THE BRUNTS ACADEMY

OCR Cambridge Technicals

Level 3 Extended Certificate

Business

Transition Booklet

(Year 11 to Year 12)

Welcome to OCR Cambridge Technicals Level 3 Business at Brunts Academy.

Congratulations choosing Level 3 Business, an exciting vocational qualification designed to help you to achieve your potential and progress to higher education, an apprenticeship and employment.

For this course, you will be expected to take greater ownership of your studying as you juggle learning content and skills for examinations with completing independent research

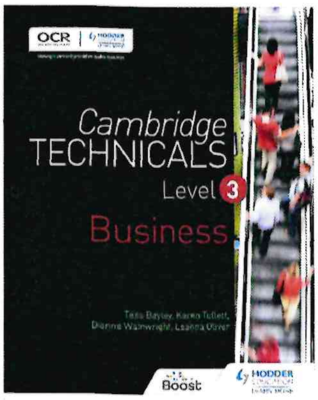
Three units are assessed by examination:

- Unit 1: The Business Environment
- Unit 2: Working in Business
- Unit 3: Business Decisions

In addition, you are required to submit three pieces of coursework based on business scenarios that link to the Marketing pathway.

Textbook

The textbook that you may obtain is OCR Cambridge Technicals Level 3 Business.



Other Resources

The BusinessEd website has useful theory notes in a series of free slide shows that link closely to the OCR Business specification.

https://businessed.co.uk/index.php/home/theory/cambtec/cambtec-l3-theory#unit-1-the businessenvironment

Tutor2u has a free reference library with a range of useful study notes, videos, presentations, case studies and quizzes.

https://www.tutor2u.net/business/reference

You will be expected to stay up to date with what is happening in the business world by regularly reading business news. Most newspapers have Business sections, including:

https://www.bbc.co.uk/news/business

https://www.standard.co.uk/business/business-news

Unit 1: The Business Environment

In September, we will begin with Unit 1: The Business Environment. You will have your first external examination for this in January 2025 so there is no time to lose!

Businesses don't exist in isolation. They are influenced not only by the people who own them and work for them, but also their suppliers, competitors, local communities, the government, and many other groups and individuals. In Unit 1, you will find out how businesses are run and the reasons why particular decisions are made. You will learn about different types of business and how they are structured. You will discover how different functional areas work and how businesses can respond to external factors in order to remain competitive. You will also find out how financial and performance information can help a business plan for success.

LO1 Understand different types of businesses and their objectives

This transition booklet introduces you to the first learning outcome (LO1) of Unit 1.

LO1 covers:

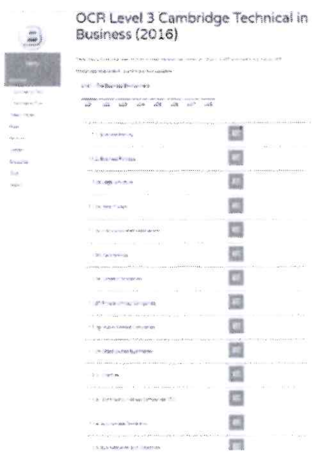
- different types of business activity
- different sectors of operation
- different forms of legal business ownership
- factors which inform business ownership
- differing business aims and objectives.

Before answering the questions in this booklet:

a) read the extracts from the textbook included in the booklet

b) go through the relevant BusinessEd slides

https://businessed.co.uk/index.php/home/theory/cambtec/cambtec-l3-theory#unit-1-thebusiness-environment



LO1 Understand different types of businesses and their objectives

GETTING STARTED

(5 minutes)

List ten businesses. Include a range of different types of businesses, e.g. some that produce or grow a product and some that provide a service.

You will use this list in later activities.

1.1 Different types of business activity

There are several different types of **business activity**, as described below.

KEY TERM

Business activities – tasks completed by a business to achieve its objectives, e.g. buying, selling and producing products or services.

Primary activity

The key purpose of primary activity is the extraction and harvesting of raw materials. This includes mining, agriculture, fishing, and oil and gas extraction.

In countries in the early stages of industrial development, most of the population is employed in primary activities.

Secondary activity

The key purpose of secondary activity is to manufacture products. These can be finished products sold to **retail customers**, or components sold to **business customers** and used in the production of other products.

