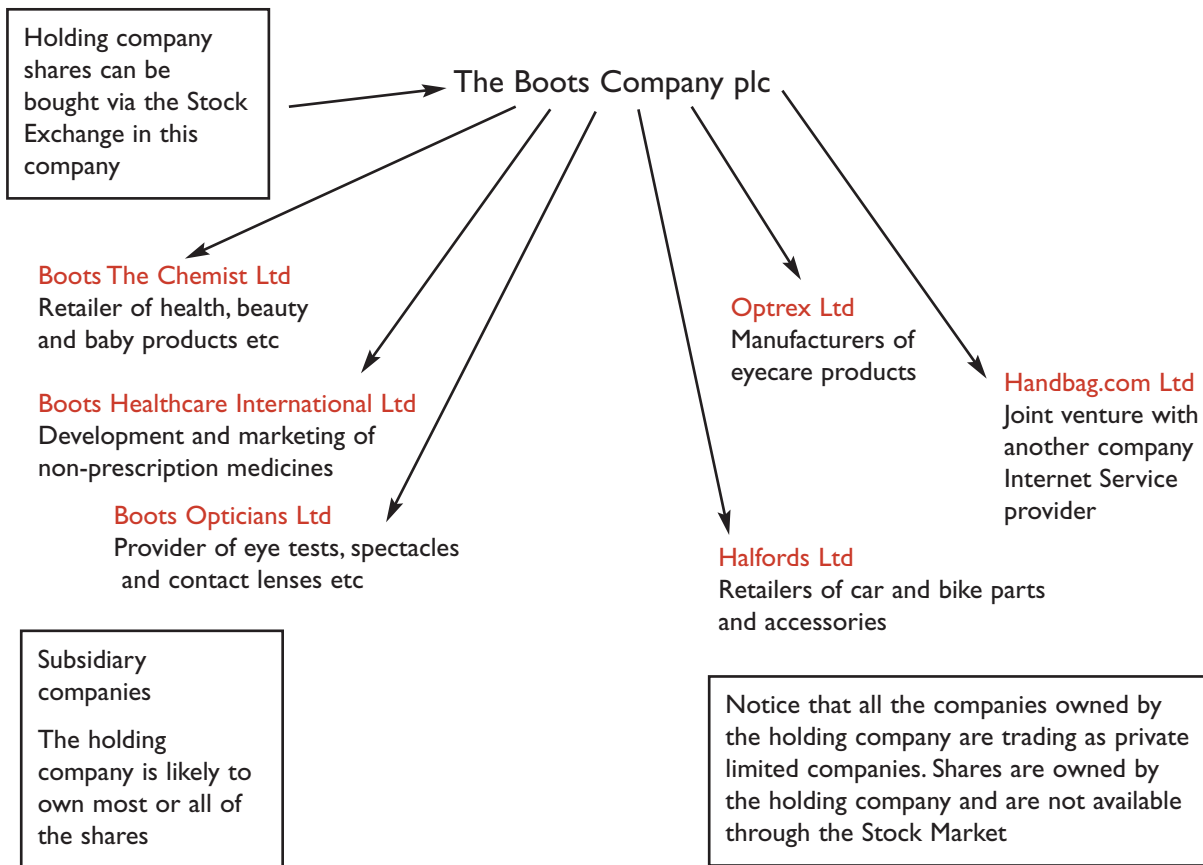
2. Find out some information about a franchise which interests you.
 3. Using a memo format similar to the one below, write a report to your teacher, giving your reasons why you think the franchise you have chosen would be a good or bad idea if it were to operate in the area where you live.

To:

Date:

From:

Subject: Franchise recommendation



Simplified organisation chart of the Boots Company plc

Business Structure and Organisation

Multinational companies

These are usually very large companies which may have a head office based in one country but manufacturing or service facilities in other countries. The number of **multinational companies** is increasing every year. This is happening on a world-wide basis but particularly in Europe as business activity in European countries becomes more and more closely integrated.

The Nestlé Group



The Swiss company Nestlé Group is a very large and well-known Multinational company with over 400 factories located in over 60 countries in all five continents. The product range of well-known branded goods produced by the company is enormous.

Advantages for multinational companies

There are a number of reasons why multinational companies exist.

- Manufacturing bases can be spread around the world nearer to the markets they serve.
- Economies of large-scale production can be obtained.
- Production may be located in countries where production costs are lower.

Disadvantages of multinational companies

Operating as a multinational company is not without its problems. The main problems are:

- Communication difficulties caused by being located in different countries.
- The high cost of transporting goods between countries.