KEY TERMS

Retail customers – customers who buy finished products, e.g. frozen peas from a supermarket.

Business customers – businesses that purchase products or services from another business.

As a country becomes more industrialised, employment in secondary activities increases.

Tertiary activity

The key purpose of tertiary activity is the provision of services. These can be services to the public, such as hairdressers, schools, banks and supermarkets, or services to businesses, such as transport.

As a country becomes more industrialised, the demand for services increases. This leads to growth in the provision of, and employment within, service industries.

1.2 Different sectors of operation

Private sector

Businesses operating in the private sector aim to make a profit. They range from small local businesses, such as an electrician, to large multinational corporations, such as Walmart Stores, Inc. Examples of private sector businesses in the UK include Next plc, Britvic plc and Iceland Ltd.

Public sector

The UK public sector is responsible for providing a wide range of public services, such as health care, education, libraries, the armed forces, maintaining public roads and refuse collection.

A range of public corporations are also owned by the public sector, including the Royal Mint, Forestry Commission, Ofsted and the Student Loans Company.

The public sector is financed via sources including taxation, council tax payments, business rates, licence fees (e.g. BBC), and selling products and services (e.g. Ordnance Survey).

Third sector

These are organisations that do not aim to make a profit and are not government owned. They rely on donations, fundraising, and grants from sources such as charitable foundations and the government. Registered charities such as the NSPCC and Oxfam, self-help groups such as Alcoholics Anonymous and community groups such as Grow Wild all operate within this sector.

PAIRS ACTIVITY

(5 minutes)

Refer back to your list of ten businesses. For each business decide:

- which type of business activity it performs
- which sector of operation it belongs to.

1.1 Different types of business activity

What is primary activity? Give an example.

What is secondary activity? Give an example.

What is tertiary activity? Give an example.

1.2 Different sectors of operation

What is the private sector? Give an example of a business that operates in this sector.

What is the public sector? Give an example of a business that operates in this sector.

What is the third sector? Give an example of a business that operates in this sector.

1.3 Different forms of business legal ownership

Type of business	Advantages	Disadvantages	Most appropriate for ...
Sole trader • Owned by one person, although the owner may decide to employ others to work alongside them. It is the most common form of ownership in the UK	• A sole trader can often start a business with limited finance, e.g. a window cleaner • There are few legal requirements to consider when starting compared with other forms of ownership • Sole traders are solely responsible for decision making • Sole traders can choose their own working hours and holidays • A good relationship is likely to be built with their customers as they deal with them directly • Sole traders do not have to share profits with other owners	• Sole traders are personally liable for any debts incurred by the business (**unlimited liability**). This may result in, say, their home being sold to raise finance • Sole traders do not have co-owners to discuss ideas and decisions with • Sole traders often work long hours and take few holidays as there is no one to take responsibility when they are not there; similarly, if they are ill the business can suffer and customers may be let down • A lack of finance may restrict the business, e.g. not being able to invest in new equipment or expand	Individuals who have an enterprising business idea or people wishing to start a business alongside employed work, e.g. a wedding cake maker The risk of unlimited liability means that this form of ownership is better suited to businesses where there is no large initial financial outlay
Partnership • A business with a minimum of two partners. It can be straightforward to set up, although a Deed of Partnership is advisable. This summarises details of the owners, e.g. the capital each has invested into the business and how profits will be shared • In a limited liability partnership, the partners aren't personally liable for debts the business can't pay; their liability is limited to the amount of money they invest in the business. Different partners may have different liabilities.	• There are others to discuss decisions with, and to cover for holidays and sickness • As each of the partners contributes capital there is more finance available for investment • Partners may have different areas of expertise that will be beneficial to the business, e.g. one may have ICT expertise and another financial expertise • There are few legal requirements when starting the business	• Decision making may take longer as more people are involved • If partners disagree, arguments could affect the service provided • All profits are shared • The partners have unlimited liability • If one partner works longer hours than others or one partner takes longer holidays, this may cause resentment • The business does not have a separate legal identity; therefore if one of the partners dies the partnership would end	Partnerships are commonly used by professional services such as doctors' surgeries, solicitors and accountants
Private limited company (Ltd) • A company is a separate legal entity to the owners. It is a form of ownership where shares in the business are sold to raise finance. Those purchasing the shares (the shareholders) are the legal owners. The individual(s) who set up the business are likely to become the majority shareholders, although shares may be sold to people approved by these owners • A private limited company can usually be identified by 'Ltd' or 'Limited' after its name	• As the company is a separate legal entity, the owners/shareholders have **limited liability** • Shares can be sold to raise additional finance • The owners can choose to whom shares are sold • The owners can keep control of the business as long as they limit the number of shares sold to others, i.e. they remain the majority shareholders	• Becoming a limited company can be an expensive and lengthy process. The Articles of Association and the Memorandum of Association (AOA), along with Form 12 and Form 10, are legal documents that must be completed and sent to the Registrar of Companies, who will issue a Certificate of Incorporation • Shares cannot be sold to the general public; this limits the finance that can be gained via selling shares • Shares cannot be transferred or sold unless permission is gained from the other shareholders; some people may therefore be reluctant to invest in the company	For a small business, becoming a limited company provides the owners with less risk than being a sole trader or partnership due to having limited liability; however, additional costs of the legal process may be off-putting Some large businesses, such as Coca-Cola Enterprises Ltd, are still private limited companies with the benefit of limited liability and control over decision making

Public limited company (plc) • A plc is a separate legal entity from its owners, the shareholders. Unlike a private limited company, the shares in public limited companies can be bought and sold via the stock market. The business has limited liability, must have share capital of more than £50,000, at least two shareholders, two directors, a qualified company secretary and, usually, a wide spread of shareholders. It has the letters 'plc' after its name • Plcs are subject to costly regulations, including an annual general meeting (AGM), and strict auditing	• Shareholders benefit from limited liability • As shares can be sold via the stock market, large amounts of capital can be raised if required • Shares can be bought, sold and transferred easily • A plc has a high profile so may find it easier to attract new customers and reliable suppliers; banks may also be more willing to lend them money as they are seen as a lower risk than businesses with other forms of ownership	• The accounts of plcs are in the public domain so anyone – even competitors – can view them • Due to the size of plcs, the decision-making process may be lengthy, particularly if shareholders need to be consulted, and may concentrate on short-term profit rather than long-term strategy • The legal process to become a plc is lengthy and costly; it is only once the legal certificate is issued that the company can begin trading • Issuing further shares can be costly as this includes legal costs, producing a prospectus and advertising the sale • The original owners are unlikely to retain full control over decision making, although they may personally benefit from the first share issue, e.g. Mark Zuckerberg, the founder of Facebook • There is a greater risk of takeover	Businesses that need to raise large amounts of capital, e.g. Tesco plc, may require capital to build new stores, or an oil extraction company could require capital due to high investment costs

Type of business	Advantages	Disadvantages	Most appropriate for ...
State/government owned (public sector) • In the UK a range of organisations are still under government control, such as Ordnance Survey and the BBC • The government identifies the aims and objectives of the organisation and appoints a board of directors to run it	• Some businesses/ industries are vital. Support from the government ensures that these industries survive • In some industries it would be inefficient to have more than one provider of a product or service, e.g. the Royal Mint; if there were multiple producers of UK currency it would be difficult and costly to maintain security • The government can support large businesses that are struggling to survive, e.g. the bank Northern Rock was nationalised in 2008 after suffering financial problems	• Large businesses/industries may be inefficient due to **diseconomies of scale** and higher prices may be charged to customers • Businesses that are not answerable to shareholders regarding profits may not prioritise cost control • These businesses can be used for political gain, e.g. if unemployment is high, additional jobs can be created; however, this would increase costs and inefficiency	Large organisations that provide a vital product or service to the population and that may not exist without government support
Community interest companies (CIC) • Limited companies that aim to benefit the community or trade with a social purpose rather than earning high profits for shareholders. Although shareholders may get a small return, most profits are invested into the community or a social enterprise	• The company has its own legal identity • The reputation of the business may be enhanced	• The Articles of Association and the Memorandum of Association must be completed and sent to the Registrar of Companies • Tax must be paid on profits	Companies of all sizes that have social/community benefits at heart, and that are familiar with the structure of and running of a limited company