- Coping with the differing legal requirements of different countries.
- Fluctuating exchange rates for different currencies.

ACTIVITY 2

1. Name four other multinational companies and list their types of products and services.
2. Explain why so many large public limited companies choose to operate as holding companies.
3. Outline the advantages of allowing companies owned by a holding company to continue to trade under different names.

ACTIVITY 3

The Dixons Group plc is a very large and well-known holding company. The company's website (www.dixons-group-plc.co.uk/) has a lot of information about the company.

1. Visit the website and obtain information about the subsidiary companies controlled by the Dixons Group plc.
2. Draw an organisation chart for the company showing the names of the subsidiary companies and the types of products or services provided by each company.
3. Find out the number of branches which each of the subsidiary companies operates.
4. Find the website of The Arcadia Group plc and find out which well-known High Street or brand names this company owns and operates as subsidiary companies.

Business Studies for OCR GCSE

Management buyouts

This is not a form of company organisation but a process where the existing management of a business buys the business from the owners. A management buyout is sometimes called an MBO.

Each year, a number of companies will sell all or parts of an existing business to the management team which look after the day-to-day running of the business. The managers will then become shareholders owning the new business.

Why do management buyouts happen?

Businesses change owners for many reasons. Management buyouts usually happen because:

- the owners want to sell the business, perhaps because it does not fit in with the overall objectives of the business or because it is not making much profit
- the managers make an offer to the existing owners to buy the business. This may happen because they feel they can run the business better
- the business has become insolvent and the managers buy the business from the liquidators. This means that managers will also keep their jobs.

One of the main problems of a management buyout is obtaining sufficient capital to buy the business in the first place. It cannot normally be financed through an issue of shares and therefore large sums of money will need to be borrowed to buy the business from the owners. The main problem is finding someone prepared to lend sufficient finance.

Capital is sometimes obtained from a merchant bank or venture capital organisation or both. These organisations specialise in providing finance to industry and commerce.

EXAM

Practice Questions

- State four features of a franchise. (4 marks)
- Jason Lee has worked for Colliers plc for several years. Colliers plc both manufactures and sells chocolates. Jason is thinking of opening a new shop selling sweets and chocolates. Should he open the shop as a franchise or as an independent shop? Discuss the advantages of each option and give reasons for your answers. (8 marks)

(Adapted from OCR Business Studies, Q3 Higher Tier Common Core paper, June 2000.)

A ADVICE ON HOW TO ANSWER THE QUESTION

- This question requires four simple facts about franchises. No explanations are needed.
- To answer this question successfully, you will need to make a recommendation based on the evidence you provide. This evidence will need to consider the advantages and disadvantages of both operating as an independent shop and as a franchise selling the products of an already established chocolate business.

Business Structure and Organisation



KEY TERMS

Franchise A marketing arrangement which allows another business to trade in the same style as an existing business.

Franchisor The name given to the person or business who offers to franchise to other businesses its trading methods, products and business logos.

Franchisee The name given to a business or person buying a franchise.

Royalty A payment made to the franchisor based on the sales turnover of the franchise.

Holding company A company which owns a number of other companies.

Subsidiary company A company in which most or all of the shares are owned by a holding company.

Joint venture An arrangement where two or more companies set up and own another business which will trade under its own name.

Multinational company A company with manufacturing facilities in more than one country.

Management buyout A process of transferring the ownership of a company from the existing owners of the business to its managers.

Venture capital Finance provided for business activities which may have a high risk.

Merchant bank A bank which specialises in providing finance to business and commerce.



EXAMINATION SUMMARY TIPS

- Learn the features, advantages and disadvantages of franchises and be prepared to write in detail about them with reference to a specific business situation.
- When answering examination questions which require you to explain something, always try to provide examples to illustrate the points you are making.
- Learn the difference between holding companies and multinational companies and consider why some businesses may wish to organise themselves in this way.
- Be prepared to explain why businesses choose to organise themselves in a particular way.

Key Skills

Activity 1 provides an opportunity to find and explore information at Level 1 using the Internet (IT 1.1) and present it (IT 1.2). To access Level 2 (IT 2.1 and IT 2.2), additional relevant websites will need to be searched and a more detailed report produced.

- The third part of the activity provides the opportunity to produce the evidence which will be needed for the Key Skills portfolio.
- This task will require you to write a report in the form of a memo using the information you have obtained.
- Images and data from the website could be included in the report.

Evidence may also be produced which meets the Communication Key Skill requirements at Level 1 (C1.3). A detailed and extended piece of work may satisfy the requirements for Level 2 (C2.3).