Charity/not for profit (third sector) • Includes voluntary and community groups, trade unions, charitable trusts and charities (limited companies with charitable aims). They have charitable aims other than making money. They may make a profit but invest any money they receive in the cause they support	• Advantages of small charitable groups are the same as those for sole traders • Such groups are quick and easy to set up and can make an immediate impact • Advantages of being a charity are the same as those as for a limited company	• Disadvantages of small charitable groups are the same as those for sole traders • They often depend on volunteers, which can make it difficult to maintain support in running the group • Disadvantages of being a charity are the same as those as for a limited company • Setting up a formal charity is expensive as it is regulated by Companies House and the Charity Commission • Annual accounts must be provided to both Companies House and the Charity Commission • Some larger charities use aggressive commercial tactics to raise money, which may put off potential supporters	Groups with social, cultural, political, environmental and welfare aims and objectives, especially where people are willing to work on a voluntary basis

<u>For each of the below headings, explain what type of business it is, two advantages, two disadvantages and which type of business each is most appropriate for.</u>

Sole trader

Partnerships

Private limited company (Ltd)

Public limited company (plc)

State/ government owned (public sector)

Charity / not for profit (third sector)

Community interest companies (CIC)

1.4 Factors which inform business ownership

KEY TERMS

Unlimited liability – when the owners of a business are personally liable for all debts incurred by the business if the business itself does not have the funds to repay them.

Limited liability – when the owners of a business are liable for the debts incurred by the business only to the value of their investment in the business.

Diseconomies of scale – when a business becomes too large, the cost per unit may increase and the business may become more inefficient, e.g. communication becomes slower as more employees join the hierarchy.

INDIVIDUAL ACTIVITY

(5 minutes)

You plan to start your own business. Choose one of the following:

- pizza takeaway
- jeweller
- newsagent
- pensioners' lunch club.

Which form of ownership would you choose? Why do you think this is the most suitable?

GROUP ACTIVITY

(5 minutes)

Join together with others who have chosen the same business. Do you all agree on the same method of ownership? If not, can you all agree on one method?

What are the advantages and disadvantages of the form of ownership you have chosen?

CLASSROOM DISCUSSION

(5 minutes)

Does the most appropriate form of ownership depend on the activities carried out by the business?

1.4 Factors which inform business ownership

Legal status

Legal status will have an influence on the form of ownership as some forms will result in the business being a separate legal entity from the owner(s) (e.g. a limited company or charitable company), whereas others will not (e.g. sole trader or partnership). This means that, in a limited company, the business rather than the individual owner would be sued if there were an issue such as damage to a customer's property.

Liability

Business owners must consider the financial risk involved when choosing a form of ownership. For example, becoming a sole trader or a partnership will result in higher personal financial risk due to unlimited liability, whereas becoming a limited company will lower the risk due to the business having a separate legal identity.

The owner's personal situation may also influence this choice as an individual without commitments such as children or a mortgage may be more likely to accept this risk.

Funding

Some forms of ownership require more paperwork and legal expense. For example, a sole trader needs to register for tax and send annual self-assessment forms to HM Revenue and Customs (HMRC) but there is no legal process that they must follow to maintain their business. On the other hand, becoming a public limited company is costly. This usually requires a merchant bank to facilitate the process, which will charge a commission fee, plus the costs of producing a prospectus and advertising the share sale. Each year, accounts must be produced and published, often as an expensive glossy brochure.

A business must consider whether this financial outlay is outweighed by the benefits of becoming a public limited company as well as whether there are funds within the business to finance the process.

Control/decision making

The form of ownership chosen will influence the level of control the owner(s) have with regard to decision making. A sole trader will have sole responsibility for making decisions; in a partnership the decisions can be discussed among the partners; whereas in a limited company it is the shareholders who control the business. In a public limited company, the shareholders elect a board of directors to make the decisions on their behalf, but ultimately these shareholders are the owners, who direct and control the business.

Task: Define the following key terms…

Limited liability –

Unlimited liability –

Diseconomies of scale –

Explain how each of the below factors impact the choice of business ownership:

Legal status –

Liability –

Funding –

Control decision making –

Putting it into practise… ***Choose a company of your choice – what type of legal ownership do they have? What sector do they operate in? What has made the business you have chosen successful?***